



Cincinnati Financial Corporation

2008 Fourth-quarter and Full-year Letter to Shareholders

February 18, 2009

To Our Shareholders, Friends and Associates:

Challenges intensified in the fourth quarter of 2008 and early 2009. Every company – including Cincinnati Financial – is adapting accordingly. To arrive at sound business decisions that support long-term shareholder value, we diligently studied the numbers, modeled variables and measured potential impacts. In implementing those decisions, we also were guided by the conviction that, now and always, putting people first is good for business:

By offering multi-year terms on policies for businesses. We are willing to help qualified businesses stabilize their insurance budget at today's low prices. We commit to keeping rates for selected coverages the same over a multi-year policy term. Agents use this distinct sales advantage to attract and retain accounts, finding that many businesses will pay slightly more for this stability.

By making decisions that are locally responsive. During the fourth quarter, we funded charitable grants made by each of our 1,100-plus agencies to their local organizations that help people in need. Replacing our planned 2009 President's Club meeting for top-performing agencies, this funding recognized agencies for their good work under difficult market conditions. Our field associates who are present in agencies every day observed that many agents added their own funds to inspire an even stronger community response to neighbors in need.

By acting to preserve capital and policyholder surplus. To assure policyholder safety and our ability to be a stable market for our agents' business, your company maintains low debt, excellent liquidity and now, a portfolio that is more diversified than ever before. In the fourth quarter and January, we further reduced financial sector exposure in our portfolio by completing the sale of our former largest common stock holding. Our diversifying actions improved the portfolio's future ability to withstand unusual conditions like those of 2008, when stock market volatility took a significant toll and led A.M. Best to lower our ratings in December. At A+ (Superior), our property casualty group's rating continues in the top category awarded to fewer than 11 percent of insurer groups, and Best has a Stable outlook on all of our ratings.

By sharply aligning resources to bring more efficiency and ease to our customers – the independent agents. We are cutting back on many expenses and channeling resources where we can achieve the best return. Without significant infrastructure expense, we are increasing our growth opportunities by expanding operations into new geographic areas. We have increased our technology investment and accelerated our deployment dates for systems that ultimately will improve cash flow and profitability for our agencies and company. Recognizing that future growth of our asset management business would require a substantial increase in resources, we announced in December that CinFin Capital Management Company will cease operations February 28. We are assisting clients for a smooth transition.

By maintaining your shareholder dividend. In January, the board declared a quarterly dividend of 39 cents per share, payable to you in April. Many other companies have stopped paying or reduced dividends as a capital management strategy. We know that many of you expect steadily increasing dividends, and for 48 consecutive years we have not disappointed. Our board takes a long-term view. After carefully reviewing our capital needs, resources and our initiatives to preserve capital and grow profitably, the board maintained the dividend and continued for discussion later in the year the potential for an increase in the 2009 dividend payout level.

We will continue to consider how our decisions and actions affect people, tackling problems by finding long-term, relationship-based solutions rather than short-term answers. Thank you for giving us that opportunity.

Respectfully,

/S/ John J. Schiff, Jr.

John J. Schiff, Jr., CPCU
Chairman of the Board

/S/ Kenneth W. Stecher

Kenneth W. Stecher
President and Chief Executive Officer

About the Company

Cincinnati Financial Corporation is one of the 25 largest property casualty insurers in the nation, based on premium volume from our insurance subsidiary. We actively market commercial lines property casualty insurance in 35 states through a select group of independent insurance agencies. We offer personal lines insurance products in 28 and surplus lines insurance in 33 of those states. We seek to become the life insurance carrier of choice for agencies that market our property casualty insurance products and also offer financial services to help agents and their clients, our policyholders.

Three hallmark factors distinguish our company, creating long-term success:

- Commitment to our network of high-quality independent insurance agencies and to the continued success of those agencies
- Financial strength that provides stability and confidence
- Operating structure that supports local decision making, showcasing our claims service excellence and allowing us to balance growth with underwriting discipline

Learn more about where we are today and how we plan to create value for shareholders, agents, policyholders and associates by reviewing publications that we promptly post on www.cinfin.com/Investors as they are completed. Each piece was accurate at the time it was posted; please refer to the most recent item for the timeliest information.

2008 Fourth-quarter and Full-Year *Letter to Shareholders* – available now

This message from our chairman and our president includes recent news releases about financial results announced February 5 and actions taken by board of directors at its January 30 meeting.

2008 SEC Form 10-K – early-March 2009

2009 Shareholder Meeting Notice and Proxy Statement – late-March 2009

Letter from the Chairman and the Chief Executive Officer – late-March 2009

First-quarter 2009 *Letter to Shareholders* – early-May 2009

Second-quarter 2009 *Letter to Shareholders* – early-August 2009

Third-quarter 2009 *Letter to Shareholders* – early-November 2009

Stay Involved, Be Informed and Save Some Trees Too!

Thank you for your interest in Cincinnati Financial Corporation. We continue to make it easy to go green and get your information about our company fast. By enrolling in e-Delivery at www.cinfin.com/Investors, you can help us save paper and postage while promptly receiving links to all materials and proxy voting communications via e-mail. We mail our quarterly and annual letters only to shareholders who are **not** enrolled in e-Delivery.

Recent News Releases

Cincinnati Financial Reports Profitable 2008 Fourth Quarter and Full Year

Cincinnati, February 5, 2009 – Cincinnati Financial Corporation (Nasdaq: CINF) today reported:

- Fourth-quarter 2008 net income of \$161 million, or 99 cents per share, compared with \$187 million, or \$1.11, in the 2007 fourth quarter; operating income* of \$92 million, or 57 cents per share, compared with \$179 million, or \$1.07.
- Full-year 2008 net income of \$429 million, or \$2.62 per share, compared with \$855 million, or \$4.97, in 2007. Operating income of \$344 million, or \$2.10 per share, compared with \$610 million, or \$3.54, in 2007.
- \$9 million fourth-quarter property casualty underwriting gain reduced full-year underwriting loss to \$17 million. Loss reflected effects of weak insurance pricing throughout 2008 and more than seven-fold increase in catastrophe losses, net of reinsurance, to a record \$203 million.

Financial Highlights

(Dollars in millions except share data)

	Three months ended December 31,			Twelve months ended December 31,		
	2008	2007	Change %	2008	2007	Change %
Revenue Highlights						
Earned premiums	\$ 780	\$ 802	(2.7)	\$ 3,136	\$ 3,250	(3.5)
Investment income	125	157	(20.5)	537	608	(11.6)
Total revenues	1,018	977	4.2	3,824	4,259	(10.2)
Income Statement Data						
Net income	\$ 161	\$ 187	(13.9)	\$ 429	\$ 855	(49.9)
Net realized investment gains and losses ...	69	8	801.9	85	245	(65.4)
Operating income*	\$ 92	\$ 179	(48.6)	\$ 344	\$ 610	(43.7)
Per Share Data (diluted)						
Net income	\$ 0.99	\$ 1.11	(10.8)	\$ 2.62	\$ 4.97	(47.3)
Net realized investment gains and losses ...	0.42	0.04	950.0	0.52	1.43	(63.6)
Operating income*	\$ 0.57	\$ 1.07	(46.7)	\$ 2.10	\$ 3.54	(40.7)
Book value				\$ 25.75	\$ 35.70	(27.9)
Cash dividend declared	\$ 0.39	\$ 0.355	9.9	\$ 1.56	\$ 1.42	9.9
Weighted average shares outstanding	162,485,576	168,163,752	(3.4)	163,362,409	172,167,452	(5.1)

Insurance Operations Highlights

- 98.9 percent fourth-quarter 2008 property casualty combined ratio as net written premiums declined 1.0 percent. Full year 2008 property casualty combined ratio at 100.6 percent, with 3.4 percent decline in net written premiums.
- 23.6 percent and 13.1 percent increase in new business written by agencies in the 2008 fourth quarter and full year, partially offsetting the effects of the very competitive insurance market and slowing economy.
- \$14 million in net written premiums from excess and surplus lines operation launched in 2008.
- 24 cents per share contribution from life insurance operating income to full-year results, up 2 cents from 2007.
- \$25.75 book value, down from \$28.87 at September 30 and \$35.70 at year-end 2007 on lower investment values.
- Investment portfolio at year-end reflected application of investment guidelines revised in 2008 that increased diversification and reduced concentrations. Investment income declined in the fourth quarter and full year because of portfolio changes and lower dividends from holdings in the equity portfolio.

Outlook**

- Management sees strategies leading to rate of book value growth plus rate of dividend contribution, a measure of value creation, averaging 12 percent to 15 percent between 2010 and 2014. Dividend contribution rate defined as annual dividends declared as a percent of beginning shareholders' equity.

Investment and Balance Sheet Highlights

- \$1.009 billion in cash and cash equivalents at year-end 2008, providing exceptional liquidity and capital flexibility.

* The Definitions of Non-GAAP Information and Reconciliation to Comparable GAAP Measures on www.cinfin.com defines and reconciles measures presented in this release that are not based on Generally Accepted Accounting Principles or Statutory Accounting Principles.

** Forward-looking statements and related assumptions are subject to the risks outlined in the company's safe harbor statement (see Page 13).

nm Not meaningful

Looking to a Strong Future

Kenneth W. Stecher, president and chief executive officer, said, "2008 was a tough year for our economy, our industry and our company. Our long-term perspective lets us address the immediate challenges while focusing on the major decisions that best position the company for success through all market cycles. We believe that this forward-looking view has consistently benefited our policyholders, agents, shareholders and associates.

"To measure our progress, we're defining a value creation ratio that we believe captures the contribution of our insurance operations, the success of our investment strategy and the importance we place on paying cash dividends to shareholders. Between 2010 and 2014, we expect the total of our rate of growth in book value plus the rate of dividend contribution to average 12 percent to 15 percent. With the current economic and market uncertainty, we believe this ratio is an appropriate way to measure our long-term progress in creating value."

Strategic Initiatives

Stecher added, "We were founded more than 50 years ago by independent agents who established the mission that continues to guide us - To grow profitably and enhance the ability of local independent insurance agents to deliver quality financial protection to the people and businesses they serve. To continue to achieve that objective, we have worked with our board of directors to identify actions that will position us for long-term success in three broad areas of strategic focus - preservation of capital, profitability and growth.

Stecher said, "First, we are addressing preservation of capital to sustain our capacity for growth of our insurance business. We ended 2008 with a healthy property casualty premium to surplus ratio of 0.9-to-1. All of our insurance subsidiaries continue to be highly rated, operating with a level of capital far exceeding regulatory requirements. We also can sustain our investment in the people and infrastructure needed to succeed in the future. Smart spending today means we'll be even better prepared with strong, local market-based relationships when external conditions improve.

"As we stated on Monday, we're working on a variety of initiatives, including the repositioning of our investment portfolio, to preserve our capital strength and liquidity. Additionally, we hold more than \$1 billion of our assets at the parent company level, increasing our flexibility through all periods to maintain our cash dividend and to continue to invest in and expand our insurance operations."

Stecher said, "Second, we are emphasizing business initiatives that support improved cash flow and profitability for the agencies that represent us and for our company.

"Several technology initiatives are well under way to improve critical efficiencies and streamline processes for our appointed agencies, allowing us to win an increasing share of their business. By the end of this year, we expect to make significant strides with deployment of a new commercial lines policy

administration system; the groundwork for a major upgrade of our personal lines policy administration system; and a variety of online initiatives to serve agencies and policyholders. We'll also sustain our reputation for superior claims service, improving processes with options such as allowing agents access to more detailed information on the status of pending claims.

"Other technology projects in process will improve our business data, supporting accurate underwriting, pricing and decisions. These will enhance our hallmark - local decision making based on the local knowledge and risk selection expertise we derive from our agents and from having a large network of field representatives who live and work in our agents' communities.

"All of our initiatives seek to strengthen our relationships with agents, allowing them to serve clients faster and manage expenses better. We expect these efforts to contribute to our rank as the No. 1 or No. 2 carrier in agencies that have represented us for at least five years. In 2008, we again earned that rank in more than 75 percent of the agencies that have represented Cincinnati Insurance for more than five years. We are working to improve that rank again in 2009 and in each of the years that follow."

Stecher added, "The third area of focus is adding to our property casualty premiums without significant concentration of risk or infrastructure expense. Expanding our geographic footprint and diversifying our premium sources should give us profitable growth while also reducing catastrophe exposure risk. With our entry into Texas during the fourth quarter of 2008, Cincinnati Insurance now is actively marketing our policies in 35 states, expanding our opportunities beyond the Midwest and South. We now have a sizeable presence in the western states -- opening New Mexico and Washington in 2007, Utah in 2000, Idaho in 1999 and Montana in 1998. We plan to look next at taking the Cincinnati Insurance franchise to agencies in Colorado and Wyoming.

"To diversify the sources of our premiums, we also continue to appoint new agencies in our current operating territories, adding 76 in 2008 and targeting at least 65 additional appointments in 2009. We are working to position our personal lines business for profitable future growth with rate and credit modifications and making personal lines policies available in new geographies to spread risk. Another source of premiums is our new excess and surplus lines operation, which ended the year on track with \$14 million of written premiums and products available in 33 states."

Factors Influencing 2009 Performance

Steven J. Johnston, FCAS, MAAA, CFA, chief financial officer, said, "When looking at our longer-term objectives, we believe over any five-year period our agency relationships and growth strategies can lead to a property casualty written premium growth rate that exceeds the industry average. We also believe our underwriting philosophy can generate a GAAP combined ratio over any five-year period that is consistently below 100 percent. Finally, we believe our investment

philosophy can drive investment income growth and lead to a total return on our equity investment portfolio that exceeds the Standard & Poor's 500's five-year return."

Johnston added, "Our view of the value we can create over the next five years relies on two assumptions about the external environment. First, we're anticipating some firming of commercial insurance pricing during 2009. Second, we believe that the economy and financial markets can resume a growth track by the end of 2010."

On 2008 results and the outlook for 2009, Johnston said, "In 2009, we believe our value creation ratio may be below our long-term target for several reasons. First, the weak economy is expected to continue to affect policyholders by deflating their business and personal insurable assets. Until the economy begins to recover, we also do not expect to see significant appreciation of our investments. Second, the lingering effects of soft insurance market pricing are expected to affect growth

rates and earned premium levels into 2010, continuing to weaken loss ratios and hamper near-term profitability. Third, our property casualty written premium growth may lag as our growth initiatives need more time to reach their full contribution. Fourth, we continue to invest in our business, including technology, new states and process initiatives to create long-term value.

Johnston noted, "The diversification of the investment portfolio over the past year included sales of selected positions to lock in gains, reduce concentrations and increase liquidity. We expect to continue to make changes to the portfolio, as appropriate. Proceeds of sales are being reinvested in both fixed income and equity securities with yields that we believe are likely to be more secure. This may slow the return to growth in investment income although we believe year-over-year comparisons may turn positive in the second half of the year."

Consolidated Property Casualty Insurance Operations

(Dollars in millions; percent change given for dollar amounts and point change given for ratios)	Three months ended December 31,			Twelve months ended December 31,		
	2008	2007	Change %	2008	2007	Change %
Earned premiums	\$ 747	\$ 777	(3.8)	\$ 3,010	\$ 3,125	(3.7)
Loss and loss expenses before catastrophe losses	490	397	23.5	1,853	1,806	2.6
Loss and loss expenses from catastrophe losses	(16)	(2)	(800.3)	203	26	681.1
Total loss and loss expenses	474	395	20.1	2,056	1,832	12.2
Underwriting expenses	264	270	(2.1)	971	989	(1.8)
Underwriting profit (loss)	\$ 9	\$ 112	(92.3)	\$ (17)	\$ 304	nm
Other business metrics:						
Agency renewal written premiums	\$ 669	\$ 705	(5.0)	\$ 2,828	\$ 2,960	(4.4)
Agency new business written premiums ...	100	81	23.6	368	325	13.1
Net written premiums	717	724	(1.0)	3,010	3,117	(3.4)
Ratios as a percent of earned premiums:			Points			Points
Loss and loss expenses	63.6%	50.9%	12.7	68.3%	58.6%	9.7
Underwriting expenses	35.3	34.7	0.6	32.3	31.7	0.6
Combined ratio	98.9%	85.6%	13.3	100.6%	90.3%	10.3
Other business metrics:						
Contribution from catastrophe losses	(2.1)	(0.2)	(1.9)	6.8	0.8	6.0
Contribution from prior period reserve development	(16.1)	(15.3)	(0.8)	(10.7)	(7.7)	(3.0)

- 1.0 percent and 3.4 percent declines in fourth-quarter and full-year 2008 property casualty net written premiums, reflecting disciplined underwriting in the midst of soft pricing and a weakening economy.
- \$43 million rise to \$368 million in 2008 new business written by agencies reflected the contribution from growth initiatives, with \$29 million from agencies appointed since 2004 and \$14 million from new excess and surplus lines capabilities.
- 0.9-to-1 ratio of net written premiums to property casualty statutory surplus for 2008 from 0.7-to-1 ratio for 2007.
- 1,133 agency relationships with 1,387 reporting locations marketing standard market property casualty insurance products at year-end 2008, up from 1,092 agency relationships with 1,327 reporting locations at year-end 2007.
- Full-year 2008 GAAP combined ratio was near breakeven despite record catastrophe losses. The effects of soft pricing and loss cost inflation were offset by higher savings from favorable development on prior year reserves.
- Previously announced pension plan settlement cost of \$27 million included in fourth-quarter results. Consolidated property casualty cost of \$25 million added 3.3 percentage points to the fourth-quarter 2008 combined ratio and 0.8 points for the full year. Transition from a defined benefit pension plan reduces company risk while providing flexible, company-sponsored 401(k) benefit to associates.
- 10.3 percentage point increase in full-year 2008 combined ratio reflected substantially higher catastrophe losses, the pension plan settlement cost, an uptick in larger commercial lines losses and the effects of lower prices due to soft market conditions and of normal loss cost inflation. These factors were partially offset by a higher level of savings from favorable development on prior period loss reserves.
- High prior period reserve development in the fourth quarters of both 2008 and 2007 reflected the more extensive actuarial review normally conducted in that period. Savings from favorable development remained high for full year 2008 in part because of a refinement that redistributed \$69 million of reserves for incurred but not yet reported losses from prior years to accident year 2008.
- Positive catastrophe loss contribution for fourth quarter 2008 includes \$15 million reduction in estimates of losses from catastrophe events earlier in 2008 and \$1 million reduction in estimates of losses from prior year events.

