Note 30 has been included in the NAIC inputs section

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PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

# ANNUAL STATEMENT

**For the Year Ended December 31, 2011**

OF THE CONDITION AND AFFAIRS OF THE

# CINCINNATI INDEMNITY COMPANY

NAIC Group Code 00244 (Current Period), 00244 (Prior Period) NAIC Company Code 23280 Employer's ID Number 31-1241230

Organized under the Laws of Ohio, State of Domicile or Port of Entry Ohio

Country of Domicile United States

Incorporated/Organized 05/19/1988 Commenced Business 01/01/1989

Statutory Home Office 6200 SOUTH GILMORE ROAD (Street and Number), FAIRFIELD, OH 45014-5141 (City or Town, State and Zip Code)

Main Administrative Office 6200 SOUTH GILMORE ROAD (Street and Number) FAIRFIELD, OH 45014-5141 (City or Town, State and Zip Code) 513-870-2000 (Area Code) (Telephone Number)

Mail Address P.O. BOX 145496 (Street and Number or P.O. Box), CINCINNATI, OH 45250-5496 (City or Town, State and Zip Code)

Primary Location of Books and Records 6200 SOUTH GILMORE ROAD (Street and Number) FAIRFIELD, OH 45014-5141 (City or Town, State and Zip Code) 513-870-2000-4414 (Area Code) (Telephone Number)

Internet Web Site Address www.cinfin.com

Statutory Statement Contact Scott Holderbach (Name) 513-870-2000 (Area Code) (Telephone Number) (Extension)

scott_holderbach@cinfin.com (E-Mail Address) 513-603-5500 (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 |
| JOHN JEFFERSON SCHIFF JR | CHAIRMAN OF THE EXECUTIVE COMMITTEE | JOAN O'CONNOR SCHEVCHIK | SENIOR VICE PRESIDENT |
| KENNETH WILLIAM STECHER # | CHAIRMAN OF THE BOARD | CHARLES PHILIP STONEBURNER II | SENIOR VICE PRESIDENT |
| TIMOTHY LEE TIMMEL | SENIOR VICE PRESIDENT | | |

## DIRECTORS OR TRUSTEES

| | | | |
|---|---|---|---|
| WILLIAM FORREST BAHL | 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 |
| JOHN FREDERICK STEELE JR | CHARLES PHILLIP STONEBURNER II | TIMOTHY LEE TIMMEL | LARRY RUSSELL WEBB |
| EARNEST ANTHONY WOODS | | | |

State of OHIO
ss
County of BUTLER

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 | MICHAEL J. SEWELL | THERESA A. HOFFER |
|---|---|---|
| CHIEF EXECUTIVE OFFICER, PRESIDENT | CHIEF FINANCIAL OFFICER, SENIOR VICE PRESIDENT | 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 Indemnity 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.
      (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) Not applicable
      (8) Not applicable
      (9) Not applicable
      (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) - Not applicable
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. Components of the Deferred Tax Asset(DTAs) and Deferred Tax Liabilities(DTLs at December 31, as follows:

(1)

