

Note 30 has been filled in on the NAIC inputs section



PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

ANNUAL STATEMENT
For the Year Ended December 31, 2011
OF THE CONDITION AND AFFAIRS OF THE
CINCINNATI INSURANCE COMPANY

NAIC Group Code	00244	00244	NAIC Company Code	10677	Employer's ID Number	31-0542366
	(Current Period)	(Prior Period)				
Organized under the Laws of	Ohio			State of Domicile or Port of Entry	Ohio	
Country of Domicile				United States		
Incorporated/Organized	08/02/1950			Commenced Business	01/23/1951	
Statutory Home Office	6200 SOUTH GILMORE ROAD			FAIRFIELD, OH 45014-5141		
	(Street and Number)			(City or Town, State and Zip Code)		
Main Administrative Office	6200 SOUTH GILMORE ROAD			FAIRFIELD, OH 45014-5141	513-870-2000	
	(Street and Number)			(City or Town, State and Zip Code)	(Area Code)	(Telephone Number)
Mail Address	P.O. BOX 145496			CINCINNATI, OH 45250-5496		
	(Street and Number or P.O. Box)			(City or Town, State and Zip Code)		
Primary Location of Books and Records	6200 SOUTH GILMORE ROAD			FAIRFIELD, OH 45014-5141	513-870-2646	
	(Street and Number)			(City or Town, State and Zip Code)	(Area Code)	(Telephone Number)
Internet Web Site Address				www.cinfin.com		
Statutory Statement Contact	Andrew Schnell			513-870-2646		
	(Name)			(Area Code) (Telephone Number) (Extension)		
	andrew_schnell@cinfin.com			513-603-5500		
	(E-Mail Address)			(Fax Number)		

OFFICERS

Name	Title	Name	Title
STEVEN JUSTUS JOHNSTON # ,	CHIEF EXECUTIVE OFFICER, PRESIDENT	MICHAEL JAMES SEWELL # ,	CHIEF FINANCIAL OFFICER, SENIOR VICE PRESIDENT
THERESA ANN HOFFER	VICE PRESIDENT, TREASURER		

OTHER OFFICERS

TERESA CURRIN CRACAS # ,	SENIOR VICE PRESIDENT	DONALD JOSEPH DOYLE JR ,	SENIOR VICE PRESIDENT
CRAIG WILLIAM FORRESTER ,	SENIOR VICE PRESIDENT	MARTIN FRANCIS HOLLENBECK ,	SENIOR VICE PRESIDENT
THOMAS ANTHONY JOSEPH ,	SENIOR VICE PRESIDENT	JOHN SCOTT KELLINGTON ,	SENIOR VICE PRESIDENT
LISA ANNE LOVE # ,	SENIOR VICE PRESIDENT	ERIC NEIL MATHEWS ,	SENIOR VICE PRESIDENT
MARTIN JOSEPH MULLEN ,	SENIOR VICE PRESIDENT	JACOB FERDINAND SCHERER ,	EXECUTIVE VICE PRESIDENT
	CHAIRMAN OF THE EXECUTIVE COMMITTEE		
JOHN JEFFERSON SCHIFF JR ,		JOAN O'CONNOR SHEVCHIK ,	SENIOR VICE PRESIDENT
		CHARLES PHILIP STONEBURNER II ,	SENIOR VICE PRESIDENT
KENNETH WILLIAM STECHER # ,	CHAIRMAN OF THE BOARD		
TIMOTHY LEE TIMMEL	SENIOR VICE PRESIDENT		

DIRECTORS OR TRUSTEES

WILLIAM FORREST BAHLE	GREGORY THOMAS BIER	DONALD JOSEPH DOYLE JR	MARTIN FRANCIS HOLLENBECK
STEVEN JUSTUS JOHNSTON	THOMAS ANTHONY JOSEPH	WILLIAM RODNEY MCMULLEN	MARTIN JOSEPH MULLEN
JACOB FERDINAND SCHERER	JOHN JEFFERSON SCHIFF JR	THOMAS REID SCHIFF	KENNETH WILLIAM STECHER
	CHARLES PHILIP STONEBURNER II		
JOHN FREDERICK STEELE JR		TIMOTHY LEE TIMMEL	LARRY RUSSELL WEBB
EARNEST ANTHONY WOODS			

State ofOHIO.....
County ofBUTLER.....

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

STEVEN J. JOHNSTON CHIEF EXECUTIVE OFFICER, PRESIDENT	MICHAEL J. SEWELL CHIEF FINANCIAL OFFICER, SENIOR VICE PRESIDENT	THERESA A. HOFFER VICE PRESIDENT, TREASURER
Subscribed and sworn to before me this 17TH day of FEBRUARY, 2012		
a. Is this an original filing? Yes [] No [X]		
b. If no:		
1. State the amendment number 1		
2. Date filed 04/20/2012		
3. Number of pages attached		

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Accounting Practices

The financial statements of the Cincinnati Insurance Company are presented on the basis of accounting practices prescribed or permitted by the Ohio Department of Insurance. The Ohio Department of Insurance recognizes only statutory accounting practices prescribed or permitted by the state of Ohio for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Ohio Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual, version effective January 1, 2001 and updates through current year have been adopted as a component of prescribed or permitted practices by the state of Ohio.