(In millions, net of reinsurance)

Dates	Three months ended December 31,			Twelve months ended December 31,		
	Commercial lines	Personal lines	Total	Commercial lines	Personal lines	Total
2008						
First quarter catastrophes	\$ (1)	\$ 1	\$ 0	\$ 20	\$ 22	\$ 42
Second quarter catastrophes	(7)	(4)	(11)	59	30	89
Third quarter catastrophes	1	(3)	(2)	25	45	70
Fourth quarter catastrophes	0	0	0	0	0	0
All other	(1)	(1)	(2)	2	2	4
Development on 2007 and prior catastrophes ..	(1)	0	(1)	(3)	1	(2)
Calendar year incurred total	<u>\$ (9)</u>	<u>\$ (7)</u>	<u>\$ (16)</u>	<u>\$ 103</u>	<u>\$ 100</u>	<u>\$ 203</u>
2007						
First quarter catastrophes	\$ 1	\$ 0	\$ 1	\$ 6	\$ 2	\$ 8
Second quarter catastrophes	0	1	1	4	5	9
Third quarter catastrophes	1	(2)	(1)	2	4	6
Fourth quarter catastrophes	0	0	0	0	0	0
All other	(4)	1	(3)	14	9	23
Development on 2006 and prior catastrophes ..	1	(1)	0	(10)	(10)	(20)
Calendar year incurred total	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (2)</u>	<u>\$ 16</u>	<u>\$ 10</u>	<u>\$ 26</u>

- Finalized 2009 property casualty reinsurance program. Reinsurance premiums expected to be relatively stable in 2009 despite higher rates for some program components. Program designed to maintain balance between the cost of the program and the level of risk retained.

2009 Reinsurance Program

Treaties	Retention Summary	Comments
Property catastrophe	For any one event, retain losses of: <ul style="list-style-type: none"> • 100% of first \$45 million • 33% between \$45 million and \$70 million • 19% between \$70 million and \$105 million • 7% to 20% for layers between \$105 million and \$500 million 	<ul style="list-style-type: none"> • After reinsurance, our maximum exposure to a catastrophic event that caused \$500 million in covered losses would be \$118 million compared with \$105 million in 2008. The largest catastrophe loss in our history was Hurricane Ike, estimated at \$129 million before reinsurance at December 31, 2008.
Casualty per risk	For a single loss, retain: <ul style="list-style-type: none"> • 100% of first \$6 million • 0% between \$6 million and \$25 million • Obtain facultative reinsurance above \$25 million 	<ul style="list-style-type: none"> • Increased casualty treaty retention to \$6 million from \$5 million
Property per risk	For a single loss, retain: <ul style="list-style-type: none"> • 100% of first \$5 million • 0% between \$5 million and \$25 million • Obtain facultative reinsurance above \$25 million 	<ul style="list-style-type: none"> • Increased property treaty retention to \$5 million from \$4 million
Casualty third excess	Coverage of: <ul style="list-style-type: none"> • \$25 million excess of \$25 million 	<ul style="list-style-type: none"> • No changes in 2009
Casualty fourth excess	Coverage of: <ul style="list-style-type: none"> • \$20 million excess of \$50 million 	<ul style="list-style-type: none"> • No changes in 2009

Insurance Segments Highlights

Commercial Lines Insurance Operations

(Dollars in millions; percent change given for dollar amounts and point change given for ratios)	Three months ended December 31,			Twelve months ended December 31,		
	2008	2007	Change %	2008	2007	Change %
Earned premiums	\$ 573	\$ 601	(4.5)	\$ 2,316	\$ 2,411	(3.9)
Loss and loss expenses before catastrophe losses	367	310	18.4	1,401	1,378	1.6
Loss and loss expenses from catastrophe losses	(9)	0	nm	103	16	522.5
Total loss and loss expenses	358	310	15.6	1,504	1,394	7.8
Underwriting expenses	204	215	(5.0)	742	756	(1.8)
Underwriting profit	\$ 11	\$ 76	(84.8)	\$ 70	\$ 261	(73.0)
Other business metrics:						
Agency renewal written premiums	\$ 514	\$ 546	(5.9)	\$ 2,156	\$ 2,271	(5.1)
Agency new business written premiums ...	83	71	16.4	312	287	8.8
Net written premiums	552	562	(1.9)	2,311	2,413	(4.2)
Ratios as a percent of earned premiums:			Points			Points
Loss and loss expenses	62.5%	51.5%	11.0	64.9%	57.9%	7.0
Underwriting expenses	35.6	35.8	(0.2)	32.1	31.3	0.8
Combined ratio	98.1%	87.3%	10.8	97.0%	89.2%	7.8
Other business metrics:						
Contribution from catastrophe losses	(1.5)	0.0	(1.5)	4.5	0.7	3.8
Contribution from prior period reserve development	(17.0)	(17.0)	0.0	(11.8)	(8.4)	(3.4)

- 1.9 percent and 4.2 percent declines in fourth-quarter and full-year 2008 commercial lines net written premiums, primarily a result of weakening economy, soft pricing and disciplined underwriting.
- \$83 million in fourth-quarter 2008 new commercial lines business written directly by agencies, up 16.4 percent from \$71 million in last year's fourth quarter. Full-year 2008 new business rose 8.8 percent to \$312 million from \$287 million.
- 7.8 percentage point increase in full-year 2008 combined ratio. The uptick in larger commercial lines losses was primarily seen in new losses from directors and officers

coverages. The effects of lower prices due to soft market conditions and of normal loss cost inflation were most significant in the commercial property, commercial auto and workers' compensation business lines.

- Higher savings from prior period reserve development for the commercial lines segment was primarily due to reduced umbrella liability reserves, reflecting revised expectations for loss cost inflation. A claims mediation process that promotes earlier liability settlement resolution also contributed to commercial casualty business line results.

Personal Lines Insurance Operations

(Dollars in millions; percent change given for dollar amounts and point change given for ratios)	Three months ended December 31,			Twelve months ended December 31,		
	2008	2007	Change %	2008	2007	Change %
Earned premiums	\$ 171	\$ 176	(2.9)	\$ 689	\$ 714	(3.4)
Loss and loss expenses before catastrophe losses	120	87	37.1	447	428	4.6
Loss and loss expenses from catastrophe losses	(7)	(2)	(308.2)	100	10	958.8
Total loss and loss expenses	113	85	31.6	547	438	25.2
Underwriting expenses	58	55	6.6	224	233	(3.9)
Underwriting profit (loss)	\$ 0	\$ 36	nm	\$ (82)	\$ 43	nm
Other business metrics:						
Agency renewal direct written premiums ..	\$ 156	\$ 159	(2.3)	\$ 672	\$ 690	(2.5)
Agency new business direct written premiums	11	10	17.9	42	38	9.5
Net written premiums	159	162	(1.4)	685	704	(2.7)
Ratios as a percent of earned premiums:			Points			Points
Loss and loss expenses	65.9%	48.6%	17.3	79.4%	61.3%	18.1
Underwriting expenses	34.1	31.1	3.0	32.5	32.6	(0.1)
Combined ratio	100.0%	79.7%	20.3	111.9%	93.9%	18.0
Other business metrics:						
Contribution from catastrophe losses	(4.1)	(1.0)	(3.1)	14.5	1.3	13.2
Contribution from prior period reserve development	(13.2)	(9.2)	(4.0)	(7.2)	(5.7)	(1.5)

- 1.4 percent and 2.7 percent declines in fourth-quarter and full-year 2008 personal lines net written premiums. Higher new personal lines business partially offset lower policy counts and pricing changes that reduced premiums per policy. Full-year 2008 written and earned premiums included a \$9 million reinsurance reinstatement premium to restore affected coverages following Hurricane Ike.
- \$11 million in fourth-quarter 2008 personal lines new business written directly by agencies, up 17.9 percent from

\$10 million in last year's fourth quarter. Full-year new business rose 9.5 percent to \$42 million from \$38 million.

- 18.0 percentage point increase in full-year 2008 combined ratio primarily due to higher catastrophe losses. The effects of lower prices due to soft market conditions and of normal loss cost inflation primarily was seen in the homeowner business line, where rate tiers continue to be modified. Personal lines also benefited modestly from lower underwriting expenses.

Life Insurance Operations

(In millions)	Three months ended December 31,			Twelve months ended December 31,		
	2008	2007	Change %	2008	2007	Change %
Written premiums	\$ 50	\$ 41	24.2	\$ 185	\$ 167	11.0
Earned premiums	\$ 33	\$ 25	30.6	\$ 126	\$ 125	0.8
Investment income, net of expenses	31	30	4.9	120	115	4.5
Other income	1	1	(35.6)	2	4	(56.0)
Total revenues, excluding realized investment gains and losses	65	56	15.8	248	244	1.5
Contract holders benefits	27	35	(23.3)	142	133	6.2
Expenses	12	8	54.6	45	52	(12.8)
Total benefits and expenses	39	43	(8.6)	187	185	0.8
Net income before income tax and realized investment gains and losses	26	13	96.9	61	59	3.6
Income tax	9	4	110.3	21	20	6.5
Net income before realized investment gains and losses	\$ 17	\$ 9	90.4	\$ 40	\$ 39	2.1

- \$185 million in total 2008 life insurance segment net written premiums. Written premiums include life insurance, annuity and accident and health premiums.
- 4.7 percent increase to \$147 million in full-year 2008 written premiums for life insurance products, the largest component of segment premiums. Gain included 10.8 percent rise to \$81 million in full-year 2008 term life insurance written premiums, reflecting marketing advantages of competitive, up-to-date products, personal service and policies backed by financial strength.
- 6.5 percent rise in face amount of life policies in force to \$65.888 billion at year-end 2008, from \$61.875 billion at year-end 2007.
- \$1 million increase in full-year 2008 operating profit. Total benefits and expenses declined in the fourth quarter, reflecting refined actuarial calculations.
- During 2008, the LifeHorizons Termsetter portfolio was redesigned and a new 20-year term worksite product was introduced. These improvements supported opportunities to cross-sell life insurance products to clients of the independent agencies that sell Cincinnati's property casualty insurance policies.

Investment and Balance Sheet Highlights

Investment Operations

(In millions)	Three months ended December 31,			Twelve months ended December 31,		
	2008	2007	Change %	2008	2007	Change %
Investment income:						
Interest	\$ 88	\$ 79	12.6	\$ 326	\$ 308	6.0
Dividends	35	75	(53.0)	204	294	(30.5)
Other	4	4	(6.1)	14	15	(4.5)
Investment expenses	(2)	(1)	nm	(7)	(9)	12.6
Total investment income, net of expenses	125	157	(20.5)	537	608	(11.6)
Investment interest credited to contract holders	(16)	(17)	7.9	(63)	(59)	(5.2)
Realized investment gains and losses summary:						
Realized investment gains and losses	245	38	535.9	686	409	67.6
Change in fair value of securities with embedded derivatives	(25)	(12)	(108.1)	(38)	(11)	(243.8)
Other-than-temporary impairment charges	(110)	(14)	(672.7)	(510)	(16)	nm
Total realized investment gains and losses	110	12	804.7	138	382	(64.0)
Investment operations income	\$ 219	\$ 152	43.5	\$ 612	\$ 931	(34.2)

- 20.5 percent and 11.6 percent declines in fourth-quarter and full-year 2008 pretax net investment income. 30.5 percent decline in full-year dividend income due to dividend reductions by common and preferred holdings, including reductions during the year on positions subsequently sold or reduced.
- \$110 million of fourth-quarter pretax realized investment gains included \$245 million in net gains from investment sales and bond calls offsetting \$110 million in other-than-temporary impairment charges and \$25 million of fair value changes.
- Impairments of equity securities accounted for more than 65 percent of 2008 other-than-temporary impairment charges, reflecting the portfolio mix, the historic weighting in financial sector securities and the unprecedented decline in overall stock market values during 2008.

(Dollars in millions except share data)

	At December 31, 2008	At December 31, 2007
Balance sheet data		
Invested assets	\$ 8,890	\$ 12,261
Total assets	13,369	16,637
Short-term debt	49	69
Long-term debt	791	791
Shareholders' equity	4,182	5,929
Book value per share	25.75	35.70
Debt-to-capital ratio	16.7%	12.7%

	Three months ended December 31, 2008		Twelve months ended December 31, 2008	
	2008	2007	2008	2007
Performance measures				
Comprehensive loss	\$ (449)	\$ (397)	\$ (1,375)	\$ (368)
Return on equity, annualized	14.5%	12.0%	8.5%	13.4%
Return on equity, annualized, based on comprehensive loss	(40.5)	(25.4)	(27.2)	(5.8)

- \$9.899 billion in cash and invested assets at December 31, 2008, compared with \$10.507 billion at September 30, 2008, and \$12.487 billion at December 31, 2007. Cash and equivalents of \$1.009 billion at year-end, compared with \$347 million at September 30, 2008, and \$226 million at year-end 2007.
- \$5.911 billion A3/A+-average rated bond portfolio at December 31, 2008, reflecting a diverse mix of taxable and tax exempt securities.
- \$2.896 billion equity portfolio was 32.6 percent of invested assets and included \$819 million in pretax unrealized gains at December 31, 2008.
- Application of new investment parameters led to financial sector holdings at 12.4 percent of publicly traded common stocks portfolio at year-end 2008, down from 56.2 percent at year-end 2007.
- \$3.360 billion estimate of statutory surplus for the property casualty insurance group at December 31, 2008, compared with \$3.687 billion at September 30, 2008.
- No repurchases of common stock since mid year. Approximately 8.5 million shares remain authorized for repurchase.

For additional information or to hear a replay of the February 5 conference call webcast, please visit www.cinfin.com/investors.

Cincinnati Financial Corporation Consolidated Balance Sheets (unaudited)

(Dollars in millions except per share data)

	December 31, 2008	December 31, 2007
Assets		
Investments		
Fixed maturities, at fair value (amortized cost: 2008-\$6,058; 2007-\$5,783) (includes securities pledged to creditors: 2008-\$0; 2007-\$745)	\$ 5,827	\$ 5,848
Equity securities, at fair value (cost: 2008-\$2,077; 2007-\$2,975)	2,896	6,249
Short-term investments, at fair value (amortized cost: 2008-\$84; 2007-\$101)	84	101
Other invested assets	83	63
Total investments	<u>8,890</u>	<u>12,261</u>
Cash and cash equivalents	1,009	226
Securities lending collateral invested	0	760
Investment income receivable	98	124
Finance receivable	71	92
Premiums receivable	1,059	1,107
Reinsurance receivable	759	754
Prepaid reinsurance premiums	15	13
Deferred policy acquisition costs	509	461
Deferred income tax	126	0
Land, building and equipment, net, for company use (accumulated depreciation: 2008-\$297; 2007-\$276)	236	239
Other assets	49	72
Separate accounts	548	528
Total assets	<u>\$13,369</u>	<u>\$ 16,637</u>
Liabilities		
Insurance reserves		
Loss and loss expense reserves	\$ 4,086	\$ 3,967
Life policy reserves	1,551	1,478
Unearned premiums	1,544	1,564
Securities lending payable	0	760
Other liabilities	618	574
Deferred income tax	0	977
Note payable	49	69
6.125% senior notes due 2034	371	371
6.9% senior debentures due 2028	28	28
6.92% senior debentures due 2028	392	392
Separate accounts	548	528
Total liabilities	<u>9,187</u>	<u>10,708</u>
Shareholders' Equity		
Common stock, par value-\$2 per share; (authorized: 2008-500 million shares, 2007-500 million shares; issued: 2008-196 million shares, 2007-196 million shares)	393	393
Paid-in capital	1,069	1,049
Retained earnings	3,579	3,404
Accumulated other comprehensive income	347	2,151
Treasury stock at cost (2008-34 million shares, 2007-30 million shares)	<u>(1,206)</u>	<u>(1,068)</u>
Total shareholders' equity	<u>4,182</u>	<u>5,929</u>
Total liabilities and shareholders' equity	<u>\$13,369</u>	<u>\$ 16,637</u>

Cincinnati Financial Corporation Consolidated Statements of Income (unaudited)

(In millions except per share data)

Three months ended December 31, 2008 2007 Twelve months ended December 31, 2008 2007

Revenues

Earned premiums				
Property casualty	\$ 747	\$ 777	\$ 3,010	\$ 3,125
Life	33	25	126	125
Investment income, net of expenses	125	157	537	608
Realized investment gains and losses	110	12	138	382
Other income	3	6	13	19
Total revenues	<u>1,018</u>	<u>977</u>	<u>3,824</u>	<u>4,259</u>

Benefits and Expenses

Insurance losses and policyholder benefits	500	430	2,193	1,963
Commissions	149	158	576	624
Other operating expenses	118	96	411	362
Taxes, licenses and fees	15	18	68	75
Increase in deferred policy acquisition costs	1	8	(17)	(9)
Interest expense	14	13	53	52
Total benefits and expenses	<u>797</u>	<u>723</u>	<u>3,284</u>	<u>3,067</u>

Income Before Income Taxes	<u>221</u>	<u>254</u>	<u>540</u>	<u>1,192</u>
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Provision (Benefit) for Income Taxes

Current	93	60	238	325
Deferred	(33)	7	(127)	12
Total provision for income taxes	<u>60</u>	<u>67</u>	<u>111</u>	<u>337</u>

Net Income	<u>\$ 161</u>	<u>\$ 187</u>	<u>\$ 429</u>	<u>\$ 855</u>
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Per Common Share

Net income-basic	\$ 0.99	\$ 1.12	\$ 2.63	\$ 5.01
Net income-diluted	\$ 0.99	\$ 1.11	\$ 2.62	\$ 4.97

Other Releases

Cincinnati Financial Corporation Board Declares 39¢ Quarterly Cash Dividend

- *Board expresses confidence in capital position and business plan, highlighting exceptional liquidity reflected in cash balance slightly above \$1 billion*

Cincinnati, February 2, 2009 – Cincinnati Financial Corporation (Nasdaq: CINF) today announced that the board of directors voted at its regular meeting on January 30, 2009, to pay a first-quarter cash dividend of 39 cents per share, unchanged from the prior four quarters. The dividend is payable April 15, 2009, to shareholders of record on March 20, 2009. At this level, the indicated annual dividend is \$1.56 per share. The company had 162,411,529 shares outstanding at December 31, 2008.