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| Description | Ordinary | Capital | Total | Ordinary | Capital | Total |
| Gross deferred tax assets | $ - | $ 169,637 | $ 169,637 | $ - | $ - | $ - |
| Statuatory valuation allowance | - | - | - | - | - | - |
| Adjusted gross deferred tax assets | - | 169,637 | 169,637 | - | - | - |
| Gross deferred tax liabilities | $ (6,279) | $(849,167) | $(855,446) | $ (5,947) | $ (520,455) | $ (526,402) |
| Net deferred tax asset/(liability) before admissibility test | $ (6,279) | $(679,530) | $(685,809) | $ (5,947) | $ (520,455) | $ (526,402) |
| ¶10.a Federal Income Taxes recoverable through loss carryback | - | - | - | - | - | - |
| ¶10.b.i. Adjusted Gross DTA expected to be realized in one year | - | - | - | - | - | - |
| ¶10.b.ii. 10% adjusted statutory capital and surplus limit | 7,125,672 | 7,125,672 | 7,125,672 | 6,887,719 | 6,887,719 | 6,887,719 |
| Admitted pursuant to ¶10.b. (lesser of i. or ii.) | - | - | - | - | - | - |
| Admitted pursuant to ¶10.c. | - | 169,637 | 169,637 | - | - | - |
| Additional admitted pursuant to ¶10.e.i. | - | - | - | - | - | - |
| ¶10.e.ii.a. Adjusted gross DTA expected to be realized in three years | - | - | - | - | - | - |
| ¶10.e.ii.b. 15% statutory capital and surplus limit | 10,688,508 | 10,688,508 | 10,688,508 | 10,331,579 | 10,331,579 | 10,331,579 |
| Additional admitted pursuant to ¶10.e.ii. (lesser of a. or b.) | - | - | - | - | - | - |
| Additional admitted pursuant to ¶10.e.iii. | - | - | - | - | - | - |
| Admited deferred tax asset | - | 169,637 | 169,637 | - | - | - |
| Deferred tax liability | (6,279) | (849,167) | (855,446) | (5,947) | (520,455) | (526,402) |
| Net Admitted DTA or (DTL) | $ (6,279) | $(679,530) | $(685,809) | $ (5,947) | $(520,455) | $(526,402) |
| Nonadmitted DTA | $ - | $ - | $ - | $ - | $ - | $ - |

(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:

| | Change During 2011 | | |
|---|---|---|---|
| Description | Ordinary | Capital | Total |
| Total of gross deferred tax assets | $ - | $ 169,637 | $ 169,637 |
| Statuatory valuation allowance | - | - | - |
| Adjusted gross deferred tax assets | - | 169,637 | 169,637 |
| Gross deferred tax liabilities | $ (332) | $ (328,712) | $(329,044) |
| Net deferred tax asset/(liability) before admissibility test | $ (332) | $ (159,075) | $(159,407) |
| ¶10.a Federal Income Taxes recoverable through loss carryback | - | - | - |
| ¶10.b.i. Adjusted Gross DTA expected to be realized in one year | - | - | - |
| ¶10.b.ii. 10% adjusted statutory capital and surplus limit | 237,953 | 237,953 | 237,953 |
| Admitted pursuant to ¶10.b. (lesser of i. or ii.) | - | - | - |
| Admitted pursuant to ¶10.c. | - | 169,637 | 169,637 |
| Additional admitted pursuant to ¶10.e.i. | - | - | - |
| ¶10.e.ii.a. Adjusted gross DTA expected to be realized in three years | - | - | - |
| ¶10.e.ii.b. 15% statutory capital and surplus limit | 356,929 | 356,929 | 356,929 |
| Additional admitted pursuant to ¶10.e.ii. (lesser of a. or b.) | - | - | - |
| Additional admitted pursuant to ¶10.e.iii. | - | - | - |
| Admited deferred tax asset | - | 169,637 | 169,637 |
| Deferred tax liability | (332) | (328,712) | (329,044) |
| Change in net admitted DTA or (DTL) | $ (332) | $ (159,075) | $(159,407) |
| Increase (decrease) in nonadmitted DTA from prior year | $ - | $ - | $ - |

(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 | $ 169,637 | $ 169,637 | $ - |
| Admitted assets | $ 93,402,039 | $ 93,402,039 | $ - |
| Statutory surplus (September 30, 2011) | $ 71,227,503 | $ 71,227,503 | $ - |
| Total adjusted capital | $ 73,019,496 | $ 73,019,496 | $ - |
| Authorized control level used in 10.d. | $ 2,160,623 | $ 2,160,623 | $ - |

# 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, 2010:

| Description | With paragraph's 10.a. - c. | With paragraph's 10.e. | Difference |
|---|---|---|---|
| Admitted DTAs | $ - | $ - | $ - |
| Admitted assets | $ 76,859,227 | $ 76,859,227 | $ - |
| Statutory surplus (September 30, 2010) | $ 68,877,190 | $ 68,877,190 | $ - |
| Total adjusted capital | $ 70,109,253 | $ 70,109,253 | $ - |
| Authorized control level used in 10.d. | $ 1,393,814 | $ 1,393,814 | $ - |