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

Premiums are earned over the terms of the related insurance policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. These reserves are computed by pro rata methods for direct business and are based on reports received from ceding companies for reinsurance. Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable.

In addition, the company uses the following accounting policies:

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds not backed by other loans are stated at amortized cost using the effective yield method.
- (3) Common Stocks are stated at market except that investments in stocks of uncombined subsidiaries and affiliates in which the Company has an interest of 20% or more are carried on the equity basis.
- (4) Preferred stocks are stated at book value. Also, Per SSAP 32, lower quality preferred stocks (P3 to P6) are being stated at the lower of book or fair value.
- (5) Not applicable
- (6) Not applicable
- (7) Investments in stocks of uncombined subsidiaries and affiliates in which the Company has an interest of 20% or more are carried on the equity basis.
- (8) The Company has minor ownership interest in partnerships. Alliance Capital Management Holding Limited Partnership is carried at the market value of the common stock.
- (9) The Company does not have any derivatives.
- (10) In the event that a first-order approximation (excluding anticipated investment income) of estimated future costs related to unearned premium as of a particular evaluation date exceeds the unearned premium as of that date, we would incorporate consideration of the related investment income we would expect to earn. However, to date we have not had to proceed to this step in order to demonstrate that no premium deficiency exists.
- (11) Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are reflected in the period determined.
- (12) The company has not modified its capital policy from a prior period.

2. Accounting Changes and Correction of Errors

- A. The company had no material changes in accounting principles and/or correction of errors.

3. Business Combinations and Goodwill

- A. Statutory Purchase Method – Not applicable
- B. Statutory Merger – Not applicable
- C. Impairment Loss on Business Combinations and Goodwill – Not applicable

4. Discontinued Operations – None

5. Investments

- A. Mortgage Loans - Not applicable
- B. Debt Restructuring - Not applicable
- C. Reverse Mortgages - Not applicable
- D. Loan-Backed Securities - Not applicable
- E. Repurchase Agreements - Not applicable
- F. Real Estate - Not applicable
- G. Low-income Housing Tax Credit (LIHTC)

1. The Cincinnati Insurance Company holds an investment in low income housing tax credits which reduces the company's premium tax liability in Georgia. The investment is required to be held through 2012 and all tax credits will expire at that time.
2. We are not aware that the low income housing tax credit investment is subject to any regulatory reviews.
3. The low income housing tax credit investment does not exceed 10% of non-admitted assets.
4. There was no impairment of the investment in 2011.
5. There were no write-downs or losses of tax credits in 2011.

6. Joint Ventures, Partnerships and Limited Liability Companies

- A. The Company has no investments in Joint Ventures, Partnerships or Limited Liability Companies that exceed 10% of its admitted assets.
- B. The Company did not recognize any impairment write down for its investments in Joint Ventures, Partnerships and Limited Liability Companies during the statement periods.

7. Investment Income

- A. There was no due and accrued income excluded from investment income in 2011.
- B. Not applicable

8. Derivative Instruments

- A. Not applicable
- B. Not applicable
- C. Not applicable
- D. Not applicable
- E. Not applicable
- F. Not applicable

NOTES TO FINANCIAL STATEMENTS

9. Income Taxes

A. The components of the net deferred tax asset/(liability) are as follows:

(1)

Description	2011			2010		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	\$343,871,685	\$ 46,405,063	\$ 390,276,748	\$334,567,861	\$ 47,851,432	\$382,419,293
Statutory valuation allowance	-	-	-	-	-	-
Adjusted gross deferred tax assets	343,871,685	46,405,063	390,276,748	334,567,861	47,851,432	382,419,293
Gross deferred tax liabilities	\$(48,298,421)	\$(193,067,156)	\$(241,365,577)	\$(47,646,357)	\$(197,329,708)	\$(244,976,065)
))))))
		\$(146,662,093)			\$(149,478,276)	
Net deferred tax asset/(liability) before admissibility test	\$295,573,264)	\$ 148,911,171	\$286,921,504)	\$137,443,228
Admitted pursuant to Paragraph 10.a	125,791,507	-	125,791,507	123,443,024	47,851,432	171,294,457
Paragraph 10.b.i.	67,236,232	-	67,236,232	46,119,935	-	46,119,935
Paragraph 10.b.ii.	326,581,812	326,581,812	326,581,812	343,607,130	343,607,130	343,607,130
Admitted pursuant to paragraph 10.b. (lesser of i. or ii.)	67,236,232	-	67,236,232	46,119,935	-	46,119,935
Admitted pursuant to paragraph 10.c.	150,843,946	46,405,063	197,249,009	165,004,902	-	165,004,902
Additional admitted pursuant to paragraph 10.e.i.	-	-	-	-	-	-
Paragraph 10.e.ii.a.	-	-	-	-	-	-
Paragraph 10.e.ii.b.	489,872,718	489,872,718	489,872,718	515,410,695	515,410,695	515,410,695
Additional admitted pursuant to paragraph 10.e.ii. (lesser of a. or b.)	-	-	-	-	-	-
Additional admitted pursuant to paragraph 10.e.iii.	-	-	-	-	-	-
Admitted deferred tax asset	343,871,685	46,405,063	390,276,748	334,567,861	47,851,432	382,419,293
Deferred tax liability	(48,298,421)	(193,067,156)	(241,365,577)	(47,646,357)	(197,329,708)	(244,976,065)
		\$(146,662,093)			\$(149,478,276)	
Net Admitted DTA or (DTL)	\$295,573,264)	\$148,911,171	\$286,921,504)	\$137,443,228
Nonadmitted DTA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Due to the operation of current federal tax law, the Company was able to offset ordinary deferred tax assets using capital deferred tax liabilities for purposes of determining admissible assets under SSAP 10(c).