Chairman John J. Schiff, Jr., CPCU, commented, “A long-term perspective governs all of our major decisions – with the goal of benefiting our policyholders, agents, shareholders and associates over time. The ongoing instability of the financial markets highlights the value of operating in an open and consistent way, building a cushion of financial strength over a period of years. In responding to current economic pressures, we are confident in the steps we have taken to protect our capital.

“In view of current economic and market conditions, the board chose to continue for later discussion the potential for an increase in the 2009 dividend payout level,” Schiff said, “The board is cognizant that Cincinnati Financial stands among the top tier of U.S. dividend-paying companies, with a long, uninterrupted history of annual dividend increases that we believe only 11 other companies can claim. While there is merit to sustaining that record, the first priority of the board and management is to assure continued financial strength as the company enters 2009 so that we can reward shareholders over the long term.”

President and Chief Executive Officer Kenneth W. Stecher, added, “Our consistent cash flows and prudent cash balances continue to create exceptional liquidity. At January 31, we had slightly more than \$1 billion in cash and cash equivalents on hand. That gives us the flexibility to help build value for shareholders by investing where we see potential for both current income and long-term return. Our low debt leverage also enhances flexibility. Our \$795 million of long-term debt isn’t due until 2028 and 2032 and we have only \$49 million in short-term borrowings on a \$75 million line of credit. In addition, we have a second, untapped line of credit with availability of \$150 million.

“At year-end 2008, we estimate book value was approximately \$25.75. Our year-end consolidated cash and invested assets totaled \$9.9 billion, including \$2.7 billion of common stock holdings, compared with \$10.5 billion, including \$3.9 billion of common stock holdings, at September 30, 2008, and

\$12.5 billion, including \$6.0 billion of common stock holdings, at year-end 2007.

“Further, our insurance appetite remains strong. All of our insurance subsidiaries continue to be highly rated, operating with a level of capital far exceeding regulatory requirements. We ended 2008 with a healthy property casualty premium-to-surplus ratio of 0.9 to 1, allowing us the flexibility to reduce risk by expanding our operations into new geographies and product areas. Plus, we hold more than \$1 billion of our assets at the parent company level, increasing our flexibility through all periods to continue to invest in and expand our insurance operations while maintaining our cash dividend.”

Stecher said, “Preserving this high level of capital and liquidity remains a key objective. In mid-summer, we began applying new investment guidelines that increased portfolio diversification, reducing single issue and sector concentrations. Our year-end 2008 portfolio, fully detailed today in our regular online portfolio listing, shows how we have positioned the portfolio for reduced volatility going forward. As a result, despite economic and market disruptions that led to unprecedented market value declines, our equity portfolio suffered less than the broader indices during the fourth quarter and full year of 2008. It continues to hold up well in the challenging environment we have experienced since the beginning of 2009.

“At year-end, our financial sector holdings were 12.4 percent of our \$2.7 billion publicly traded common stock portfolio, below the Standard & Poor’s 500 weighting, and significantly lower than our 56.2 percent financial sector weighting at year-end 2007. Among other changes, we reduced our Fifth Third Bancorp holding to approximately 12 million shares at year-end 2008. Following Fifth Third’s further reduction of its dividend payout in December 2008, we sold the remainder of our holding in January for an additional capital gain.”

Stecher noted, “In addition to equities, our portfolio includes highly rated taxable and tax-exempt fixed maturity and short-term investments valued at \$5.8 billion at year end 2008, virtually unchanged from year end 2007. This bond portfolio’s value continues to exceed our insurance liabilities. It contains less than 1 percent, or approximately \$43 million book value, of collateralized mortgage obligations we obtained in the termination of a securities lending program. We own no other mortgage-related securities nor any other derivative products.”

Stecher concluded, “As the disruptions of the financial market have pressured short-term results for our company and others, we have continued to look to the long term. On

Thursday, we will provide a thorough look at our financial results for 2008. We also will share our perspective on Cincinnati's long-term potential to create value for shareholders by continuing to act on strategic initiatives that further our

mission: to grow profitability and enhance the ability of local independent agents to deliver quality financial protection to the people and businesses they serve."

Cincinnati Financial Corporation Subsidiaries Announce Appointments and Promotions

• *Subsidiary Directors, Officers and Counsel*

Cincinnati, February 2, 2009 – Cincinnati Financial Corporation (Nasdaq: CINF) announced today that boards of its subsidiary companies appointed directors, officers and counsel at their regular meetings on January 30, 2009.

Senior Vice President and Chief Financial Officer Steven J. Johnston, FCAS, MAAA, CFA, was named to the boards of all subsidiaries. Senior Vice Presidents Martin F. Hollenbeck, CFA, CPCU, and Martin J. Mullen, CPCU, were named to the boards of all insurance subsidiaries, and Hollenbeck was additionally named to the board of CFC Investment Company. Senior Vice Presidents Donald J. Doyle, Jr., CPCU, AIM, and Charles P. Stoneburner II, CPCU, AIM, were named to the boards of all property casualty insurance subsidiaries.

The board also acted on other business, affirming the corporate governance guidelines, the code of ethics for senior financial officers, the code of conduct for all company associates and board committee charters, which are reviewed annually by the respective committees as stipulated in the governance guidelines.

Boards of subsidiary companies made the following promotions and new or additional appointments of officers and counsel:

Property Casualty Insurance – Standard Market:

The Cincinnati Insurance Company

The Cincinnati Casualty Company

The Cincinnati Indemnity Company

Senior Vice President:

Martin F. Hollenbeck, CFA, CPCU – Investments

Vice Presidents:

William J. Geier, CPCU, CLU, ChFC, FLMI, AIM, HIAA – Information Technology

Douglas W. Stang, FCAS, MAAA – Staff Underwriting

Brian K. Wood, CPCU, AIM – Personnel

Assistant Vice Presidents:

William M. Clevidence, CIC – Sales & Marketing

Michael K. Dockery – Information Security

Rodney M. French, CPCU, AIM, ARE – Commercial Lines

Sharon K. Larrick – Staff Underwriting

Stephen M. Spray – Excess & Surplus Lines

Gerald L. Varney – Purchasing/Fleet

Secretaries:

Robert E. Bernard, CPCU, AIM – Personal Lines

Glenn W. Koch, CPCU, AIM – Commercial Lines

Philip D. Motz – Information Technology

James D. Ogle, CPCU, AIC – Headquarters Claims

Stephen G. Stockwell, CPCU, AMIM – Commercial Lines

Sean P. Sweeney, CPCU, PMP – Information Technology

Daniel R. Walsh – Headquarters Claims

Assistant Secretaries:

Brian K. Baker, CPCU, AIM, AIC – Field Claims

William L. Gregory, SCLA – Headquarters Claims

Molly A. Grimm – Shareholder Services

George A. Grossenbaugh, SCLA – Special Investigation Unit

Ronald C. Klimkowski, CIC, AIC – Sales & Marketing

Kenneth P. Mikkelsen, CPCU, ALCM – Loss Control

C. Kathleen Saurber, CPCU – Staff Underwriting

Associate Counsel:

J. Richard Brown

Louis M. DeMarco

Property Casualty Insurance – Excess & Surplus Lines:

The Cincinnati Specialty Underwriters Insurance Company:

Martin F. Hollenbeck*

Stephen M. Spray*

The Cincinnati Life Insurance Company:

Martin F. Hollenbeck*

William J. Geier*

Brian K. Wood*

Roger A. Brown, FSA, MAAA, Assistant Vice President – Actuarial

Michael K. Dockery*

Gerald L. Varney*

Philip D. Motz*

Sean P. Sweeney*

Mona J. Day, Assistant Secretary – Life Field Services

J. Richard Brown*

Louis M. DeMarco*

Financial Services:

CSU Producer Resources Inc.

Stephen M. Spray*

*Title as listed above

Cincinnati Financial Corporation Vice Chairman James E. Benoski to Retire from Executive Management

- *Ends active employment effective January 16, 2009*
- *Continues as vice chairman of the board*

CINCINNATI, December 23, 2008 – Cincinnati Financial Corporation (Nasdaq: CINF) today confirmed another step in previously announced executive transitions with the retirement from active employment of Vice Chairman James E. Benoski, effective January 16, 2009. Benoski continues to serve on the board of directors.

Benoski stepped down on July 1, 2008, from his positions as president, chief operating officer and chief insurance officer of Cincinnati Financial Corporation, chief executive officer and chief insurance officer of all of the insurance subsidiaries and president of the lead insurance subsidiary, The Cincinnati Insurance Company.

Benoski has served as a director of all property casualty insurance subsidiaries since 1999 and as a director of Cincinnati Financial since 2000. He joined the company's field claims operations in Alabama in 1971, relocating two years later to the company's headquarters in Cincinnati. He was

promoted to vice president in 1983 and to senior vice president and manager of the Headquarters Claims department in 1996.

Jack Schiff, Jr., CPCU, chairman of the board, commented, "Jim's dedication, character and work ethic inspire associates at all levels. Jim sees straight to the heart of any matter. As an executive officer, he has masterfully brought our teams together and provided clear direction. People across the insurance industry enjoyed working with Jim during his recent service on the board of trustees for the American Institute of Chartered Property Casualty Underwriters and the Insurance Institute of America. He also served our community through membership in the Cincinnati Scholarship Foundation."

Kenneth W. Stecher, president and chief executive officer, remarked, "While we will continue to work with Jim at the board level, we'll miss his hands-on daily involvement. Jim has been a friend and mentor. His influence has led to many solid and unified decisions that help us prepare for a bright future."

Cincinnati Insurance to Begin Marketing Business Insurance Policies in Texas

- *Comments on A.M. Best rating and CinFin Capital status*

Cincinnati, December 22, 2008 – Cincinnati Financial Corporation (Nasdaq: CINF) announced that on December 19, 2008, its lead property casualty insurance subsidiary, The Cincinnati Insurance Company, appointed Watkins Insurance Group, with locations in Austin and Marble Falls, Texas, as the first independent agency in that state to market its policies. Cincinnati Insurance executives initiated the relationship at the company's headquarters, welcoming agency representatives Patrick Watkins, CIC, CRM, president, and Mike Mosley, CIC, vice president.

Kenneth W. Stecher, president and chief executive officer, said, "With a healthy premium-to-surplus ratio that is less than 0.9-to-1, our capacity and desire to grow remain very strong. Agents in our current and future states tell us they are eager to bring their commercial clients Cincinnati's industry-leading claims service, broad coverages, highly competitive multi-year policies and solid financial strength. With our entry into Texas, Cincinnati Insurance will be actively marketing its policies in 35 states, expanding our opportunities and geographical footprint in the west where we opened New Mexico and Washington in 2007, Utah in 2000, Idaho in 1999 and Montana in 1998. After our Texas operation is underway, we will look next at appointing agencies in Colorado and Wyoming."

Local Staff to Provide Service and Marketplace Advantages

J.F. Scherer, executive vice president, commented, "The company expects to appoint five more agencies in Austin, Dallas and Waco over the coming weeks and add at least

10 more in 2009, with our first Texas policies effective January 1, 2009. The interior areas of the state selected for activation have a population of approximately 7.7 million.

"As we build our relationships and grow with Texas agents over the coming years, we will increase our premium revenues while also further spreading our risk beyond the Midwest and Southeast states that have traditionally accounted for the bulk of our business. To provide Texas agents with local support, our experienced marketing representatives Sean Givler, CIC, and Shawn Murphy, CPCU, already have relocated to Austin and Dallas. As our business builds, we will supplement this local presence, adding another marketing representative to serve the Dallas/Fort Worth market and field associates to provide claims, loss control, premium audit and other services in the region.

"Over the next two years, we would expect to appoint a total of 30 agencies in Texas. In recent years, agencies newly appointed by Cincinnati have averaged total property casualty premium volume in the \$25 million to \$30 million range. Cincinnati typically works to earn a share of that business of approximately 5 percent within the first five years and 10 percent in the first 10 years of a new relationship," Scherer stated.

A.M. Best's A+ (Superior) Rating with Stable Outlook to Differentiate Cincinnati

Stecher added, "Today, A.M. Best Co. acknowledged the effect of economic and market disruptions on the value of investments in our portfolio and the associated reduction in

future dividend income. They have lowered our property casualty group's insurer financial strength rating to A+ (Superior) from A++ (Superior). Our life insurance rating now is A (Excellent) and our excess and surplus lines rating is affirmed at A (Excellent).

"In conjunction with the rating changes, A.M. Best improved its outlook on all of the ratings to Stable. Best noted our continued exposure to the vagaries of the capital markets but observed that the stable outlook on all ratings for Cincinnati reflected our enhanced risk management processes, sound liquidity, superior risk-adjusted capitalization for our operating entities and successful business profile within our targeted regional markets."

Stecher added, "Our property casualty group's rating compares favorably with those of many of our peers – only approximately 11 percent of U.S. property casualty insurer groups qualify for Superior ratings (A++ or A+). In fact, we're honored to be among the fewer than 35 insurer groups that have held ratings in the Superior category for 50 or more consecutive years.

"Agents understand the importance, especially in times like these, of choosing an insurer that backs its policies with healthy financial resources. Our property casualty operations are capitalized at levels higher than those historically associated with a company rated A++ by A.M. Best. We continue to emphasize capital preservation and liquidity, and we have developed new investment guidelines that focus on diversification and reduce concentrations.

"Since mid-summer, we have been rebalancing our investment portfolio to reflect newly adopted investment parameters in an effort to reduce volatility going forward. Through mid-December, we've reduced our financial sector holdings to less than 19 percent of our equity portfolio, near the Standard & Poor's 500 weighting and down from 56.2 percent at year-end 2007. Among other changes, we have reduced our Fifth Third Bancorp holding to approximately 14.5 million shares from 72.8 million a little over a year ago. The ratio of our property casualty subsidiaries' common stock holdings to statutory surplus now is near 50 percent.

Stecher noted, "As a result, despite economic and market disruptions that have led to unprecedented declines in market values, our equity portfolio has outperformed broader indices since September 30, 2008. As of November 30, we estimate our statutory risk-based capital ratio was in the range of 775 percent to 800 percent, comparing favorably with 810 percent at year-end 2007. As of December 15, we had approximately \$9.5 billion in cash and invested assets, including \$2.8 billion of common stock holdings, compared with \$10.5 billion, including \$3.9 billion of common stock holdings, at September 30, 2008."

Stecher added, "Additionally, our parent company, Cincinnati Financial, has a low level of debt compared with our total capital and more than \$1 billion of assets that add

flexibility to the insurance subsidiaries. Our \$795 million of long-term debt isn't due until 2028 and 2032 and we have only \$49 million in short term borrowings on a \$75 million line of credit. In addition, we currently have approximately \$700 million in cash and a second, untapped line of credit with availability of \$150 million."

CinFin Capital Management Company to Cease Operations as Focus Sharpens on Insurance

Stecher continued, "Our asset management services subsidiary, CinFin Capital Management Company, advised clients early this month that it would close on February 28, 2009. During the recent downturn, this business performed satisfactorily relative to the appropriate benchmarks, and it was profitable over its 10 years in operation. We determined that sufficient future growth through agency referrals or other routes would have required a substantial increase in resources even as we are ramping up insurance initiatives. Many of our agencies did not see referrals for its services within the scope of their offerings to their clients."

Consistency Drives Marketplace and Dividend Performance

Stecher concluded, "We remain comfortable with the expectations for 2008 financial performance we discussed in our third-quarter earnings release on October 29. We expect that economic conditions and insurance price competition will continue to pressure industry results, and our results, in 2009. As we have always done, we will manage with an eye toward long-term growth, building relationships with agents and policyholders who look to us for quality, service and stability. We have the capital strength and confidence to invest in increasing our advantages in the insurance marketplace. Our reserving practices have historically produced redundancies, with claims liabilities covered by a highly rated, diversified bond portfolio.