(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 | $ 169,637 | $ 169,637 | $ - |
| Admitted assets | $ 16,542,812 | $ 16,542,812 | $ - |
| Statutory surplus | $ 2,350,313 | $ 2,350,313 | $ - |
| Total adjusted capital | $ 2,910,243 | $ 2,910,243 | $ - |
| Authorized control level used in 10.d. | $ 766,809 | $ 766,809 | $ - |

B. Deferred tax liabilities are not recognized for the following amounts:
There are no temporary differences for which deferred tax liabilities are not recognized

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 | $ 651,614 | $ 492,778 |
| Tax on capital gains/(losses) | (81,670) | 16,295 |
| Federal income taxes incurred | $ 569,944 | $ 509,073 |

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 |
|---|---|---|---|---|
| Unrealized (gain)/loss on Investments | $ - | $ - | $ - | Capital |
| Other deferred tax assets | 169,637 | - | 169,637 | Capital |
| Gross DTAs | $ 169,637 | $ - | $ 169,637 | |
| Nonadmitted DTAs | $ - | $ - | $ - | |

| DTLs Resulting From Book/Tax Differences in | December 31, 2011 | December 31, 2010 | Change | Character |
|---|---|---|---|---|
| Unrealized (gain)/loss on investments | $ (849,167) | $ (501,703) | $ (347,464) | Capital |
| Other, net | - | (18,752) | 18,752 | Capital |
| Other, net | (6,279) | (5,947) | (332) | Ordinary |
| Gross DTLs | $ (855,446) | $ (526,402) | $ (329,044) | |

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 | $ 169,637 | $ - | $ 169,637 |
| Total deferred tax liabilities | (855,446) | (526,402) | (329,044) |
| Net deferred tax asset(liability) | $ (685,809) | $ (526,402) | $(159,407) |
| Tax effect of unrealized (gains)/losses | | | 347,464 |
| Change in net deferred income tax (charge)/benefit | | | $ 188,057 |

| | December 31, 2010 | December 31, 2009 | Change |
|---|---|---|---|
| Total deferred tax assets | $ - | $ - | $ - |
| Total deferred tax liabilities | (526,402) | (143,442) | (382,960) |
| Net deferred tax asset(liability) | $ (526,402) | $ (143,442) | $(382,960) |
| Tax effect of unrealized (gains)/losses | | | 373,842 |
| Change in net deferred income tax (charge)/benefit | | | $ (9,118) |

# 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 | Pre-Tax Amount | Tax Effect | Effective Tax Rate |
|---|---|---|---|
| Income before taxes | $ 2,646,841 | $ 926,394 | 35.00% |
| Net tax exempt interest | (1,300,601) | (455,211) | -17.20% |
| Net dividends received deduction | (253,786) | (88,825) | -3.36% |
| Other permanent items, net | 43 | 15 | 0.00% |
| DRD on Accrued | (1,392) | (487) | -0.01% |
| Total | $ 1,091,105 | $ 381,886 | 14.43% |
| Federal income taxes incurred expense/(benefit) | $ 1,861,755 | $ 651,614 | 24.62% |
| Tax on capital gains/(losses) | (233,343) | (81,670) | -3.09% |
| Change in net deferred income tax excluding unrealized | (537,307) | (188,058) | -7.10% |
| Total statutory income taxes incurred | $ 1,091,105 | $ 381,886 | 14.43% |

As of December 31, 2010

| Description | Pre-Tax Amount | Tax Effect | Effective Tax Rate |
|---|---|---|---|
| Income before taxes | $ 2,976,383 | $ 1,041,734 | 35.00% |
| Net tax exempt interest | (1,311,743) | (459,110) | -15.43% |
| Net dividends received deduction | (162,704) | (56,946) | -1.91% |
| DRD on Accrued | (21,391) | (7,487) | -0.25% |
| Total | $ 1,480,545 | $ 518,191 | 17.41% |
| Federal income taxes incurred expense/(benefit) | $ 1,407,936 | $ 492,778 | 16.56% |
| Tax on capital gains/(losses) | 46,558 | 16,295 | 0.55% |
| Change in net deferred income tax excluding unrealized | 26,051 | 9,118 | 0.30% |
| Total statutory income taxes incurred | $ 1,480,545 | $ 518,191 | 17.41% |