- (2) The Company has elected to admit DTAs pursuant to paragraph 10.e.
- (3) The Company recorded no change in admitted DTAs as the result of its election to employ the provisions of paragraph 10.e. as follows:

Description	Change During 2011		
	Ordinary	Capital	Total
Gross deferred tax assets	\$9,303,824	\$(1,446,369)	\$7,857,455
Statutory valuation allowance	-	-	-
Adjusted gross deferred tax assets	9,303,824	(1,446,369)	7,857,455
Gross deferred tax liabilities	\$(652,064)	\$4,262,552	\$3,610,488
Net deferred tax asset/(liability) before admissibility test	\$8,651,760	\$2,816,183	\$11,467,943
Admitted pursuant to Paragraph 10.a	2,348,483	(47,851,432)	(45,502,950)
Paragraph 10.b.i.	21,116,297	-	21,116,297
Paragraph 10.b.ii.	(17,025,318)	(17,025,318)	(17,025,318)
Admitted pursuant to paragraph 10.b. (lesser of i. or ii.)	21,116,297	-	21,116,297
Admitted pursuant to paragraph 10.c.	(14,160,956)	46,405,063	32,244,107
Additional admitted pursuant to paragraph 10.e.i.	-	-	-
Paragraph 10.e.ii.a.	-	-	-
Paragraph 10.e.ii.b.	(25,537,977)	(25,537,977)	(25,537,977)
Additional admitted pursuant to paragraph 10.e.ii. (lesser of a. or b.)	-	-	-
Additional admitted pursuant to paragraph 10.e.iii.	-	-	-
Admitted deferred tax asset	9,303,824	(1,446,369)	7,857,455
Deferred tax liability	(652,064)	4,262,552	3,610,488
Change in net admitted DTA or (DTL)	\$ 8,651,760	\$2,816,183	\$11,467,943
Change in nonadmitted DTA	\$ -	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS

(4) The following table provides the Company’s assets, capital and surplus and RBC information with the DTA calculated under SSAP No. 10R paragraphs 10(a) to (c) and the additional DTA determined under SSAP No. 10R paragraph 10(e) as of December 31, 2011:

Description	With paragraph's 10.a. - c.	With paragraph's 10.e.	Difference
Admitted DTAs	\$ 390,276,748	\$ 390,276,748	\$ -
Admitted assets	\$ 9,501,832,509	\$ 9,501,832,509	\$ -
Statutory surplus (September 30, 2011)	\$ 3,512,630,712	\$ 3,512,630,712	\$ -
Total adjusted capital	\$ 3,754,074,513	\$ 3,754,074,513	\$ -
Authorized control level used in 10.d.(2011)	\$ 473,882,731	\$ 473,882,731	\$ -

(4) The following table provides the Company’s assets, capital and surplus and RBC information with the DTA calculated under SSAP No. 10R paragraphs 10(a) to (c) and the additional DTA determined under SSAP No. 10R paragraph 10(e) as of December 31, 2010:

Description	With paragraph's 10.a. - c.	With paragraph's 10.e.	Difference
Admitted DTAs	\$ 382,419,293	\$ 382,419,293	\$ -
Admitted assets	\$ 9,343,031,687	\$ 9,343,031,687	\$ -
Statutory surplus (September 30, 2010)	\$ 3,640,728,680	\$ 3,640,728,680	\$ -
Total adjusted capital	\$ 3,777,232,534	\$ 3,777,232,534	\$ -
Authorized control level used in 10.d.(2010)	\$ 456,849,894	\$ 456,849,894	\$ -

(4) The following table provides the Company’s assets, capital and surplus and RBC information with the DTA calculated under SSAP No. 10R paragraphs 10(a) to (c) and the additional DTA determined under SSAP No. 10R paragraph 10(e) change from 2010 to 2011:

Description	With paragraph's 10.a. - c.	With paragraph's 10.e.	Difference
Admitted DTAs	\$ 7,857,455	\$ 7,857,455	\$ -
Admitted assets	\$ 158,800,822	\$ 158,800,822	\$ -
Statutory surplus	\$ (128,097,968)	\$ (128,097,968)	\$ -
Total adjusted capital	\$ (23,158,021)	\$ (23,158,021)	\$ -
Authorized control level used in 10.d.	\$ 17,032,837	\$ 17,032,837	\$ -

- B. Temporary differences for which a DTL has not been established: \$ -
- C. Current Tax and Change in Deferred Tax

The percentage amount tax planning strategies impact the net admitted DTA’s is 0%.