"Our organization operates strategically – creating value for our agents, policyholders and shareholders – by focusing most directly on our insurance operations. Our insurance initiatives include heightened activity in new states, our selective appointment of new agency representation, our new excess and surplus lines company and our technology initiatives that increase efficiency. We succeed by helping independent insurance agencies do an exceptional job of serving the people and businesses in their local communities.

"That's the bright line test for all of our business decisions, and it's a test that keeps us focused and moving in the right direction to create value over time. Going forward, we'll continue that steady approach, reaffirming that we have the resources and commitment to consistently differentiate ourselves to agents and policyholders, consistently achieve growth and consistently pay shareholder dividends."

Inside Cincinnati

Since our last Letter to Shareholders, these associates merited promotions:

Agency Accounting Reconciliation

Agency Bill Superintendent – Rhonda Perkins

Actuarial

Actuarial Analyst – Matt Hare

Manager, Life Forms and Filing – Deborah Naegele, CLU, FALU, FLMI

Senior Life Systems Specialist – Jeannine Williams

Senior Analyst – Jenny Henley

Bond & Executive Risk

Senior Underwriter – Mark Huff

Field Underwriter – David Kinney

Commercial Lines

Senior Underwriting Managers – Christopher Barger, CPCU, AIM; Jim Green, CPCU, AIM, AU; Elizabeth Greene, AIM

Underwriting Superintendents – Chris Beckman, CPCU;

Jeff Hemphill, AIC; Mia Sears, AU

Chief Underwriting Specialists – Linda Gail Adams, CPCU, AFSB, AIM, AIS, APA, ARe, ARM;

Gina Spradling, CPCU, AIM

Underwriting Specialists – Edy Brown; Ike Kirch, CPCU, AIM, AU; Megan Perren; Katie Poggi; Terri Sunderman

Senior Underwriters – Tim Breving; Emily Busold; Mike Cassidy; Robert Cleveland, CPCU, ARe; Rob Dettmer; Susan Feintheil; Bryan Gutzwiller; Angelia Hansbauer; Chrissy Harmon; Sarah Keiser; Amanda Klaus, AIS, AU; Matthew Martig, ARM; Stephanie McCord; Kiley O’Connell; Marc Stemann; Jason Townsend, AU; Julia Wilking; Jen Williams; Cheryl Wisler

Corporate Communications

Managing Editor – Betsy Ertel, CPCU, AIM, API

Cincinnati Specialty Underwriters

Systems Support Supervisor – Stephanie Roach

Field Claims

Headquarters Claims Supervisor – Rob Ostendorf, AIC, AIM

Field Claims Superintendents – Jim Brame, AIC; Kevin Tate

Senior Claims Representatives – Kelly Cordle, CPCU, AIC;

Lee Hatch, AIC; Dawn Hays, CPCU, AIC, SCLA;

Jeff Pielack, AIC; Brian Ramsey, AIC; Kris Roach, AIC;

John Schiavone, SCLA; Keith Schulz, AIC;

Melissa Walker, AIC; Kevin Wechter, AIC

Senior Claims Specialists – Lisa Bowers; Donna Callahan;

Fawn Dillon, AIC; Tom Dushkewich, CPCU;

Michael Etris, AIC ; Bob Eversole ; Tammy Gwinn, AIC;

Ralph Niccolai; Keith Quevreaux, AIC; Andy Riegert, AIC;

Jenny Schmidt, AIC, SCLA; Derek Yeary, AIC

Claims Specialists – Heather DeVaughan, AIC; Robyn Duff;

Clint Peterson, AIC; Diana Rapp; Orlen Tatom, Jr.

Claims Coordinators – Duane Horn, AIC; Emily Maiwurm, AIC; Melissa Stegmaier, AIC, AIS, SCLA

Headquarters Claims

Manager, Headquarters Claims – Gary Nichols

Manager, Property Claims – Martin Skidmore

Assistant Manager, Casualty Claims – Dennis Stetz, SCLA

Manager, Executive Risk – Connie Hennigan, CPCU, AIC, AIM, RPLU

Regional Managers, Casualty Claims – Curt Nutter, CPCU, AIC, AIM; Dale Prisco

Superintendent, Workers’ Compensation Claims – Debra DeWeese

Associate Superintendents – Karen Roop, AIC (Property); Brad Zimmerman, CPCU, AIC (Casualty); Brian Keipert (Environmental)

Supervisor, Claims Administration – Jennifer McKinney-Taylor, CPCU, AIC, AIM, AIS, API

Senior Claims Examiner, Casualty Claims – Jenni Taylor, AIC

Information Technology

Division Manager – Lori Schneider, AIT

Group Managers – Laurie Gerhardt; Mark Buckle;

Jenny Harvey; Julie Wallace, AIT

Senior Group Manager – Mark Wissel

Team Lead – Charles Eddingfield, PMP

Supervisor – Donna Fleek

Senior Systems Analysts – Marsha Barsman, FLMI, ACS, AIAA; Donna Getzendanner

Senior Business Analyst – Sean Jones

Systems Analysts – Deborah Lanter; Diane Roberts; Krista Schuler

Business Analyst – Nicholas Spradlin, AIT

Senior Programmer Analyst – Lisa Rauch

Programmer Analyst – Rebecca Compton

Programmer – Michele DeFossett

Machinery & Equipment Specialties Field

Senior Machinery & Equipment Specialist – Dan Landry, AAI, ARM

Machinery & Equipment Specialist – Tim Hatley

Personal Lines

Underwriting Manager – Bill Rizzo, AIM, API

Chief Underwriting Specialists – Matt Burns, API

Underwriting Superintendent – Erin Saunders

Underwriting Specialists – Todd Allgeyer; Christopher Meece

Senior Underwriters – David Barnard; Beth Ploeger, API

Systems Analyst Specialist, Billing – Debbie Sowder

Requirements Specialists – Michele Murphy, AIS, API;

Matt Sarvak, AIM, API

Senior Requirements Analyst – Becky Clayton, API

Premium Audit Field

Field Audit Superintendent – Jeff Moss, CPCU, APA

Sales Field

Regional Directors – Jamison Gordon; Tom Koch;
William Ray, CIC

State Agents – Amy Kingerski, CPCU; Doug Lee;
James Stringer, CPCU, AIM, APA, ARe, AU

Special Investigation Unit

Senior Investigator – Brian White

Staff Underwriting

Support Manager – Mary Sue Rowland
Chief Filings Specialist – Patricia Owens, CPCU
Filings Specialist – Dennis Geier, AIS
Senior Filing Analysts – Kara Armstead, AU;
Danna Sebastian, API

Web Content Management

Senior Communications Analyst/Manager, Technical
Editing – Laura Hobbs

Professional Development and Awards

Offering agent education differentiates Cincinnati from other carriers. We know that many agencies cannot devote the time or money to expensive training seminars for their staff. To address this need, Cincinnati's Learning & Development department developed quick-start curricula that outline a plan for the first six to 12 months on the job, including a blend of online and classroom courses that allow immediate access to insurance technical training. Agents can also participate in a wide variety of Web conferences from their desks.

We encourage and reward associates who continue their professional insurance education, earning credentials by meeting high academic, ethical and length-of-experience standards. Congratulations to the following associates who completed a series of courses to earn a designation: Bob Cleveland, Brett Starr, Todd Wing and Matt Zimmerman,

Chartered Property Casualty Underwriter (CPCU); and Debbie Jenkins, Certified Insurance Counselor (CIC).

The ABC Award recognizes exemplary productivity, service and quality in exceptional associates. The ABC Award committee recently granted the quarterly Above and Beyond the Call (ABC) award to Jessica Day, AIS, senior P&C compliance specialist, Staff Underwriting.

In January, Cincinnati associates received the Award of Excellence for the most productive blood drives from America's Blood Center, the nation's largest group of nonprofit blood donation centers. Hoxworth Blood Center nominated Cincinnati associates because of the ongoing commitment to bi-annual blood drives, as well as the response received to additional drives targeted at type O donors to help the blood supply.

Financial Services

CFC Investment Company, which offers equipment and vehicle leases and loans, reported 2,197 accounts representing \$71 million in net receivables as of December 31, 2008.

Over the course of 2008, The Cincinnati Specialty Underwriters Insurance Company and our wholly owned brokerage, CSU Producer Resources Inc., began marketing excess and surplus lines general liability insurance in 33 of our 35 active states. Cincinnati Specialty Underwriters also offers the commercial property line of business in 21 states, and miscellaneous professional/E&O in all 33 active states. We will continue to introduce new lines and classes of business throughout 2009, including additional classes of miscellaneous professional and excess casualty. Availability of CSU's new offerings has enhanced your company's ability to write new

standard market property casualty business, as we work with agents to round out accounts that require both admitted and nonadmitted market solutions.

Our asset management services subsidiary, CinFin Capital Management Company, will cease operations on February 28, 2009, as our focus sharpens on insurance. During the recent downturn, this business performed satisfactorily relative to the appropriate benchmarks, and it was profitable over its 10 years in operation. We determined that sufficient future growth through agency referrals or other routes would have required a substantial increase in resources even as we are ramping up insurance initiatives. Many of our agencies did not see referrals for its services within the scope of their offering to their clients.

Safe Harbor Statement

This is our “Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995. Our business is subject to certain risks and uncertainties that may cause actual results to differ materially from those suggested by the forward-looking statements in this report. Some of those risks and uncertainties are discussed in our 2007 Annual Report on Form 10-K, Item 1A, Risk Factors, Page 21, with updates to certain risk factors described in our Quarterly Report on Form 10-Q for the period ended June 30, 2008. Although we often review and update our forward-looking statements when events warrant, we caution our readers that we undertake no obligation to do so.

Factors that could cause or contribute to such differences include, but are not limited to:

- Further decline in overall stock market values negatively affecting the company’s equity portfolio and book value
- Events, such as the credit crisis, followed by prolonged periods of economic instability, that lead to:
 - Significant or prolonged decline in the value of a particular security or group of securities and impairment of the asset(s)
 - Significant decline in investment income due to reduced or eliminated dividend payouts from a particular security or group of securities
 - Significant rise in losses from surety and director and officer policies written for financial institutions
- Recession or other economic conditions or regulatory, accounting or tax changes resulting in lower demand for insurance products
- Prolonged low interest rate environment or other factors that limit the company’s ability to generate growth in investment income or interest rate fluctuations that result in declining values of fixed-maturity investments
- Changing consumer buying habits and consolidation of independent insurance agencies that could alter our competitive advantages
- Unusually high levels of catastrophe losses due to risk concentrations, changes in weather patterns, environmental events, terrorism incidents or other causes
- Increased frequency and/or severity of claims
- Delays or inadequacies in the development, implementation, performance and benefits of technology projects and enhancements
- Ability to obtain adequate reinsurance on acceptable terms, amount of reinsurance purchased, financial strength of reinsurers and the potential for non-payment or delay in payment by reinsurers
- Increased competition that could result in a significant reduction in the company’s premium growth rate
- Events or conditions that could weaken or harm the company’s relationships with its independent agencies and hamper opportunities to add new agencies, resulting in limitations on the company’s opportunities for growth, such as:
 - Multi-notch downgrades of the company’s financial strength ratings
 - Concerns that doing business with the company is too difficult or
 - Perceptions that the company’s level of service, particularly claims service, is no longer a distinguishing characteristic in the marketplace
- Underwriting and pricing methods adopted by competitors that could allow them to identify and flexibly price risks, which could decrease our competitive advantages
- Personal lines pricing and loss trends that lead management to conclude that this segment could not attain sustainable profitability, which could prevent the capitalization of policy acquisition costs
- Actions of insurance departments, state attorneys general or other regulatory agencies that:
 - Restrict our ability to exit or reduce writings of unprofitable coverages or lines of business
 - Place the insurance industry under greater regulatory scrutiny or result in new statutes, rules and regulations
 - Increase our expenses
 - Add assessments for guaranty funds, other insurance related assessments or mandatory reinsurance arrangements; or that impair our ability to recover such assessments through future surcharges or other rate changes
 - Limit our ability to set fair, adequate and reasonable rates
 - Place us at a disadvantage in the marketplace
 - Restrict our ability to execute our business model, including the way we compensate agents
- Adverse outcomes from litigation or administrative proceedings
- Events or actions, including unauthorized intentional circumvention of controls, that reduce the company’s future ability to maintain effective internal control over financial reporting under the Sarbanes-Oxley Act of 2002
- Inaccurate estimates or assumptions used for critical accounting estimates
- Unforeseen departure of certain executive officers or other key employees due to retirement, health or other causes that could interrupt progress toward important strategic goals or diminish the effectiveness of certain longstanding relationships with insurance agents and others
- Events, such as an epidemic, natural catastrophe or terrorism, that could hamper our ability to assemble our workforce at our headquarters location

Further, the company’s insurance businesses are subject to the effects of changing social, economic and regulatory environments. Public and regulatory initiatives have included efforts to adversely influence and restrict premium rates, restrict the ability to cancel policies, impose underwriting standards and expand overall regulation. The company also is subject to public and regulatory initiatives that can affect the market value for its common stock, such as recent measures affecting corporate financial reporting and governance. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

Financial strength ratings are effective as of the date of this release, are under continuous review and are subject to change and/or affirmation. For the latest ratings, access Financial Strength Ratings at www.cinfin.com.

Contact Information

Communications directed to Steven J. Johnston, FCAS, MAAA, CFA, senior vice president, chief financial officer and secretary, are shared with the appropriate individual(s). Or, you may directly access services:

Investors: Investor Relations responds to investor inquiries about Cincinnati Financial Corporation and its performance.

Heather J. Wietzel – Vice President, Investor Relations

513-870-2768 or investor_inquiries@cinfin.com

Shareholders: Shareholder Services provides stock transfer services, fulfills requests for shareholder materials and assists registered shareholders who wish to update account information or enroll in shareholder plans.

Jerry L. Litton – Assistant Vice President, Shareholder Services

513-870-2639 or shareholder_inquiries@cinfin.com

Media: Corporate Communications assists media representatives seeking information or comment from Cincinnati Financial Corporation or its subsidiaries.

Joan O. Shevchik, CPCU, CLU – Senior Vice President, Corporate Communications

513-603-5323 or media_inquiries@cinfin.com

CINCINNATI FINANCIAL CORPORATION

The Cincinnati Insurance Company

The Cincinnati Casualty Company

The Cincinnati Indemnity Company

The Cincinnati Specialty Underwriters Insurance Company

The Cincinnati Life Insurance Company

CSU Producer Resources Inc.

CFC Investment Company

Mailing Address:

P.O. Box 145496
Cincinnati, Ohio 45250-5496

Street Address:

6200 South Gilmore Road
Fairfield, Ohio 45014-5141

Phone: 513-870-2000

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www.cinfin.com



Cincinnati Financial Corporation

2008
Annual
Report
on Form 10-K

February 27, 2009

About the Company

Cincinnati Financial Corporation stands among the 25 largest property casualty insurers in the nation, based on premium volume from our insurance subsidiary. A select group of agencies in 35 states actively markets our property casualty insurance within their communities. Standard market commercial lines policies are available in all of those states, while personal lines policies are available in 27 and surplus commercial lines policies are available in 33 of the same 35 states. Within this select group, we also seek to become the life insurance carrier of choice and to help agents and their clients – our policyholders – by offering leasing and financing services.

Three hallmarks distinguish this company, positioning us to build value and long-term success:

- Commitment to our network of professional independent insurance agencies and to their continued success
- Financial strength that lets us be a consistent market for our agents' business, supporting stability and confidence
- Operating structure that supports local decision making, showcasing our claims excellence and allowing us to balance growth with underwriting discipline

Learn more about where we are today and how we plan to create value for shareholders, agents, policyholders and associates by reviewing publications that we promptly post on www.cinfin.com/Investors as they are completed. Each piece was accurate at the time it was posted; please refer to the most recent item for the timeliest information.

2008 Fourth-quarter and Full-Year *Letter to Shareholders* – available on www.cinfin.com/Investors

2008 *Annual Report on Form 10-K* – available now

The *SEC Annual Report on Form 10-K* is a detailed document published by every publicly traded company as required by the U.S. Securities and Exchange Commission. In our report, we describe your company's operations, its results and trends, along with supporting data, discussions, audited financial statements and accompanying notes.

2009 *Shareholder Meeting Notice and Proxy Statement* – late March 2009

Letter from the Chairman and the Chief Executive Officer – late March 2009

First-quarter 2009 *Letter to Shareholders* – early May 2009

Second-quarter 2009 *Letter to Shareholders* – early August 2009

Third-quarter 2009 *Letter to Shareholders* – early November 2009

Stay Involved, Be Informed and Save Some Trees Too!

Thank you for your interest in Cincinnati Financial Corporation. We continue to make it easy to go green and get your information fast. By enrolling in e-Delivery at www.cinfin.com/Investors, you can help us save paper and postage while promptly receiving links to all materials and proxy voting communications via e-mail. We mail printed copies of our quarterly and annual letters only to shareholders who are **not** enrolled in e-Delivery.



Cincinnati Financial Corporation

2008 Annual Report on Form 10-K

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**United States Securities and Exchange Commission
Washington, D.C. 20549**

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2008.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____.

Commission file number 0-4604

Cincinnati Financial Corporation

(Exact name of registrant as specified in its charter)

Ohio
(State of incorporation)

31-0746871
(I.R.S. Employer Identification No.)