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 | $ 459,233 | $ 110,696 | $ 569,929 |
| 2010 | 492,778 | 16,295 | 509,073 |
| 2009 | - | 3,022,429 | 3,022,429 |
| Total | $ 952,011 | $ 3,149,420 | $ 4,101,431 |

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 Insurance Company
The Cincinnati Casualty 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, and Other Related Parties
   A. Not applicable
   B. Not applicable
   C. The terms of intercompany management and service agreements were created to include the Company.
   D. At December 31, 2011, the Company reported $11,916,452 due from the Parent Company, The Cincinnati Insurance Company. The terms of the settlement require that these amounts be settled within 30 days.
   E. Not applicable
   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, The Cincinnati Insurance Company, an insurance 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

# NOTES TO FINANCIAL STATEMENTS

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 – Not applicable
    C. Multiemployer Plans – Not applicable
    D. Consolidated/Holding Company Plans –
        (1) Defined Benefit Pension Plan - 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 $3,115 and $2,017 for 2011 and 2010 respectively.
        (2) Defined Contribution Plans - The Company participates in a qualifed, defined contribution plan sponsored by The Cincinnati Insurance Company, the parent. The Company has no legal obligations for benefits under these plans. The Cincinnati Insurance Company allocates amounts to the Company based on an inter-company management fee. The Company's share of net expense for the contribution plan was $3,607 and $1,708 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 2,000 shares authorized, 1,800 shares issued and 1,800 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 $7,301,949. In 2011 10% of surplus was $7,301,949 and net income was $2,076,896. In 2011 we would be restricted to $7,010,925. In 2010 10% of surplus was $7,010,925 and net income was $2,467,311.
    (4) Dividends Paid - Not applicable
    (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 $645,290 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 does not have any bad faith losses stemming from lawsuits.
    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 - The Company does not have material lease obligations at this time.
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
    D. Not applicable
21. Other Items
    A. Not applicable
    B. Not applicable
    C. Assets in the amount of $10,544,349 and $9,445,377 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 Indemnity 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

# NOTES TO FINANCIAL STATEMENTS

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 Reserve | Commission Equity | Premium Reserve | Commission Equity | Premium Reserve | Commission Equity |
| (I) Affiliates | 0 | 0 | $ 79,631,277 | $ 5,328,469 | ($79,631,277) | ($ 5,328,469) |
| (ii) All Other | 0 | 0 | $ 0 | $0 | $ 0 | $ 0 |
| (iii)Total | 0 | 0 | $ 79,631,277 | $5,328,469 | ($79,631,277) | ($ 5,328,469) |
| (iv) Direct Unearned Premium Reserve | | | $79,631,277 | | | |

(2)

| | REINSURANCE | | | |
|---|---|---|---|---|
| | Direct | Assumed | Ceded | Net |
| (i)Contingent Comm | $2,100,000 | $ 0 | $ 2,100,000 | $0 |
| (ii)Sliding Scale Adj. | | | | |
| (iii)Other Profit Comm Arrangements | | | | |
| (iv)Total | $2,100,000 | $ 0 | $ 2,100,000 | $0 |

(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. Change in Incurred Losses and Loss Adjustment Expenses - None
26. Intercompany Pooling Arrangements – None
27. Structured Settlements - None
28. Health Care Receivables – None
29. Participating Policies – None
30. Premium Deficiency Reserves
    1. Liability carried for premium deficiency reserves $0
    2. Date of the most recent evaluation of this liability January 26, 2012
    3. Anticipated investment income was not utilized in the calculation
31. High Deductibles – None
32. The Company does not discount unpaid losses or loss adjustment expenses except for income tax purposes.
33. The Company is not aware of any exposure to environmental or asbestos claims since they began writing business in 1989.
34. Subscriber Savings Accounts – Not applicable
35. Multiple Peril Crop Insurance – None
36. Financial Guaranty Insurance – None
37. Other

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.