Current income taxes incurred consist of the following major components:

Description	2011	2010
Current income tax expense	\$ (12,515,950)	\$ 52,139,750
Tax on capital gains/(losses)	23,084,313	47,389,913
Federal income taxes incurred	\$ 10,568,363	\$ 99,529,663

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

DTAs Resulting From Book/Tax Differences in	December 31, 2011	December 31, 2010	Change	Character
Unearned premium reserve	\$ 110,365,118	\$ 105,161,256	\$ 5,203,862	Ordinary
Unpaid loss reserve	197,982,506	179,754,595	18,227,911	Ordinary
Contingent commission	18,079	1,598,844	(1,580,765)	Ordinary
Other deferred tax assets	17,890,438	21,447,046	(3,556,608)	Ordinary
Nonadmitted statutory assets	17,615,544	26,606,120	(8,990,576)	Ordinary
Other reserves and accruals, net	-	-	-	Ordinary
Investments	46,405,063	47,851,432	(1,446,369)	Capital
Gross DTAs	\$ 390,276,748	\$ 382,419,293	\$ 7,857,455	
Nonadmitted DTAs	\$ -	\$ -	\$ -	

DTLs Resulting From Book/Tax Differences in	December 31, 2011	December 31, 2010	Change	Character
Unrealized (gain)/loss on investments	\$ (193,067,156)	\$ (197,329,709)	\$ 4,262,553	Capital
Contingent commission	-	-	-	Ordinary
Commission expense	(41,387,518)	(38,600,399)	(2,787,119)	Ordinary
Other, net	(6,910,903)	(9,045,957)	2,135,054	Ordinary
Gross DTLs	\$ (241,365,577)	\$ (244,976,065)	\$ 3,610,488	

The change in net deferred income taxes is comprised of the following (this analysis is exclusive of nonadmitted assets as the Change in Nonadmitted Assets is reported separately from the Change in Net Deferred Income Taxes in the surplus section of the Annual Statement):

	December 31, 2011	December 31, 2010	Change
Total deferred tax assets	\$ 390,276,748	\$ 382,419,293	\$ 7,857,455
Total deferred tax liabilities	(241,365,577)	(244,976,065)	3,610,488
Net deferred tax asset(liability)	\$ 148,911,171	\$ 137,443,228	\$ 11,467,943
Tax effect of unrealized (gains)/losses			(4,262,553)
Change in net deferred income tax (charge)/benefit			\$ 7,205,390

	December 31, 2010	December 31, 2009	Change
Total deferred tax assets	\$ 382,419,293	\$ 390,810,316	\$ (8,391,023)
Total deferred tax liabilities	(244,976,065)	(244,500,479)	(475,586)
Net deferred tax asset(liability)	\$ 137,443,228	\$ 146,309,837	\$ (8,866,609)
Tax effect of unrealized (gains)/losses			2,520,490
Change in net deferred income tax (charge)/benefit			\$ (6,346,119)

NOTES TO FINANCIAL STATEMENTS

D. Reconciliation of Federal income Tax Rate to Actual Effective Rate

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

As of December 31, 2011			
Description	Amount	Tax Effect	Effective Tax Rate
Income before taxes	\$ 130,730,034	\$45,755,512	35.00%
Net tax exempt interest	(87,828,800)	(30,740,080)	-23.51%
Net dividends received deduction	(39,019,228)	(13,656,730)	-10.45%
Other permanent items, net	(20,539,973)	(7,188,991)	-5.50%
DRD on accrued	(53,425)	(18,699)	-0.01%
Other	632,525	221,384	0.17%
Total	<u>\$(16,078,867)</u>	<u>\$(5,627,604)</u>	<u>-4.30%</u>
Federal income taxes incurred expense/(benefit)	\$ (35,759,858)	\$(12,515,950)	-9.57%
Tax on capital gains/(losses)	65,955,179	23,084,313	17.66%
Change in nonadmitted excluding deferred tax asset	(25,687,360)	(8,990,576)	-6.88%
Change in net deferred income tax charge/(benefit)	<u>(20,586,828)</u>	<u>(7,205,391)</u>	<u>-5.51%</u>
Total statutory income taxes incurred	<u>\$(16,078,867)</u>	<u>\$(5,627,604)</u>	<u>-4.30%</u>