6200 S. Gilmore Road
Fairfield, Ohio 45014-5141
(Address of principal executive offices) (Zip Code)

(513) 870-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

\$2.00 par, common stock
(Title of Class)

6.125% Senior Notes due 2034
(Title of Class)

6.9% Senior Debentures due 2028
(Title of Class)

6.92% Senior Debentures due 2028
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one): Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of voting stock held by nonaffiliates of the Registrant was \$3,708,499,771 as of June 30, 2008.

As of February 19, 2009, there were 162,502,547 shares of common stock outstanding.

Document Incorporated by Reference

Portions of the definitive Proxy Statement for Cincinnati Financial Corporation's Annual Meeting of Shareholders to be held on May 2, 2009, are incorporated by reference into Parts II and III of this Form 10-K.

Part I

Item 1. Business

CINCINNATI FINANCIAL CORPORATION – INTRODUCTION

We are an Ohio corporation formed in 1968. Our lead subsidiary, The Cincinnati Insurance Company, was founded in 1950. Our main business is marketing property casualty insurance. Our headquarters is in Fairfield, Ohio. At year-end 2008, we had 4,179 associates, with 2,984 headquarters associates providing support to 1,195 field associates.

At year-end 2008, Cincinnati Financial Corporation owned 100 percent of four subsidiaries: The Cincinnati Insurance Company, CSU Producer Resources Inc., CFC Investment Company and CinFin Capital Management Company. In addition, the parent company has an investment portfolio, owns the headquarters building and is responsible for corporate borrowings and shareholder dividends. The Cincinnati Insurance Company owns 100 percent of our four other insurance subsidiaries.

In addition to The Cincinnati Insurance Company, our standard market property casualty insurance group includes two of those subsidiaries – The Cincinnati Casualty Company and The Cincinnati Indemnity Company. This group markets a broad range of business, homeowner and auto policies in 35 states. Other subsidiaries of The Cincinnati Insurance Company include The Cincinnati Life Insurance Company, which markets life insurance, disability income policies and annuities, and The Cincinnati Specialty Underwriters Insurance Company, which began offering surplus lines insurance products in January 2008.

The three other subsidiaries of Cincinnati Financial are CSU Producer Resources, which offers insurance brokerage services to our independent agencies so their clients can access our surplus lines insurance products; CFC Investment Company, which offers commercial leasing and financing services to our agents, their clients and other customers; and CinFin Capital Management Company, which provided asset management services to internal and third-party clients. CinFin Capital Management will cease operations effective February 28, 2009.

Our filings with the Securities and Exchange Commission are available, free of charge, on our Web site, www.cinfin.com, as soon as possible after they have been filed with the SEC. These filings include our annual reports on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. In the following pages we reference various Web sites. These Web sites, including our own, are not incorporated by reference in this Annual Report on Form 10-K.

Periodically, we refer to estimated industry data so that we can give information about our performance versus the overall insurance industry. Unless otherwise noted, the industry data is prepared by A.M. Best Co., a leading insurance industry statistical, analytical and insurer financial strength and credit rating organization. Information from A.M. Best is presented on a statutory basis. When we provide our results on a comparable statutory basis, we label it as such; all other company data is presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

OUR BUSINESS AND OUR STRATEGY

INTRODUCTION

The Cincinnati Insurance Company was founded almost 60 years ago by independent insurance agents. They established the mission that continues to guide all of the companies in the Cincinnati Financial family – to grow profitably and enhance the ability of local independent insurance agents to deliver quality financial protection to the people and businesses they serve by:

- providing market stability through financial strength
- producing competitive up-to-date products and services and
- developing associates committed to superior service

A select group of agencies in 35 states actively markets our property casualty insurance within their communities. Standard market commercial lines policies are available in all of those states, while personal lines policies are available in 27 and surplus commercial lines policies are available in 33 of the same 35 states. Within this select group, we also seek to become the life insurance carrier of choice and to help agents and their clients – our policyholders – by offering leasing and financing services.

Three hallmarks distinguish this company, positioning us to build value and long-term success:

- Commitment to our network of professional independent insurance agencies and to their continued success

- Financial strength that lets us be a consistent market for our agents' business, supporting stability and confidence
- Operating structure that supports local decision making, showcasing our claims excellence and allowing us to balance growth with underwriting discipline

Independent Insurance Agency Marketplace

The U.S. property casualty insurance industry is a highly competitive marketplace with over 2,000 stock and mutual companies operating independently or in groups. No single company or group dominates across all product lines and states. Standard market insurance companies (carriers) can market a broad array of products nationally or:

- choose to sell a limited product line or only one type of insurance (monoline carrier)
- target a certain segment of the market (for example, personal insurance)
- focus on one or more states or regions (regional carrier)

Standard market property casualty insurers generally offer insurance products through one or more distribution channels:

- independent agents, who represent multiple carriers,
- captive agents, who represent one carrier exclusively, or
- direct marketing to consumers

For the most part, we compete with standard market insurance companies that market through independent insurance agents.

We are committed to this channel. The independent agencies that we choose to market our standard lines insurance products share our philosophies. They do business person to person; offer broad, value-added services; maintain sound balance sheets; and manage their agencies professionally. We develop our relationships with agencies that are active in their local communities, providing important knowledge of local market trends, opportunities and challenges.

In addition to the standard market for property casualty insurance, the surplus lines market exists due to a regulatory distinction. Generally, surplus lines insurance carriers provide insurance that is unavailable in the standard market due to market conditions or due to characteristics of the insured person or organization that are caused by nature, the insured's claim history or the characteristics of their business. Insurers operating in the surplus lines market are generally small specialty insurers or specialized divisions of larger insurance organizations. Each markets through surplus lines insurance brokers.

We opened our own surplus line insurance brokerage firm so that we could offer surplus lines products exclusively to the independent agents who market our other property casualty insurance products. We also market life insurance products through the agencies that market our property casualty products.

At year-end 2008, our 1,133 agency relationships had 1,387 reporting locations marketing our standard market insurance products. An increasing number of agencies have multiple, separately identifiable locations, reflecting their growth and consolidation of ownership within the independent agency marketplace. The number of reporting agency locations indicates our agents' regional scope and the extent of our presence within our 35 active states. At year-end 2007, our 1,092 agency relationships had 1,327 reporting locations. At year-end 2006, our 1,066 agency relationships had 1,289 reporting locations.

On average, we have a 12.4 percent share of the property casualty insurance purchased through our reporting agency locations. Our share is 18.1 percent in reporting agency locations that have represented us for more than 10 years; 7.4 percent in agencies that have represented us for five to 10 years; 4.4 percent in agencies that have represented us for one to five years; and 0.6 percent in agencies that have represented us for less than one year.

Our largest single agency relationship accounted for approximately 1.3 percent of our total property casualty agency earned premiums in 2008. No aggregate of locations under a single ownership structure accounted for more than 2.3 percent of our total agency earned premiums in 2008.

Over the next decade, industry analysts predict successful agencies will have opportunities to increase their size on average almost three-fold. Agencies are expected to continue to pursue consolidation opportunities, buying or merging with other agencies to create stronger organizations and expand service. In addition to the growing networks of agency locations owned by banks and brokers, other agencies are addressing the consolidation by forming voluntary associations that may share back office and other functions to enhance economies, while maintaining their individual ownership structures.

Financial Strength

We believe that our financial strength and strong surplus position, reflected in our insurer financial strength ratings, are clear, competitive advantages in the segment of the insurance marketplace that we serve. This strength supports the consistent, predictable performance that our policyholders, agents, associates and shareholders have always expected and received, and helps us withstand significant challenges.

While the prospect exists for volatility due to our exposures to potential catastrophes or significant capital market losses, the ratings agencies consistently have asserted that we have built appropriate financial strength and flexibility to manage that volatility. We remain committed to strategies that emphasize being a consistent, stable market for our agents' business over short-term benefits that might accrue by quick reaction to changes in market conditions.

At year-end 2008 and 2007, risk-based capital (RBC) for our standard and surplus lines property casualty operations and life operations was exceptionally strong, far exceeding regulatory requirements.

- We ended 2008 with a 0.9-to-1 ratio of property casualty premiums to surplus, a key measure of property casualty insurance company capacity. Our ratio gives us the flexibility to reduce risk by expanding our operations into new geographies and product areas. The estimated industry average ratio also was 0.9 to 1 for 2008. The lower the ratio, the greater capacity an insurer has for growth.
- We ended 2008 with a 17.7 percent ratio of life statutory adjusted risk-based surplus to liabilities, a key measure of life insurance company capital strength. The estimated industry average ratio was 9.9 percent for 2008. A higher ratio indicates an insurer's stronger security for policyholders and capacity to support business growth.

	At December 31,	
	2008	2007
Standard market property casualty insurance subsidiary		
Statutory surplus	\$ 3,360	\$ 4,307
Risk-based capital (RBC)	3,389	4,336
Authorized control level risk-based capital	407	615
Ratio of risk-based capital to authorized control level risk-based capital	8.3	7.0
Written premium to surplus ratio	0.9	0.7
Life insurance subsidiary		
Statutory surplus	\$ 290	\$ 477
Risk-based capital (RBC)	290	506
Authorized control level risk-based capital	37	66
Ratio of risk-based capital to authorized control level risk-based capital	7.8	7.3
Total liabilities excluding separate account business	1,640	1,552
Life statutory risk-based adjusted surplus to liabilities ratio	17.7 %	33.2 %
Surplus lines subsidiary		
Statutory surplus	\$ 174	\$ 196
Risk-based capital (RBC)	174	196
Authorized control level risk-based capital	4	9
Ratio of risk-based capital to authorized control level risk-based capital	39.7	20.7
Written premium to surplus ratio	0.1	n/a

The consolidated property casualty insurance group's ratio of investments in common stock to statutory surplus at 53.4 percent at year-end 2008 compared with 84.5 percent at year-end 2007. The life insurance company's ratio was 39.2 percent compared with 70.6 percent a year ago.

Our parent company's senior debt is rated by four independent ratings firms. In addition, the ratings firms award our property casualty and life operations insurer financial strength ratings based on their quantitative and qualitative analyses. These ratings assess an insurer's ability to meet financial obligations to policyholders and do not necessarily address all of the matters that may be important to shareholders. Ratings may be subject to revision or withdrawal at any time by the rating agency, and each rating should be evaluated independently of any other rating.

All of our insurance subsidiaries continue to be highly rated. Each of the four organizations that rate our companies placed the ratings of our standard market property casualty and life companies on watch or review in June and July 2008 and subsequently lowered them. These actions followed our June announcement of significant catastrophe losses and declines in value of our investment assets.

As of February 26, 2009, our credit and financial strength ratings were:

Rating Agency	Parent Company Senior Debt Rating	Insurance Financial Strength Ratings									Status (date)
		Standard Market Property Casualty Insurance Subsidiary			Life Insurance Subsidiary			Surplus Lines Subsidiary			
		Rating	Tier	of	Rating	Tier	of	Rating	Tier	of	
A. M. Best Co.	a	A+	Superior	2 of 16	A	Excellent	3 of 16	A	Excellent	3 of 16	Stable outlook (12/19/08)
Fitch Ratings	A-	AA-	Very Strong	4 of 21	AA-	Very Strong	4 of 21	-	-	-	Negative outlook (2/13/09)
Moody's Investors Services	A3	A1	Good	5 of 21	-	-	-	-	-	-	Stable outlook (9/25/08)
Standard & Poor's Ratings Services	BBB+	A+	Strong	5 of 21	A+	Strong	5 of 21	-	-	-	Negative outlook (06/30/08)

- A.M. Best Co.** – On December 22, 2008, A.M. Best affirmed its A (Excellent) financial strength rating and its issuer credit rating of The Cincinnati Specialty Underwriters Insurance Company, our surplus lines subsidiary. A.M. Best removed from under review with negative implications its financial strength and issuer credit ratings for our other insurance companies, lowering the financial strength ratings to A+ (Superior) for the standard market property casualty insurance group and member companies and to A (Excellent) for The Cincinnati Life Insurance Company. A.M. Best cited our continued exposure to the vagaries of the capital markets, at the same time raising the outlook to stable on all of the company's ratings to acknowledge our enhanced risk management processes, sound liquidity, superior risk-adjusted capitalization for our operating entities and successful business profile within our targeted regional markets.
- Fitch Ratings** – On February 13, 2009, Fitch Ratings affirmed our ratings it had assigned in July 2008, continuing its negative outlook due to the downside risk in our equity portfolio. Fitch stated that it viewed favorably the number of steps we have taken to rebalance our equity portfolio and reduce exposure to the financial sector. Fitch noted our strong capitalization at the current ratings level and low operating leverage. In July 2008, Fitch had removed ratings for our three standard market property casualty insurance companies and The Cincinnati Life Insurance Company from rating watch negative, lowering the insurer financial strength ratings to AA- (Very Strong).
- Moody's Investors Service** – On September 25, 2008, Moody's Investors Service removed our standard market property casualty insurance companies from review, lowering the insurance financial strength ratings to A1. The outlook on the ratings is stable. Moody's said its action reflected reduced shareholders' equity and risk-adjusted capitalization, concerns about management of investment portfolio volatility, and increasing commercial lines competition. Moody's noted our strong regional franchise and strong risk-adjusted capitalization reflecting consistent reserve strength and manageable peak-level catastrophe exposure; and an excellent financial leverage profile accompanied by significant holding company liquidity.
- Standard & Poor's Ratings Services** – On June 30, 2008, Standard & Poor's Ratings Services removed our three standard market property casualty insurance companies and The Cincinnati Life Insurance Company from credit watch, lowering the insurer financial strength ratings to A+ (Strong) with a negative outlook. Standard & Poor's said its actions reflected our weakened capitalization and current and prospective operating performance, increased market competition and reduced liquidity. Standard & Poor's noted support for operating company ratings in view of our capital at the A level, extremely strong and loyal agency force, strong competitive position, improved technological efficiencies, and improved and adequate enterprise risk management.

Our debt ratings are discussed in Item 7, Additional Sources of Liquidity, Page 71.

Operating Structure

We offer our broad array of insurance products through the independent agency channel. We recognize that locally based independent agencies have relationships in their communities that can lead to policyholder satisfaction, loyalty and profitable business. We seek to be a consistent and predictable property casualty carrier that agencies can rely on to serve their clients. For our standard market business, field and headquarters underwriters make risk-specific decisions about both new business and renewals.

In our 10 highest volume states for consolidated property casualty premiums, 910 reporting agency locations wrote 68.7 percent of our 2008 consolidated property casualty earned premium volume compared with 69.1 percent in 2007.

Property Casualty Insurance Earned Premiums by State

(Dollars in millions)

	Earned premiums	% of total earned	Agency locations	Average premium per location
Year ended December 31, 2008				
Ohio	\$ 630	20.9 %	219	\$ 2.9
Illinois	270	9.0	119	2.3
Indiana	205	6.8	104	2.0
Pennsylvania	183	6.1	80	2.3
Georgia	150	5.0	68	2.2
North Carolina	150	5.0	73	2.1
Michigan	135	4.5	101	1.3
Virginia	131	4.4	58	2.3
Wisconsin	108	3.6	48	2.3
Tennessee	102	3.4	40	2.6
Year ended December 31, 2007				
Ohio	\$ 664	21.2 %	218	\$ 3.0
Illinois	283	9.1	116	2.4
Indiana	218	7.0	101	2.2
Pennsylvania	188	6.0	77	2.4
North Carolina	154	4.9	69	2.2
Georgia	150	4.8	66	2.3
Michigan	146	4.7	95	1.5
Virginia	140	4.5	56	2.5
Wisconsin	114	3.6	47	2.4
Tennessee	103	3.3	37	2.8

Field Focus

We rely on our field associates to provide service and be accountable to our agencies for decisions we make at the local level. These associates live in the communities they serve and work from offices in their homes, providing 24/7 availability to our agents. Headquarters associates also provide agencies with underwriting, accounting and technology assistance and training. Company executives, headquarters underwriters and special teams regularly travel to visit agencies, strengthening the personal relationships we have with these organizations. Agents have opportunities for direct, personal conversations with our senior management team, and headquarters associates have opportunities to refresh their knowledge of marketplace conditions and field activities.

The field team is coordinated by field marketing representatives responsible for new commercial lines business underwriting. They are joined by field representatives specializing in claims, loss control, personal lines, machinery and equipment, bond, premium audit, life insurance and leasing. The field team provides many services for agencies and policyholders; for example, our field machinery and equipment and loss control representatives perform inspections and recommend specific actions to improve the safety of the policyholder's operations and the quality of the agent's account.

Agents work with us to carefully select risks and assure pricing adequacy. They appreciate the time our associates invest in creating solutions for their clients while protecting profitability, whether that means working on an individual case or customizing policy terms and conditions that preserve flexibility, choice and other sales advantages. We seek to develop long-term relationships by understanding the unique needs of their customers, our policyholders.

We also are responsive to agent needs for well designed property casualty products. Our commercial lines products are structured to allow flexible combinations of property and liability coverages in a single package with a single expiration date. This approach brings policyholders convenience, discounts and a reduced risk of coverage gaps or disputes. At the same time, it increases account retention and saves time and expense for the agency and our company.

We seek to employ technology solutions and business process improvements that:

- allow our agencies and our field and headquarters associates to collaborate more efficiently,
- provide our agencies the ability to access our systems and client data to process business transactions from their offices,
- automate our internal processes so our associates can spend more time serving agents and policyholders, and
- reduce duplicated effort and make our processes more efficient to reduce company and agency costs.