As of December 31, 2010			
Description	Amount	Tax Effect	Effective Tax Rate
Income before taxes	\$ 417,495,915	\$146,123,570	35.00%
Net tax exempt interest	(92,050,668)	(32,217,734)	-7.72%
Net dividends received deduction	(36,021,142)	(12,607,400)	-3.02%
Other permanent items, net	3,627,001	1,269,450	0.30%
DRD on accrued	27,240	9,534	0.00%
Other	582,991	204,048	0.06%
Total	<u>\$ 293,661,337</u>	<u>\$102,781,468</u>	<u>24.62%</u>
Federal income taxes incurred expense/(benefit)	\$ 148,970,713	\$ 52,139,750	12.49%
Tax on capital gains/(losses)	135,399,752	47,389,913	11.35%
Change in nonadmitted excluding deferred tax asset	(8,840,898)	(3,094,314)	-0.74%
Change in net deferred income tax charge/(benefit)	<u>18,131,770</u>	<u>6,346,119</u>	<u>1.52%</u>
Total statutory income taxes incurred	<u>\$ 293,661,337</u>	<u>\$102,781,468</u>	<u>24.62%</u>

- E. At December 31, 2011, the Company had net operating loss carryforwards of: \$ -
At December 31, 2011, the Company had capital loss carryforwards of: \$ -

The following is income tax expense for the current and prior years that is available for recoupment in the event of future net losses:

Year	Ordinary	Capital	Total
2011	\$ -	\$ -	\$ -
2010	80,482,316	45,309,191	125,791,507
2009	-	53,345,571	53,345,571
Total	<u>\$ 80,482,316</u>	<u>\$ 98,654,762</u>	<u>\$ 179,137,078</u>

Deposits admitted under Internal Revenue Code Section 6603: \$ -

F. The Company’s federal income tax return is consolidated with the following entities:

Cincinnati Financial Corporation (Parent)
The Cincinnati Casualty Company
The Cincinnati Indemnity Company
The Cincinnati Specialty Underwriters Insurance Company
The Cincinnati Life Insurance company
CFC Investment Company
CSU Producer Resources, Inc.

The method of allocation between the companies is subject to written agreement, approved by the Board of Directors, whereby allocation is made primarily on a separate return basis with a current credit for net losses.

10. Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties

- A. Not applicable
B. The Company didn't pay any common stock dividends to the Parent Company in 2011.
C. Not applicable
D. At December 31, 2011, the Company reported \$2,369,205 due from an affiliate The CSU Producer Resources, Inc. and from a subsidiary The CSU Insurance Company. Also at December 31, 2011, the Company reported 31,897,692 due to the parent, Cincinnati Financial Corporation, and to affiliates The Cincinnati Life Insurance Company and CFC Investment Company, and to subsidiaries The Cincinnati Casualty Company and The Cincinnati Indemnity Company. The terms of the settlement require that these amounts be settled within 30 days.
E. Not applicable

NOTES TO FINANCIAL STATEMENTS

- F. The Company has the following management agreements with related parties:
- (1) Inter-company Benefits and Expense Allocation Agreement.
 - (2) Inter-company Cost Sharing and Expense Allocation Agreement.
 - (3) Inter-company Tax Sharing Agreement.
 - (4) Inter-company Reinsurance Agreement.
- G. All outstanding shares of The Company are owned by the Parent Company, Cincinnati Financial Corporation, a holding company domiciled in the State of Ohio.
- H. Not applicable
- I. Not applicable
- J. Not applicable
- K. Not applicable
- L. Not applicable
11. Debt
- A. Capital Notes – Not applicable
 - B. All Other Debt – Not applicable
12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans
- A. Defined Benefit Plan – Not applicable
 - B. Defined Contribution Plans – The Company matches contributions of up to 6 percent of each employee's compensation. The Company's contribution for the plan was \$8,028,596 and \$7,466,449 for 2011 and 2010 respectively.
 - C. Multiemployer Plans – Not applicable
 - D. Consolidated/Holding Company Plans – The Company participates in a qualified, noncontributory defined benefit pension plan sponsored by Cincinnati Financial Corporation, the parent. The Company has no legal obligations for benefits under these plans. Cincinnati Financial Corporation allocates amounts to the Company based on the percentage of participants on the Company's payroll. The Company's share of net expense for the qualified pension plan was \$11,827,179 and \$11,658,124 for 2011 and 2010 respectively.
 - E. Postemployment Benefits and Compensated Absences – Not applicable
 - F. Impact of Medicare Modernization Act on Postretirement Benefits – Not applicable
13. Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations
- (1) The Company has 1,000,000 shares authorized, 717,271 shares issued and 717,271 shares outstanding. All shares are Class A shares.
 - (2) The Company has no preferred stock outstanding.
 - (3) Without prior approval from the Ohio Insurance Commissioner, dividends to shareholders are limited by the laws of Ohio which state that dividends are restricted to the greater of 10% of surplus or net income. In 2012 we would be restricted to \$374,678,112. In 2011 10% of surplus was \$374,678,112 and net income was \$120,161,670. In 2011 we would be restricted to \$377,723,254. In 2010 10% of surplus was \$377,723,254 and net income was \$317,966,280.
 - (4) An ordinary dividend in the amount of \$50,000,000 on January 31, 2011 was paid by the Company.
An ordinary dividend in the amount of \$60,000,000 on February 28, 2011 was paid by the Company.
An ordinary dividend in the amount of \$60,000,000 on December 29, 2011 was paid by the Company.
 - (5) Within the limitations of (3) above, there are no restrictions placed on the portion of Company profits that may be paid as ordinary dividends to stockholders.
 - (6) There were no restrictions placed on the Company's surplus, including for whom the surplus is being held.
 - (7) Not applicable
 - (8) Not applicable
 - (9) Not applicable
 - (10) The portion of unassigned funds (surplus) represented or reduced by cumulative unrealized gains & losses is (\$1,047,487) net of tax.
 - (11) The Company has no surplus debentures or similar obligations.
 - (12) Not applicable
 - (13) Not applicable
14. Contingencies
- A. The Company is not aware of any material liabilities not disclosed on our balance sheet as of year-end.
 - B. The Company is not aware of any material assessments as of year-end.
 - C. The Company does not have any gain contingencies.
 - D. The Company had 7 claims where amounts were paid to settle extra-contractual obligations or bad faith claim s in 2011. These payments totaled \$8,301,939.
 - E. The Company does not have product warranties.
 - F. Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company. The Company has no assets it considers impaired.
15. Leases
- A.
- 1) The Company has various noncancelable operating lease agreements that expire through October 2016.
 - 2) At January 1, 2011, the minimum agreement rental commitments are as follows:
(Dollars in Thousands)
- | Year Ending December 31 | Operating Leases |
|-------------------------|------------------|
| 1. 2011 | \$ 8,902 |
| 2. 2012 | \$ 9,508 |
| 3. 2013 | \$ 6,441 |
| 4. 2014 | \$ 2,613 |
| 5. 2015 | \$ 1,320 |
| 6. Total | \$28,784 |
- 3) The company is not involved in any material sales leaseback transactions.
- B. Not applicable
16. Information About Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk – Not applicable
17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities
- A. Not applicable
 - B. Not applicable
 - C. Not applicable
18. Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans – Not applicable
19. The Company does not have any direct premiums written through managing general agents or third party administrators equal or greater than 5% of surplus.
20. Fair Value Measurement
- A. Not applicable
 - B. Not applicable
 - C. Not applicable

NOTES TO FINANCIAL STATEMENTS

21. Other Items
- A. Not applicable

B. Not applicable

C. Assets in the amount of \$45,948,375 and \$44,242,962 at December 31, 2011 and 2010, respectively, were on deposit with government authorities or trustees as required by law.

D. Not applicable

E. Not applicable

F. Not applicable

G. Subprime Mortgage Related Risk Exposure - The Cincinnati Insurance Company has no investments in subprime or related areas. This includes direct investments in subprime mortgage loans, RMBS, CMBS, CDO's, hedge funds, credit default swaps or SIVs. Additionally, we have no equity investments in subsidiary, controlled or affiliated entities with subprime exposure nor do we underwrite any form of mortgage guarantee insurance.
22. Subsequent Events – None
23. Reinsurance
- A. Unsecured Reinsurance Recoverables - None

B. Reinsurance Recoverable in Dispute – None

C. Reinsurance Assumed and Ceded

(1)

	Assumed Reinsurance		Ceded Reinsurance		Assumed Less Ceded	
	Premium	Commission	Premium	Commission	Premium	Commission
	Reserve	Equity	Reserve	Equity	Reserve	Equity
(I) Affiliates	\$187,400,396	\$11,800,184	\$ 0	\$ 0	\$187,400,396	\$ 11,800,184
(ii) All Other	\$ 3,385,660	\$ 863,856	\$15,002,614	\$388,065	(\$11,616,954)	\$475,791
(iii)Total	\$190,786,056	\$12,664,040	\$15,002,614	\$388,065	\$175,783,442	\$ 12,275,975
(iv) Direct Unearned Premium Reserve			\$1,398,554,068			

(2)

REINSURANCE				
	Direct	Assumed	Ceded	Net
(i)Contingent Comm	\$63,620,479	\$ 5,900,000	\$ 0	\$69,520,479
(ii)Sliding Scale Adj.				
(iii)Other Profit Comm Arrangements				
(iv)Total	\$63,620,479	\$ 5,900,000	\$ 0	\$69,520,479

(3) Not applicable

- D. Uncollectible Reinsurance – None

E. Commutation of Ceded Reinsurance – None

F. Retroactive Reinsurance – None

G. Reinsurance Accounted for as a Deposit – None

H. Disclosures for the Transfer of Property and Casualty Run-off Agreements - None
24. Retrospectively Rated Contracts and Contracts Subject to Redetermination– None
25. Reserves as of December 31, 2010 were \$3,756,117,838. As of December 31, 2011, \$1,024,260,405 has been paid for incurred losses and loss adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now \$2,456,027,578 as a result of re-estimation of unpaid claims and claim adjustment expenses principally on commercial casualty lines of insurance. Therefore, there has been \$275,829,854 favorable prior-year development since December 31, 2010 to December 31, 2011. The decrease is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims. Because the Company does not write retrospectively rated policies, prior-year development does not effect premium adjustments.
26. Intercompany Pooling Arrangements – None
27. Structured Settlements
- A. Loss Reserves Eliminated by Annuities \$177,071,745

Unrecorded Loss Contingencies - None

B.