Agencies access our systems and other electronic services via their agency management systems or CinciLink®, our secure agency-only Web site. CinciLink provides an array of Web-based services and content

that make it easier to do business with us, such as commercial and personal lines rating and processing systems, policy loss information, sales and marketing materials, educational courses on our products and services, accounting services, and electronic libraries for property and casualty coverage forms and state rating manuals.

Superior Claims Service

Our claims philosophy reflects our belief that we will prosper as a company by responding to claims person to person, paying covered claims promptly, preventing false claims from unfairly adding to overall premiums and building financial strength to meet future obligations.

Our 748 locally based field claims representatives work from their homes, assigned to specific agencies. They respond personally to policyholders and claimants, typically within 24 hours of receiving an agency's claim report. We believe we have a competitive advantage because of the person-to-person approach and the resulting high level of service that our field claims representatives provide. We also help our agencies provide prompt service to policyholders by giving agencies authority to immediately pay most first-party claims under standard market policies up to \$2,500. We believe this same local approach to handling claims is a competitive advantage for our agents providing surplus lines coverage in their communities. Our field claims representatives handle these claims under the guidance of headquarters-based surplus lines claims managers.

Our property casualty claims operation uses CMS, a claims management system, to streamline processes and achieve operational efficiencies. CMS allows field and headquarters claims associates to collaborate on reported claims through a virtual claim file. Our field claims representatives use tablet computers to view and enter information into CMS from any location, including an insured's home or agent's office, and to print claim checks using portable printers. Agencies now can access selected CMS information such as activity notes on workers' compensation claims. Later in 2009, activity notes for other business lines will be available to the agencies.

Catastrophe response teams are comprised of volunteers from our experienced field claims staff. We take pride in giving our field personnel the tools and authority they need to do their jobs. In times of widespread loss, our field claims representatives confidently and quickly resolve claims, often writing checks on the same day they inspect the loss. CMS introduced new efficiencies that are especially evident during catastrophes. Electronic claim files allow for fast initial contact of policyholders and easy sharing of information and data between rotating storm teams, headquarters and local field claims representatives. When hurricanes or other weather events are predicted, we can choose to have catastrophe response team members travel to strategic locations near the expected impact area. This puts them in position to quickly get to the affected area, set up temporary offices and start calling on policyholders.

Our claims associates work to control costs where appropriate. They use vendor resources that provide negotiated pricing to our insureds and claimants. Our field claims representatives also are educated continuously on new techniques and repair trends. They can leverage their local knowledge and experience with area body shops, which helps them negotiate the right price with any facility the policyholder chooses.

We staff a Special Investigations Unit with former law enforcement and claims professionals whose qualifications make them uniquely suited to gathering facts to uncover potential fraud. While we believe it's our job to pay what is due under each policy, we also want to prevent false claims from unfairly increasing overall premiums. Our SIU also operates a computer forensic lab, using sophisticated software to recover data and mitigate the cost of computer-related claims for business interruption and loss of records.

Loss and Loss Expense Reserves

When claims are made by or against policyholders, any amounts that our property casualty operations pay or expect to pay for covered claims are losses. The costs we incur in investigating, resolving and processing these claims are loss expenses. Our consolidated financial statements include property casualty loss and loss expense reserves that estimate the costs of not-yet-paid claims incurred through December 31 of each year. The reserves include estimates for claims that have been reported to us plus our estimates for claims that have been incurred but not yet reported (IBNR), along with our estimate for loss expenses associated with processing and settling those claims. We develop the various estimates based on individual claim evaluations and statistical projections. We reduce the loss reserves by an estimate for the amount of salvage and subrogation we expect to recover. Our annual review has led us to add to earnings in each of the past 20 years savings from favorable development of loss reserves on prior accident years.

We encourage you to review several sections of the Management's Discussion and Analysis where we discuss our loss reserves in greater depth. In Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 41, we discuss our process for analyzing potential losses and establishing reserves. In Item 7, Property Casualty Loss and Loss Expense Obligations and Reserves, Page 74, and Life Insurance Policyholder Obligations and Reserves, Page 80, we review reserve levels, including 10 year development of our property casualty loss reserves.

Insurance Products

We actively market property casualty insurance in 35 states through a select group of independent insurance agencies. Our standard market commercial lines products are marketed in all of those states while our standard market personal lines are marketed in 27. We discuss our commercial lines and personal lines insurance operations and products in Commercial Lines Property Casualty Insurance Segment, Page 11, and Personal Lines Property Casualty Insurance Segment, Page 14. At year-end 2008, CSU Producer Resources marketed our surplus lines products to agencies in 33 states that represent Cincinnati Insurance.

The Cincinnati Specialty Underwriters Insurance Company was formed in 2007. The company was capitalized with \$200 million from its parent company, The Cincinnati Insurance Company. It began offering surplus lines insurance products in January 2008. We structured this operation to exclusively serve the needs of the independent agencies that currently market our standard market insurance policies. When all or a portion of a current or potential client's insurance program requires surplus lines coverages, those agencies now can write the whole account with Cincinnati, gaining benefits not often found in the broader surplus lines market. Agencies have access to The Cincinnati Specialty Underwriters Insurance Company's product line through CSU Producer Resources, the wholly owned insurance brokerage subsidiary of parent-company Cincinnati Financial Corporation.

Cincinnati Specialty Underwriters and CSU Producer Resources employ a Web-based policy administration system to quote, bind, issue and deliver policies electronically to agents. This system also provides integration to existing document management and data management systems, allowing for straight-through processing of policies and billing.

We also support the independent agencies affiliated with our property casualty operations in their programs to sell life insurance. The products offered by our life insurance subsidiary round out and protect accounts and improve account persistency. At the same time, our life operation increases diversification of revenue and profitability sources for both the agency and our company.

Our property casualty agencies make up the main distribution system for our life insurance products. To help build scale, we also develop life business from other independent life insurance agencies in geographic markets not served through our property casualty agencies. We are careful to solicit business from these other agencies in a manner that does not conflict with or compete with the marketing and sales efforts of our property casualty agencies. We emphasize up-to-date products, responsive underwriting, high quality service and competitive pricing.

Other Services to Agencies

We complement the insurance operations by providing products and services that help attract and retain high-quality independent insurance agencies. When we appoint agencies, we look for organizations with knowledgeable, professional staffs. In turn, we make an exceptionally strong commitment to assist them in keeping their knowledge up to date and educating new people they bring on board as they grow. Numerous activities fulfill this commitment at our headquarters, in regional and agency locations, and online.

Except travel-related expenses for courses held at our headquarters, most programs are offered at no cost to our agencies. While that approach may be extraordinary in our industry today, the result is quality service for our policyholders and increased success for our independent agencies.

In addition to broad education and training support, we make non-insurance financial services available through CFC Investment Company. CFC Investment Company offers equipment and vehicle leases and loans for independent insurance agencies, their commercial clients and other businesses. It also provides commercial real estate loans to help agencies operate and expand their businesses. We believe that providing these services enhances agency relationships with their clients, increasing loyalty while diversifying the agency's revenues.

STRATEGIC INITIATIVES

Management has worked with the board of directors to identify the strategies that can position us for long-term success. We broadly group these strategies into three areas of focus – preserving capital, improving insurance profitability and driving premium growth – correlating with the primary ways we measure our progress toward our long-term financial objectives. Our strategies are intended to position us to compete successfully in the markets we have targeted while minimizing risk. We believe successful implementation of the initiatives that support our strategies will help us better serve our agent customers, reduce volatility in our financial results and weather difficult economic, market or pricing cycles. We describe our expectations for the results of these initiatives in Item 7, Executive Summary of the Management's Discussion and Analysis, Page 37.

Preserve Capital

Our first strategy is to preserve capital. Implementation of the initiatives below that support this strategy is intended to preserve our capital and liquidity so that we can successfully grow our insurance business. A strong capital position provides the capacity to support premium growth and provides the liquidity to sustain our investment in the people and infrastructure needed to implement our other strategic initiatives.

The four primary capital preservation initiatives are:

- Maintain a diversified and stabilized investment portfolio by applying parameters and tolerances – We discuss our portfolio strategies in greater depth in Investments Segment, Page 17.
 - High-quality fixed-maturity portfolio that matches or exceeds total insurance reserves – At year-end 2008, the average rating of the \$5.827 billion fixed maturity portfolio was Aa3/A+, and the portfolio value exceeded total insurance reserve liability. We also have reinsurance recoverables to offset a portion of insurance reserves.
 - Parent company liquidity that increases our flexibility through all periods to maintain our cash dividend and to continue to invest in and expand our insurance operations – We aim to keep approximately 90 percent of parent company investments in cash and marketable securities. At year-end 2008, we held \$1.3 billion of our cash and invested assets at the parent company level, of which \$809 million, or 61.5 percent, was invested in common stocks and \$344 million, or 26.1 percent, was cash or cash equivalents.
 - Diversified equity portfolio that has no concentrated positions in single stocks or industries – At year-end 2008, no single security accounted for more than 14.5 percent of our portfolio of publicly traded common stocks and no single sector accounted for more than 21.6 percent. Because of the strength of our fixed-maturity portfolio, we have the opportunity to invest for potential capital appreciation by purchasing equity securities. We seek to achieve a total return on the equity portfolio over any five-year period that exceeds that of the Standard & Poor's 500 Index while taking equal or less risk.
- Minimize reliance on debt as a source of capital, maintaining the ratio of debt-to-total capital below 20 percent – This target is higher than we had identified in previous years because total capital declined in 2008 although debt levels were essentially unchanged. At year-end 2008, this ratio was 16.7 percent compared with 12.7 percent at year-end 2007 and 11.0 percent at year-end 2006. Our long-term debt consists of three non-convertible, non-callable debentures, two due in 2028 and one in 2034.
- Purchase reinsurance from highly rated reinsurers to mitigate underwriting risk and to support our ability to hold investments until maturity. See Item 7, 2009 Reinsurance Programs, Page 81, for additional details on these programs.
- Identify tolerances for other operational risks and calibrate management decisions accordingly – For example, we are developing programs to address the concentration of production operations at our headquarters location.

We measure the overall success of our strategy to preserve capital primarily by growing investment income and by achieving over any five-year period a total return on our equity investment portfolio that exceeds the Standard & Poor's 500's return. We also monitor other measures. One of the most significant is our ratio of property casualty net written premiums to statutory surplus, which was 0.9-to-1 at year-end 2008 compared with 0.7-to-1 at year-end 2007 and 2006. This ratio is a common measure of operating leverage used in the property casualty industry; the lower the ratio the more capacity a company has for premium growth. The estimated property casualty industry net written premium to statutory surplus ratio also was 0.9-to-1 at year-end 2008, 0.8-to-1 at year-end 2007 and 0.9-to-1 at year-end 2006.

Our second means of verifying our capital preservation strategy is our financial strength ratings as discussed in Our Business and Our Strategy, Page 1. All of our insurance subsidiaries continue to be highly rated. A third means is measurement of our risk-based capital ratios, which currently indicate that our insurance subsidiaries are operating with a level of capital far exceeding regulatory requirements.

Improve Insurance Profitability

Our second strategy is to improve insurance profitability. Implementation of the operational initiatives below is intended to support improved cash flow and profitable growth for the agencies that represent us and for our company. These initiatives primarily seek to strengthen our relationships with agents, allowing them to serve clients faster and manage expenses better. Others may streamline our internal processes so we can devote more time to agent service.

The three primary initiatives to improve insurance profitability are:

- Implement technology projects to improve critical efficiencies and streamline processes for our agencies, allowing us to win an increasing share of their business. By the end of this year, we expect to make significant strides with deployment of technology initiatives that enhance local decision making based on the local knowledge and risk selection expertise we derive from our agents and from having a large network of field representatives who live and work in our agents' communities:
 - Predictive modeling tool for our workers' compensation business line – The tool will increase pricing precision so that our agents can better compete for the most desirable workers' compensation business. We should begin using this tool to help make risk and pricing selection decisions during 2009.
 - Commercial lines policy administration system - By year-end 2009, we expect to deploy a new system for commercial package and auto to all of our appointed agencies in 10 of our larger states with additional states in 2010. The new system includes direct bill capabilities and other features we need so we can cement our spot among the go-to carriers for our agencies.
 - Personal lines policy administration system – In early 2010, our personal lines policy processing system will move to a “next generation” platform. We expect our agents' efficiency to improve with newly designed, easier to use screens that can be delivered with greater speed. We continue to focus on making it easier for our agents to do business with us.
 - Online technologies to serve agencies and policyholders – During 2009, we expect to introduce online services that agents have requested for policyholders. In the first quarter of 2009, personal lines policyholders whom we bill for our agents will be able to visit our Web site to make payments.
 - Improved claims processes with options such as agent access to more detailed information on the status of pending claims – These capabilities help sustain our reputation for superior claims service by helping keep the agent better informed on the details of claim status. In 2009, we will enhance our response time for new claims by adding an online system for agency submission of notices of loss.
 - Improving our business data, supporting accurate underwriting, pricing and decisions – Over the next several years, we will deploy a full data management program, including a property casualty insurance data warehouse. One of the greatest advantages will be enhanced granularity of pricing data.
- Continue to staff field positions to ensure that we carefully select and evaluate new business on a case-by-case basis so we can grow profitably. At year-end 2008, we had 111 field marketing territories, up from 106 at the end of 2007 and 102 at the end of 2006.
 - Personal lines field marketing representatives – In 2008, we expanded the role of our personal lines marketing representative by locating associates in states newer to our personal lines offerings. In these states, our personal lines automation has allowed us to introduce or broaden our product offerings. We now have two headquarters-based and three field-based personal lines marketing representatives and will add two more in the field in 2009. These representatives have underwriting authority and visit agencies on a regular basis to promote the advantages of Cincinnati personal lines.
 - Other field associates help provide our agents with superior service and support – Additions are planned to the field teams that provide the local expertise, help us better understand the accounts we underwrite and provide another market advantage for our agents. In 2009, we expect to add three new premium audit representatives and three new loss control representatives, including two who will help support our expansion into western states. In 2010, we are considering additional machinery and equipment field positions.
- Improve internal efficiencies to make best use of our resources – Smart spending today means we will be even better prepared with strong, local market-based relationships when external conditions improve. Projects under way include developing an energy efficiency plan for our headquarters buildings and reviewing underwriting workflow.

We measure the overall success of our strategy to improve insurance profitability primarily through our GAAP combined ratio, which we believe can be consistently below 100 percent over any five-year period.

In addition, we expect these initiatives to contribute to our rank as the No. 1 or No. 2 carrier based on premium volume in agencies that have represented us for at least five years. In 2008, we again earned that rank in more than 75 percent of the agencies that have represented Cincinnati Insurance for more than five years. We are working to improve that rank again in 2009 and in each of the years that follow.

Drive Premium Growth

Our third strategy is to drive premium growth. Implementation of the operational initiatives below is intended to expand our geographic footprint and diversify our premium sources to obtain profitable growth without significant infrastructure expense. Diversified growth also may reduce our catastrophe exposure risk and temper negative changes that may occur in the economic, judicial or regulatory environments in the territories we serve.

The four primary initiatives to drive premium growth are:

- New agency appointments in 2009 – We continue to appoint new agencies in our current operating territories, adding 76 in 2008. Our objective is to appoint additional points of distribution each year. In 2009, we are targeting 65 appointments of independent agencies writing an aggregate \$1 billion in property casualty premiums annually with all carriers they represent. This target includes appointments in the recently opened state of Texas.

In measuring progress towards achieving this initiative, we include appointment of new agency relationships with Cincinnati. For those that we believe will produce a meaningful amount of new business premiums, we also include appointment of agencies that merge with a Cincinnati agency and new branch offices opened by existing Cincinnati agencies. We made 76, 66 and 55 new appointments in 2008, 2007 and 2006, respectively. Of these new appointments, 52, 50 and 42, respectively, were new relationships. These new appointments and other changes in agency structures led to a net increase in reporting agency locations of 60 in 2008, 38 in 2007 and 37 in 2006. We seek to build a close, long-term relationships with each agency we appoint. We carefully evaluate the marketing reach of each new appointment to ensure the territory can support both current and new agencies.

- New states – With our entry into Texas during the fourth quarter of 2008, Cincinnati Insurance now is actively marketing our policies in 35 states, expanding our opportunities beyond the Midwest and South. We now have a sizeable presence in the western states – opening New Mexico and eastern Washington in 2007, Utah in 2000, Idaho in 1999 and Montana in 1998. We entered Arizona in 1971. We plan to look next at taking Cincinnati Insurance to agencies in Colorado and Wyoming. While we continually study the regulatory and competitive environment in other states where we could decide to actively market our property casualty products, we have not announced the timetable for entry into new states. We generally are able to reach a 10 percent share of an agency's business after 10 years. In Delaware, New Mexico and Washington, our three newest states, we've appointed agencies that write about \$400 million annually with all the carriers they represent. Our writings with these new agencies were almost 2 percent of that total in 2008.

We appointed our first agencies in Texas late in 2008. Over the next 18 months, we expect to appoint agencies in that state that write about \$750 million in premiums annually with all carriers they represent.

- Surplus lines insurance – Another source of premium growth is our new surplus lines operation, which ended the year on track with products available in 33 states. We entered this business area to better serve our agents. Today, they write about \$2.5 billion annually of surplus lines business with other carriers. We want to earn an appropriate share by bringing Cincinnati-style service to those clients. In 2008, our first year, we wrote \$14 million in surplus lines premiums and met our 2008 strategic plan objectives.

- Personal lines – We are working to position our personal lines business for profitable future growth. By late-2009, we expect to have made more advances using tiered rating, helping to further improve our rate and credit structures. Personal lines rate changes made in 2008 have started to drive additional new business.

We believe additional rate changes that became effective the beginning of 2009 can further drive new business. These changes build on our 2006 introduction of credits for homeowner and personal auto products that began to address rates that were too high, our 2007 introduction of discounts on homeowner policies in some states when an auto policy is also purchased and our 2008 introduction of further credits and debits. These pricing refinements reduced premiums for many policies we write, presenting an opportunity to market the policy advantages to our agents' more quality-conscious clientele.

We also are more aggressively tapping our potential to market personal lines insurance through agencies that already represent us for commercial lines. We began offering personal lines in two more states in 2008, expanded our product offerings in two others and expect to add two additional states – Idaho, and South Carolina – in early 2009. We expect to make personal lines available in these six states through agencies that write approximately \$600 million in personal lines premiums annually with all carriers they represent.

We measure the overall success of this strategy to drive premium growth primarily through changes in net written premiums, which we believe can grow faster than the industry average over any five-year period.

Notably, many of our growth initiatives have been under way for a year or more and helped us achieve 13 percent new business growth for 2008 although total written premiums were down on weak market pricing, economic pressures and a reinsurance restatement premium.

OUR SEGMENTS

Consolidated financial results primarily reflect the results of our four reporting segments. These segments are defined based on financial information we use to evaluate performance and to determine the allocation of assets.

- Commercial lines property casualty insurance
- Personal lines property casualty insurance
- Life insurance
- Investments

We also evaluate results for our consolidated property casualty operations, which is the total of our commercial lines, personal lines and surplus lines results.

Revenues, income before income taxes, and identifiable assets for each segment are shown in a table in Item 8, Note 18 of the Consolidated Financial Statements, Page 119. Some of that information also is discussed in this section of this report, where we explain the business operations of each segment. The financial performance of each segment is discussed in the Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, which begins on Page 37.

COMMERCIAL LINES PROPERTY CASUALTY INSURANCE SEGMENT

The commercial lines property casualty insurance segment contributed net earned premiums of \$2.316 billion to total revenues, or 60.6 percent of that total, and \$70 million to income before income taxes in 2008. Commercial lines net earned premiums declined 3.9 percent in 2008 after growing 0.4 percent in 2007 and 6.6 percent in 2006.

Approximately 95 percent of our commercial lines premiums are written to provide accounts with coverages from more than one of our business lines. As a result, we believe that our commercial lines business is best measured and evaluated on a segment basis. However, we provide line of business data to summarize growth and profitability trends separately for our business lines. The seven commercial business lines are:

- Commercial casualty – Commercial casualty insurance provides coverage to businesses against third-party liability from accidents occurring on their premises or arising out of their operations, including liability coverage for injuries sustained from products sold as well as coverage for professional services, such as dentistry. Specialized casualty policies may include liability coverage for employment practices liability (EPLI), which protects businesses against claims by employees that their legal rights as employees of the company have been violated, and other acts or failures to act under specified circumstances as well as excess insurance and umbrella liability, including personal umbrella liability written as an endorsement to commercial umbrella coverages. The commercial casualty business line includes liability coverage written on both a discounted and non-discounted basis as part of commercial package policies.
- Commercial property – Commercial property insurance provides coverage for loss or damage to buildings, inventory and equipment caused by covered causes of loss such as fire, wind, hail, water, theft and vandalism, as well as business interruption resulting from a covered loss. Commercial property also includes crime insurance, which provides coverage for losses such as embezzlement or misappropriation of funds by an employee, among others, and inland marine insurance, which provides coverage for a variety of mobile equipment, such as contractor's equipment, builder's risk, cargo and electronic data processing equipment. Various property coverages can be written as stand-alone policies or can be added to a package policy. The commercial property business line includes property coverage written on both a non-discounted and discounted basis as part of commercial package policies.
- Commercial auto – Commercial auto coverages protect businesses against liability to others for both bodily injury and property damage, medical payments to insureds and occupants of their vehicles, physical damage to an insured's own vehicle from collision and various other perils, and damages caused by uninsured motorists.
- Workers' compensation – Workers' compensation coverage protects employers against specified benefits payable under state or federal law for workplace injuries to employees. We write workers' compensation coverage in all of our active states except North Dakota, Ohio and Washington, where coverage is provided solely by the state instead of by private insurers.
- Specialty packages – Specialty packages include coverages for property, liability and business interruption tailored to meet the needs of specific industry classes, such as artisan contractors, dentists,

garage operators, financial institutions, metalworkers, printers, religious institutions, or smaller, main street businesses. Businessowners policies, which combine property, liability and business interruption coverages for small businesses, are included in specialty packages.

- Surety and executive risk – This business line includes:
 - Contract and commercial surety bonds, which guarantee a payment or reimbursement for financial losses resulting from dishonesty, failure to perform and other acts.
 - Fidelity bonds, which cover losses that policyholders incur as a result of fraudulent acts by specified individuals or dishonest acts by employees.
 - Director and officer liability insurance, which covers liability for alleged errors in judgment, breaches of duty and wrongful acts related to activities of for-profit or nonprofit organizations. Our director and officer liability policy can optionally include EPLI coverage.
- Machinery and equipment – Specialized machinery and equipment coverage can provide protection for loss or damage to boilers and machinery, including production and computer equipment, from sudden and accidental mechanical breakdown, steam explosion, or artificially generated electrical current.

Our emphasis is on products that agents can market to small- to mid-size businesses in their communities. Of our 1,387 reporting agency locations, eight market only our surety and executive risk products and four market only our personal lines products. The remaining 1,375 locations, located in all states in which we actively market, offer some or all of our standard market commercial insurance products.

In 2008, our 10 highest volume commercial lines states generated 65.9 percent of our earned premiums compared with 66.7 percent in the prior year. Earned premiums in the 10 highest volume states decreased 4.4 percent in 2008 and decreased 3.1 percent in the remaining 25 states. The number of reporting agency locations in our 10 highest volume states increased to 905 in 2008 from 878 in 2007.

Commercial Lines Earned Premiums by State

(Dollars in millions)

	Earned premiums	% of total earned	Agency locations	Average premium per location
Year ended December 31, 2008				
Ohio	\$ 377	16.2 %	218	\$ 1.7
Illinois	222	9.5	118	1.9
Pennsylvania	166	7.1	80	2.1
Indiana	148	6.4	103	1.4
North Carolina	143	6.2	73	2.0
Virginia	111	4.8	58	1.9
Michigan	107	4.6	99	1.1
Georgia	89	3.8	68	1.3
Wisconsin	88	3.8	48	1.8
Tennessee	82	3.5	40	2.1
Year ended December 31, 2007				
Ohio	\$ 397	16.5 %	216	\$ 1.8
Illinois	234	9.7	115	2.0
Pennsylvania	170	7.0	77	2.2
Indiana	158	6.6	100	1.6
North Carolina	147	6.1	69	2.1
Virginia	119	4.9	56	2.1
Michigan	115	4.8	95	1.2
Wisconsin	94	3.9	47	2.0
Georgia	88	3.7	66	1.3
Tennessee	81	3.5	37	2.2

For new commercial lines business, case-by-case underwriting and pricing is coordinated by our locally based field marketing representatives. Our agents and our field marketing, claims, loss control, premium audit, bond and machinery and equipment representatives get to know the people and businesses in their communities and can make informed decisions about each risk. These field marketing representatives also are responsible for selecting new independent agencies, coordinating field teams of specialized company representatives and promoting all of the company's products within the agencies they serve.

Commercial lines policy renewals are managed by headquarters underwriters who are assigned to specific agencies and consult with local field staff as needed. As part of our team approach, the headquarters underwriter also helps oversee agency growth and profitability. They are responsible for formal issuance of all new business and renewal policies as well as policy endorsements. Further, the headquarters underwriters provide day-to-day customer service to agencies and marketing representatives by providing product training, answering underwriting questions, helping to determine underwriting eligibility and assisting with the mechanics of premium determination.

Our commercial lines packages are typically offered on a three-year policy term for most insurance coverages, a key competitive advantage. Although we offer three-year policy terms, premiums for some coverages within those policies are adjustable at anniversary for the next annual period, and policies may be cancelled at any time at the discretion of the policyholder. Contract terms often provide that rates for property, general liability, inland marine and crime coverages, as well as policy terms and conditions, are fixed for the term of the policy. The general liability exposure basis may be audited annually. Commercial auto, workers' compensation, professional liability and most umbrella liability coverages within multi-year packages are rated at each of the policy's annual anniversaries for the next one-year period. The annual pricing could incorporate rate changes approved by state insurance regulatory authorities between the date the policy was written and its annual anniversary date, as well as changes in risk exposures and premium credits or debits relating to loss experience and other underwriting judgment factors. We estimate that approximately 75 percent of 2008 commercial premiums were subject to annual rating or were written on a one-year policy term.

In our experience, multi-year packages are somewhat less price sensitive for the quality-conscious insurance buyers who we believe are typical clients of our independent agents. Customized insurance programs on a three-year term complement the long-term relationships these policyholders typically have with their agents and with the company. By reducing annual administrative efforts, multi-year policies lower expenses for our company and for our agents. The commitment we make to policyholders encourages long-term relationships and reduces their need to annually re-evaluate their insurance carrier or agency. We believe that the advantages of three-year policies in terms of improved policyholder convenience, increased account retention and reduced administrative costs outweigh the potential disadvantage of these policies, even in periods of rising rates.

Staying abreast of evolving market conditions is a critical function, accomplished in both an informal and a formal manner. Informally, our field marketing representatives and underwriters are in constant receipt of market intelligence from the agencies with which they work. Formally, our commercial lines product management group and field marketing associates conduct periodic surveys to obtain competitive intelligence. This market information helps identify the top competitors by line of business or specialty program and also identifies our market strengths and weaknesses. The analysis encompasses pricing, breadth of coverage and underwriting/eligibility issues.

In addition to reviewing our competitive position, our product management group and our underwriting audit group review compliance with our underwriting standards as well as the pricing adequacy of our commercial insurance programs and coverages. Further, our research and development department analyzes opportunities and develops new products, new coverage options and improvements to existing insurance products.

At year-end 2008, we supported our commercial lines operations with a variety of technology tools. WinCPP® is our commercial lines premium quoting system. WinCPP is available in all of our agency locations in which we actively market commercial lines insurance and provides quoting capabilities for nearly 100 percent of our new and renewal commercial lines business. WinCPP works with our real-time agency interface, CinciBridge™, which allows automated movement of key underwriting data from an agency's management system to WinCPP, reducing agents' data entry and allowing seamless quoting and rating capabilities.

Many small business accounts written as Businessowners Policies (BOP) and Dentist's Package Policies (DBOP) are eligible to be issued at our agency locations through our Web-based e-CLAS® policy processing system. (A businessowners policy combines property, liability and business interruption coverages for small businesses.) e-CLAS provides full policy lifecycle transactions, including quoting, issuance, policy changes, renewal processing and policy printing at the agency location. These features make it easy and efficient for our agencies to issue and service these policies. At year-end 2008, e-CLAS for BOP and DBOP was in use in 30 states representing 98 percent of our premiums for these products, which are included in the specialty packages commercial line of business. e-CLAS also uses CinciBridge to provide real-time data transfer with agency management systems.

We have been streamlining internal processes and achieving operational efficiencies in our headquarters commercial lines operations through deployment of iView™, a policy imaging and workflow system. This system provides online access to electronic copies of policy files, enabling our underwriters to respond to agent requests and inquiries more quickly and efficiently. iView also automates internal workflows through electronic routing of underwriting and processing work tasks. At year-end 2008, more than 92 percent of in-force non-workers' compensation commercial lines policy files were administered and stored electronically in iView. Workers' compensation policies are to be added to iView in 2009.

Commercial Lines Insurance Marketplace

Our competition for the types and sizes of commercial accounts we typically write in the standard market predominantly consists of those companies that also distribute through independent agencies. The independent agencies that market our commercial lines products typically represent six to 12 standard

market insurance carriers, including both national and regional carriers, some of which may be mutual companies.

Overall, the softening commercial lines marketplace of the past several years continued to intensify in 2008. Over this period, anecdotal reports of very aggressive pricing have grown in frequency. Over the course of 2008, we saw many situations where underwriting discipline appeared to slip as carriers sought to capture market share. Many carriers continued to manage the soft market conditions by working aggressively to protect their renewal portfolios. Renewal decreases in the mid-single digits were still prevalent in the fourth quarter of 2008; however, we have worked to retain our best renewal business while continuing to write new business and maintain underwriting discipline. In late 2008 and early 2009, we have begun to see preliminary indications leading us to believe that market pricing may be starting to level.

PERSONAL LINES PROPERTY CASUALTY INSURANCE SEGMENT

The personal lines property casualty insurance segment contributed net earned premiums of \$689 million to total revenues, or 18.0 percent of the total, and reported a loss before income taxes of \$82 million in 2008. Personal lines net earned premiums declined 3.4 percent in 2008, 6.3 percent in 2007 and 5.3 percent in 2006.

We prefer to write personal lines coverage in accounts that include both auto and homeowner coverages as well as coverages that are part of our other personal business line. As a result, we believe that our personal lines business is best measured and evaluated on a segment basis. However, we provide line of business data to summarize growth and profitability trends separately for three business lines:

- Personal auto – This business line includes personal auto coverages that protect against liability to others for both bodily injury and property damage, medical payments to insureds and occupants of their vehicle, physical damage to an insured's own vehicle from collision and various other perils, and damages caused by uninsured motorists. In addition, many states require policies to provide first-party personal injury protection, frequently referred to as no-fault coverage.
- Homeowners – This business line includes homeowner coverages that protect against losses to dwellings and contents from a wide variety of perils, as well as liability arising out of personal activities both on and off the covered premises. The company also offers coverage for condominium unit owners and renters.
- Other personal lines – This includes the variety of other types of insurance products we offer to individuals such as dwelling fire, inland marine, personal umbrella liability and watercraft coverages.

At year-end, we marketed personal lines insurance products through 954 of our 1,387 reporting agency locations in 27 of the 35 states in which we offer standard market commercial lines insurance.

The remaining 433 locations primarily are in states where we do not yet actively market these products; some are in locations where we have determined, in conjunction with agency management, that our personal lines products were not appropriate for their agencies at this time. As discussed in Strategic Initiatives, Page 7, introducing personal lines to these agencies is one of the ways we intend to grow profitably in the next several years. The number of reporting agency locations in our 10 highest volume states increased to 627 in 2008 from 604 in 2007.

In 2008, our 10 highest volume personal lines states generated 85.1 percent of our earned premiums compared with 84.9 percent in the prior year. Earned premiums in the 10 highest volume states declined 3.0 percent in 2008 and declined 6.4 percent in the remaining states.

Personal Lines Earned Premiums by State

(Dollars in millions)

	Earned premiums	% of total earned	Agency locations	Average premium per location
Year ended December 31, 2008				
Ohio	\$ 253	36.8 %	199	\$ 1.3
Georgia	61	8.9	60	1.0
Indiana	57	8.3	76	0.8
Illinois	48	7.0	84	0.6
Alabama	41	5.9	37	1.1
Kentucky	34	5.0	36	0.9
Michigan	28	4.0	70	0.4
Florida	24	3.4	10	2.4
Virginia	20	2.9	25	0.8
Wisconsin	20	2.9	30	0.7
Year ended December 31, 2007				
Ohio	\$ 266	37.3 %	200	\$ 1.3
Georgia	61	8.6	58	1.1
Indiana	59	8.3	71	0.8
Illinois	49	6.8	81	0.6
Alabama	37	5.2	33	1.1
Kentucky	37	5.2	36	1.0
Michigan	31	4.4	64	0.5
Florida	23	3.2	10	2.3
Virginia	21	3.0	22	1.0
Wisconsin	20	2.9	29	0.7

New and renewal personal lines business reflects our risk-specific underwriting philosophy. Each agency selects personal lines business primarily from within the geographic territory that it serves, based on the agent's knowledge of the risks in those communities or familiarity with the policyholder. Personal lines activities are supported by headquarters associates assigned to individual agencies. We now have five full-time personal lines marketing representatives, two headquarters based and three living in the field, and plan to add two more in 2009. These marketing representatives have underwriting authority and visit agencies on a regular basis. They reinforce the advantages of our personal lines products and offer training in the use of our processing system.

Competitive advantages of our personal lines coverages include our claims service, credit structure and customizable endorsements for both the personal auto and homeowner policies. Most of our personal lines products are processed through Diamond, our real-time personal lines policy processing system, which supports and allows once-and-done processing. Diamond incorporates features frequently requested by our agencies such as direct bill and monthly payment plans, local and headquarters policy printing options, data transfer to and from popular agency management systems and real-time integration with third-party data such as insurance scores, motor vehicle reports and address verification. At year-end 2008, Diamond was in use in 24 states representing approximately 99 percent of our personal lines premium volume, all of which is on a one-year term.

In 2006, we introduced PL-efiles, a policy imaging system, to our personal lines operations. Through year-end 2008, we had transitioned information on current Diamond personal lines policies to PL-efiles and continue to work on imaging necessary older information. The transition replaces paper format with electronic copies of policy documents. PL-efiles complements the Diamond system by giving personal lines underwriters and support staff online access to policy documents and data, enabling them to respond to agent requests and inquiries quickly and efficiently.