Life Insurance Company and Location	Licensed in Ohio (Yes/No)	Statement (Present) Value of Annuities
The Cincinnati Life Insurance Company,	Yes	\$174,650,331
Fairfield, Ohio		

28. Health Care Receivables – None
29. Participating Policies – None
30. Premium Deficiency Reserves
1. Liability carried for premium deficiency reserve \$0

2. Date of most recent evaluation of this liability January 26, 2012

3. Anticipated investment income was not utilized in this calculation.
31. High Deductibles – None
32. The Company does not discount unpaid losses or loss adjustment expenses except for income tax purposes.

NOTES TO FINANCIAL STATEMENTS

33. Yes, the Company has exposure to environmental claims. The Company’s exposure arises from the sale of commercial liability products. The Company tries to estimate the full impact of the environmental exposures by establishing full case basis reserves on all known losses and computing IBNR based on generally accepted actuarial methodologies. Ceded amounts are related to Company business only. The increase in asbestos and environmental reserves is the result of changes in the identification of asbestos and environmental losses and is not related to new or additional exposures.

ASBESTOS LOSSES	2011	2010	2009	2008	2007
	Direct	Direct	Direct	Direct	Direct
Beginning Reserves	\$39,852,740	\$40,038,964	\$34,666,597	\$45,621,397	\$50,792,943
Incurred Loss & LAE	(\$1,099,461)	\$781,021	\$7,326,647	(\$9,339,254)	(\$4,029,764)
Calendar Yr. Pymnts for Loss and LAE	\$1,056,244	\$967,245	\$1,954,280	\$1,615,546	\$1,141,782
Ending Reserves	\$37,697,035	\$39,852,740	\$40,038,964	\$34,666,597	\$45,621,397
	Assumed	Assumed	Assumed	Assumed	Assumed
Beginning Reserves	\$6,232,524	\$7,376,959	\$4,258,554	\$6,936,084	\$9,549,303
Incurred Loss and LAE	\$1,298,383	(\$556,879)	\$3,534,452	(\$6,558,839)	(\$2,140,519)
Calendar year payments for Loss and LAE	\$811,801	\$587,556	\$416,047	(\$3,881,309)	\$472,700
Ending Reserves	\$6,719,106	\$6,232,524	\$7,376,959	\$4,258,554	\$6,936,084
	Net	Net	Net	Net	Net
Beginning Reserves	\$23,996,144	\$25,977,294	\$20,470,735	\$25,573,487	\$32,542,383
Incurred Loss & LAE	\$1,501,091	(\$426,349)	\$7,876,886	(\$7,368,515)	(\$5,354,414)
Calendar Yr. Pymnts for Loss and LAE	\$1,868,045	\$1,554,801	\$2,370,327	(\$2,265,763)	\$1,614,482
Ending Reserves	\$23,629,190	\$23,996,144	\$25,977,294	\$20,470,735	\$25,573,487
IBNR Reserves					
Direct	(\$4,251,000)	(\$3,420,000)	(\$2,918,000)	(\$9,226,000)	(\$8,115,000)
Assumed	\$3,352,529	\$2,431,314	\$3,552,892	\$2,162,992	\$2,475,061
Net	(\$898,471)	(\$988,686)	\$634,892	(\$7,063,008)	(\$5,639,939)
LAE Reserves					
Direct	\$14,581,000	\$15,105,000	\$15,851,000	\$15,209,000	\$17,462,000
Assumed	\$79,965	\$126,049	\$55,528	\$65,865	\$64,805
Net	\$14,660,965	\$15,231,049	\$15,906,528	\$15,274,865	\$17,526,805
ENVIRONMENTAL LOSSES	2011	2010	2009	2008	2007
	Direct	Direct	Direct	Direct	Direct
Beginning Reserves	\$108,657,016	\$91,097,946	\$93,868,092	\$97,892,136	\$102,275,642
Incurred Loss & LAE	\$8,752,575	\$22,674,373	\$4,577,137	\$2,069,787	\$3,479,138
Calendar Yr Pymts for Loss and LAE	\$6,762,715	\$5,115,303	\$7,347,283	\$6,093,831	\$7,862,644
Ending Reserves	\$110,646,876	\$108,657,016	\$91,097,946	\$93,868,092	\$97,892,136
	Assumed	Assumed	Assumed	Assumed	Assumed
Beginning Reserves	\$1,027,044	\$1,418,014	\$1,222,542	\$1,231,245	\$1,541,555
Incurred Loss & LAE	\$322,167	(\$311,965)	\$223,984	(\$1,109,104)	(\$223,073)
Calendar Yr Pymts for Loss and LAE	\$82,213	\$79,005	\$28,512	(\$1,100,401)	\$87,237
Ending Reserves	\$1,266,998	\$1,027,044	\$1,418,014	\$1,222,542	\$1,231,245
	Net	Net	Net	Net	Net
Beginning Reserves	\$109,684,060	\$92,515,960	\$95,090,634	\$97,874,521	\$98,841,944
Incurred Loss & LAE	\$9,074,742	\$22,362,408	\$4,801,121	\$2,209,543	\$7,342,458
Calendar Yr Pymts for Loss and LAE	\$6,844,928	\$5,194,308	\$7,375,795	\$4,993,430	\$7,949,881
Ending Reserves	\$111,913,874	\$109,684,060	\$92,515,960	\$95,090,634	\$97,874,521
IBNR Reserves					
Direct	\$51,922,000	\$49,975,000	\$43,366,000	\$42,446,000	\$42,376,000
Assumed	\$846,173	\$455,152	\$909,477	\$824,104	\$673,139
Net	\$52,768,173	\$50,430,152	\$44,275,477	\$43,270,104	\$43,049,139
LAE Reserves					
Direct	\$46,288,000	\$45,240,000	\$34,865,000	\$36,218,000	\$37,823,000
Assumed	\$42,530	\$79,398	\$66,618	\$50,616	\$57,202
Net	\$46,330,530	\$45,319,398	\$34,931,618	\$36,268,616	\$37,880,202

34. Subscriber Savings Accounts – Not applicable

35. Multiple Peril Crop Insurance – None

36. Financial Guaranty Insurance – None

37. Other

Total Net Losses and Expenses Unpaid – AY’s 2001 & Prior

(000’s)	1992 & P	1993	1994	1995	1996	1997	1998	1999	2000	2001
Part 1A	4	33	25	0	97	0	309	0	133	74
Part 1B	323	8	41	4	10	5	4	127	139	221
Part 1C	72	58	172	55	1	3	2	661	125	203
Part 1D	45,570	10,308	6,512	9,205	10,024	12,329	10,667	13,132	22,288	24,290
Part 1E	11,862	1,586	3,159	4,183	4,148	4,315	3,874	4,091	7,522	9,773
Part 1F	13	0	3	17	10	186	0	0	137	165
Part 1G	6	81	152	219	339	468	469	93	161	3,166
Part 1H	22,018	43	48	104	376	145	157	127	797	1,682
Part 1I	16	2	7	12	1	0	10	10	0	0
Part 1J	9	1	3	0	6	19	12	12	45	16
Part 1K	26	0	10	6	1	157	7	37	(186)	52
Part 1R	2,045	833	225	218	222	37	31	145	715	728
Totals	81,962	12,953	10,357	14,023	15,280	17,663	15,542	18,434	31,876	40,370
										258,943

NOTES TO FINANCIAL STATEMENTS

Prior year data included in Schedule P is calculated as follows:
Part 1-Payments made in the current year and current reserves for AY's 2001 & prior.
Parts 2&3-The prior line on last year’s statement is combined with the year 2001 total. Paid amounts prior to 2003 are then subtracted from this sum to arrive at the prior figure.
Part 4-The sum of the prior year line and the 2001 line from the prior year's Schedule P compose the prior figures for this section.
Part 5 Section 1&3-The prior line is combined with year 2001 from the prior schedule P. Counts for accident year 2001 in the preceding year are then subtracted from this sum to arrive at the prior figure, removing the cumulative effect.
Part 5 Section 2 - The prior line is combined with the 2001 AY of the prior year's Schedule P to arrive at the new prior number.

Total Net Salvage and Subrogation Unpaid – AY’s 2001 & Prior

(000's)	1992 & P	1993	1994	1995	1996	1997	1998	1999	2000	2001
Part 1A	0	0	0	0	0	0	0	0	0	1
Part 1B	0	0	0	0	0	0	0	0	7	16
Part 1C	0	0	0	0	0	0	0	0	(3)	(3)
Part 1D	0	0	0	0	0	0	0	161	317	247
Part 1E	0	0	0	0	0	0	0	0	27	76
Part 1F	0	0	0	0	0	0	0	0	0	0
Part 1G	0	0	0	0	0	0	0	0	0	0
Part 1H	0	0	0	0	0	0	0	0	0	0
Part 1I	0	0	0	0	0	0	0	0	0	0
Part 1J	0	0	0	0	0	0	0	0	0	16
Part 1K	0	0	0	0	0	0	0	4	1	(5)
Part 1R	0	0	0	0	0	0	0	0	0	0
Totals	0	0	0	0	0	0	0	165	349	348
										862