Personal Lines Insurance Marketplace

The independent agencies that market our personal lines products typically represent four to six standard personal lines carriers. In addition to carriers that market through independent agents, our personal lines competition also includes carriers that market through captive agents and direct writers, which our agencies' clients may investigate independently.

Over the past several years, we have seen increased competition in the personal lines marketplace, driven by industrywide improvement in results and favorable frequency and severity trends. The increased competition in the past several years also reflected implementation of tiered rating systems by a growing number of carriers. Carriers that have adopted these systems rely on increasingly more data, including credit-based information, to identify multiple relevant variables to segment the market.

We expect the overall market to remain competitive, with small pricing increases in personal lines over the next 12 to 24 months. Carriers will continue to increase the sophistication of their pricing to attract more

preferred customers and gain market share. Industry results should continue to improve if catastrophe losses return to a normalized level.

LIFE INSURANCE SEGMENT

The life insurance segment contributed \$126 million, or 3.3 percent, of net earned premiums and \$4 million of income before income taxes in 2008. Life insurance segment profitability is discussed in detail in Item 7, Life Insurance Results of Operations, Page 64. Life insurance net earned premiums grew 0.8 percent in 2008, 9.0 percent in 2007 and 7.9 percent in 2006.

The overall mission of our company is supported by The Cincinnati Life Insurance Company. Cincinnati Life helps meet the needs of our agencies, including increasing and diversifying agency revenues. We primarily focus on life products that produce revenue growth through a steady stream of premium payments.

By diversifying revenue and profitability for both the agency and our company, this strategy enhances the already strong relationship built by the combination of the property casualty and life companies.

Cincinnati Life seeks to become the life insurance carrier of choice for the independent agencies that work with our property casualty operations. We emphasize up-to-date products, responsive underwriting and high quality service as well as competitive commissions. At year-end 2008, almost 75 percent of our 1,387 property casualty reporting agency locations offered Cincinnati Life's products to their clients. We also develop life business from approximately 500 other independent life insurance agencies. We are careful to solicit business from these other agencies in a manner that does not conflict with or compete with the marketing and sales efforts of our property casualty agencies.

Life Insurance Business Lines

Four lines of business – term insurance, universal life insurance, worksite products and whole life insurance – account for approximately 83.7 percent of the life insurance segment's revenues:

- Term insurance – policies under which a death benefit is payable only if the insured dies during a specific period of time. For policies without a return of premium provision, no benefit is payable if the insured person survives to the end of the term. For policies in-force with a return of premium provision, a benefit equal to the sum of all paid premiums is payable if the insured person survives to the end of the term. While premiums are fixed, they must be paid as scheduled. The policies are fully underwritten.
- Universal life insurance – long-duration life insurance policies. Contract premiums are neither fixed nor guaranteed; however, the contract does specify a minimum interest crediting rate and a maximum cost of insurance charge and expense charge. Premiums are not fixed and may be varied by the contract owner. The cash values, available as a loan collateralized by the cash surrender value, are not guaranteed and depend on the amount and timing of actual premium payments and the amount of actual contract assessments. The policies are fully underwritten.
- Worksite products – term insurance, whole life insurance, universal life and disability insurance offered to employees through their employer. Premiums are collected by the employer using payroll deduction. Policies are issued using a simplified underwriting approach and on a guaranteed issue basis. Worksite insurance products provide our property casualty agency force with excellent cross-serving opportunities for both commercial and personal accounts. Agents report that offering worksite marketing to employees of their commercial accounts provides a benefit to the employees at no cost to the employer. Worksite marketing also connects agents with new customers who may not have previously benefited from receiving the services of a professional independent insurance agent.
- Whole life insurance – policies that provide life insurance for the entire lifetime of the insured; the death benefit is guaranteed never to decrease and premiums are guaranteed never to increase. While premiums are fixed, they must be paid as scheduled. These policies provide guaranteed cash values that are available as loans collateralized by the cash surrender value. The policies are fully underwritten.

In addition, Cincinnati Life markets:

- Disability income insurance provides monthly benefits to offset the loss of income when the insured person is unable to work due to accident or illness.
- Deferred annuities provide regular income payments that commence after the end of a specified period or when the annuitant attains a specified age. During the deferral period, any payments made under the contract accumulate at the crediting rate declared by the company but not less than a contract-specified guaranteed minimum interest rate. A deferred annuity may be surrendered during the deferral period for a cash value equal to the accumulated payments plus interest less the surrender charge, if any.
- Immediate annuities provide some combination of regular income and lump sum payments in exchange for a single premium. Immediate annuities also are written by our life insurance segment and purchased by our property casualty companies to settle casualty claims.

Life Insurance Marketplace

Our property casualty agencies comprise the main distribution system for our life insurance segment. While other life insurance carriers continue to expand the use of nontraditional distribution channels, such as banks or direct sales as alternatives to the agency channel, we intend to market solely through independent agencies, with an emphasis on enhancing relationships with agencies affiliated with our property casualty insurance operations.

When marketing through our property casualty agencies, we have specific competitive advantages:

- Because our property casualty operations are held in high regard, property casualty agency management is predisposed to consider selling our life products.
- Marketing efforts for both our property casualty and life insurance businesses are directed by our field marketing department, which assures consistency of communication and operations. Life field marketing representatives are available to meet face-to-face with agency personnel and their clients as well.
- The resources of our life headquarters underwriters and other associates are available to the agents and field team to assist in the placement of business. Fewer and fewer of our competitors provide direct, personal support between the agent and the insurance carrier.

We continue to emphasize the cross-serving opportunities of our life insurance, including term and worksite products, for the property casualty agency's personal and commercial accounts. In both the property casualty and independent life agency distribution systems, we enjoy the advantages of offering competitive, up-to-date products, providing close personal attention in combination with financial strength and stability.

- We primarily offer products addressing the needs of businesses with key person and buy-sell coverages. We offer personal and commercial clients of our agencies quality, personal life insurance coverage.
- Term insurance is our largest life insurance product line. We continue to introduce new term products with features our agents indicate are important, such as a return of premium rider, and we have restructured our underwriting classifications to better meet the needs of their clients.

Because of our strong capital position, we can offer a competitive product portfolio including guaranteed products, giving our agents a marketing edge. Our life insurance company maintains strong insurer financial strength ratings: A.M. Best – A (Excellent), Fitch – AA- (Very Strong) and Standard & Poor's – A+ (Strong), as discussed in Financial Strength, Page 3. Our life insurance company has not chosen to establish a Moody's rating.

Current statutory laws and regulations require life insurance companies to hold redundant reserves, particularly for preferred risk underwriting classes. While these redundant reserves have no effect on GAAP results, they depress statutory earnings and require a large commitment of capital. Redundant reserves are a significant issue, not just for our life insurance operations, but for all writers of term insurance and universal life with secondary guarantees.

The National Association of Insurance Commissioners recognizes the problems caused by redundant reserves and is considering a principles-based reserving system rather than the current formulaic system. While still capturing all material risks, a principles-based system would allow a company to use its own experience, subject to credibility standards and appropriate margins for uncertainty. Also, under the proposed principles-based system, the insurer would fully document and disclose all its assumptions and methods to regulatory officials.

INVESTMENTS SEGMENT

The investment segment contributed \$675 million, or 17.6 percent, of our total revenues in 2008, primarily from net investment income and from realized investment gains and losses from investment portfolios managed for the holding company and each of the operating subsidiaries. After deducting \$63 million in interest credited to contract holders of the life insurance segment, the investments segment contributed \$612 million of income before income taxes, or more than 100 percent of our 2008 total income before income taxes.

During 2008, our board and investment department adopted internal guidelines to place additional parameters around our portfolio. These parameters address, among other issues, the overall mix of the portfolio as well as security and sector concentrations. The parameters came out of our risk management program, with the goal of more specifically defining our risk tolerances, aligning our operating plan accordingly and improving management's ability to identify and respond to changing conditions. Going forward, we will evaluate all of our fixed-maturity and equity investments using our investment parameters, as appropriate.

The fair value (market value) of our investment portfolio was \$8.807 billion and \$12.198 billion at year-end 2008 and 2007, respectively. Despite the market turmoil of 2008 and our decision to realize \$1.024 billion in gains on security sales during the year, the overall portfolio remained in an unrealized gain position at year-end.

The cash we generate from insurance operations historically has been invested in three broad categories of investments:

- Fixed-maturity investments – Includes taxable and tax-exempt bonds and redeemable preferred stocks. During 2008 and 2007, purchases served to offset sales, calls and market value declines.
- Equity investments – Includes common and nonredeemable preferred stocks. During 2008 and 2007, sales and market value declines of equity securities more than offset purchases and market value appreciation.
- Short-term investments – Primarily commercial paper.

(In millions)	At December 31, 2008				At December 31, 2007			
	Book value	% of BV	Fair value	% of FV	Book value	% of BV	Fair value	% of FV
Taxable fixed maturities	\$ 3,354	40.8 %	\$ 3,094	35.1 %	\$ 3,265	36.9 %	\$ 3,284	26.9 %
Tax-exempt fixed maturities	2,704	32.9	2,733	31.0	2,518	28.4	2,564	21.0
Common equities	1,889	23.0	2,721	30.9	2,715	30.7	6,020	49.4
Preferred equities	188	2.3	175	2.0	260	2.9	229	1.9
Short-term investments	84	1.0	84	1.0	101	1.1	101	0.8
Total	\$ <u>8,219</u>	<u>100.0</u> %	\$ <u>8,807</u>	<u>100.0</u> %	\$ <u>8,859</u>	<u>100.0</u> %	\$ <u>12,198</u>	<u>100.0</u> %

We actively determine the portion of new cash flow to be invested in fixed-maturity and equity securities at the parent and insurance subsidiary levels. We consider internal measures, as well as insurance department regulations and ratings agency guidance. We monitor a variety of metrics, including after-tax yields, the ratio of investments in common stocks to statutory surplus for the property casualty and life insurance operations and the parent company's ratio of investment assets to total assets.

At year-end 2008, 1.6 percent of the value of our investment portfolio was made up of securities that do not actively trade on a public market and require management's judgment to develop pricing or valuation techniques (Level 3 assets). We obtain at least two outside valuations for these assets and generally use the more conservative calculation. These investments include private placements, small issues and various thinly traded securities. See Item 7, Fair Value Measurements, Page 45, and Item 8, Note 3 of the Consolidated Financial Statements Page 106, for additional discussion of our valuation techniques.

In addition to securities held in our investment portfolio, at year-end 2008, other invested assets included \$37 million of life policy loans, \$32 million of venture capital fund investments, \$8 million of private equity investments and \$6 million of investment in real estate.

Fixed-maturity and Short-term Investments

By maintaining a well diversified fixed-maturity portfolio, we attempt to reduce overall risk. We invest new money in the bond market on a continuous basis, targeting what we believe to be optimal risk-adjusted after-tax yields. Risk, in this context, includes interest rate, call, reinvestment rate, credit and liquidity risk. We do not make a concerted effort to alter duration on a portfolio basis in response to anticipated movements in interest rates. By continuously investing in the bond market, we build a broad, diversified portfolio that we believe mitigates the impact of adverse economic factors.

We place a strong emphasis on purchasing current income-producing securities for the insurance companies' portfolios. Within the fixed-maturity portfolio, we invest in a blend of taxable and tax-exempt securities with an eye toward maximizing credit adjusted after-tax yields.

During the third quarter of 2008, we terminated a securities lending program under which certain fixed maturities from our investment portfolio were loaned to other institutions for short periods of time. As a result, no securities were on loan at year-end 2008 compared with \$745 million at year-end 2007. We discuss the program in Item 8, Note 2 of the Consolidated Financial Statements, Page 104.

In conjunction with the program termination, we returned the collateral but chose to retain a small portfolio of collateralized mortgage obligations (CMOs) rather than sell them at what we felt were distressed prices in an illiquid market. The CMOs were an investment made by one of the short-duration funds, which subsequently dissolved and distributed the assets to its investors. All \$30 million of the CMOs in the portfolio are collateralized by Alt-A mortgages that originated between 2004 and 2006. Consequently, at December 31, 2008, we owned investment-grade CMOs with a fair value and book value of \$27 million and \$39 million, respectively. Of the \$27 million investment-grade CMOs, \$21 million were rated AAA by Standard & Poor's. We also owned non-investment grade CMOs that had a fair value and book value of \$3 million and \$4 million, respectively. We do not intend to make additional investments in this asset category.

Fixed-maturity and Short-term Portfolio Ratings

As of year-end 2008, the portfolio was trading at 96.2 percent of its book value, in line with general market conditions. The general level of interest rates decreased over the course of 2008; however, credit spreads widened considerably due to a continued flight to quality.

The downward shift in the higher portfolio ratings during 2008 primarily was driven by significant calls of government sponsored entities (GSE) bonds, as well as rating withdrawals that occurred in response to the difficulties experienced by certain municipal bond insurers. The majority of our non-rated securities are tax-exempt municipal bonds from smaller municipalities that chose not to pursue a credit rating. Credit ratings as of December 31 for the fixed-maturity and short-term portfolio were:

(Dollars in millions)	At December 31, 2008		At December 31, 2007	
	Fair value	Percent to total	Fair value	Percent to total
Moody's Ratings and Standard & Poor's Ratings combined				
Aaa, Aa, A, AAA, AA, A	\$ 4,149	70.2 %	\$ 4,366	73.4 %
Baa, BBB	1,258	21.3	1,076	18.1
Ba, BB	240	4.1	225	3.8
B, B	46	0.8	110	1.8
Caa, CCC	7	0.1	25	0.4
Ca, CC	3	0.1	0	0.0
C, C	0	0.0	0	0.0
Non-rated	208	3.4	147	2.5
Total	\$ 5,911	100.0 %	\$ 5,949	100.0 %

We discuss the maturity of our fixed-maturity portfolio in Item 8, Note 2 of the Consolidated Financial Statements, Page 104. Attributes of the fixed-maturity portfolio include:

	Years ended December 31,	
	2008	2007
Weighted average yield-to-book value	5.6 %	5.3 %
Weighted average maturity	8.2 yrs	8.0 yrs
Effective duration	5.4 yrs	4.8 yrs

Taxable Fixed Maturities

Our taxable fixed-maturity portfolio (at fair value) at year-end 2008 included:

- \$389 million in U.S. agency paper that is rated Aaa/AAA by Moody's and Standard & Poor's, respectively.
- \$2.324 billion in investment-grade corporate bonds that have a Moody's rating at or above Baa3 or a Standard & Poor's rating at or above BBB-
- \$210 million in high-yield corporate bonds that have a Moody's rating below Baa3 or a Standard & Poor's rating below BBB-
- \$171 million in convertible bonds and redeemable preferred stocks.

Our strategy typically is to buy and hold fixed-maturity investments to maturity, but we monitor credit profiles and market value movements when determining holding periods for individual securities. With the exception of U.S. agency paper (government-sponsored entities), no individual issuer's securities accounted for more than 1.7 percent of the taxable fixed-maturity portfolio at year-end 2008.

The investment-grade corporate bond portfolio is most heavily concentrated in the financial-related sectors, including banks, brokerage, finance and investment and insurance companies. The financial sectors represented 34.2 percent of fair value of this portfolio at year-end 2008, compared with 42.1 percent, at year-end 2007. Although the financial-related sectors make up our largest group of investment-grade corporate bonds, we believe our concentration is below the average for the corporate bond market as a whole. Utilities are the only other sector that exceeds 10 percent of our investment-grade corporate bond portfolio, at 11.6 percent of fair value at year-end 2008.

Tax-exempt Fixed Maturities

We traditionally have purchased municipal bonds focusing on general obligation and essential services bonds, such as sewer, water or others. While no single municipal issuer accounted for more than 0.6 percent of the tax-exempt municipal bond portfolio at year-end 2008, there are higher concentrations within individual states. Holdings in Texas and Indiana accounted for a total of 35.0 percent of the municipal bond portfolio at year-end 2008.

In recent years, we have purchased insured municipal bonds because of their excellent credit-adjusted after-tax yields. At year-end 2008, bonds representing \$2.290 billion, or 83.8 percent, of the fair value of our municipal portfolio were insured with an average rating of AAA. Because of our emphasis on general obligation and essential services bonds, over 90 percent of the insured municipal bonds have an underlying rating of at least A3 or A-

Short-term Investments

Our short-term investments consist primarily of commercial paper, demand notes or bonds purchased within one year of maturity. We make short-term investments primarily with funds to be used to make upcoming cash payments, such as taxes. At year-end 2008, we had \$84 million of short-term investments compared with \$101 million at year-end 2007.

Equity Investments

After covering both our intermediate and long-range insurance obligations with fixed-maturity investments, we historically used available cash flow to invest in equity securities. Investment in equity securities has played an important role in achieving our portfolio objectives and has contributed to portfolio appreciation. We remain committed to our long-term equity focus, which we believe is key to our company's long-term growth and stability.

Common Stocks

Our common stock investments generally are dividend-paying securities. In this market, we are seeking to maximize our potential return while minimizing dividend income risk by selecting securities from a variety of dividend scenarios, including those with the potential for dividend growth from a below-market current yield. Other criteria we evaluate include increasing sales and earnings, proven management and a favorable outlook. We believe our equity investment style is an appropriate long-term strategy after we have purchased fixed maturity investments to cover our insurance reserves.

In mid-2008, we began applying new investment guidelines that increased portfolio diversification, reducing single issue and sector concentrations. Our year-end 2008 portfolio has been positioned for reduced volatility going forward. As a result, despite economic and market disruptions that led to unprecedented value declines, our equity portfolio suffered less than the broader indices during 2008.

We view our diversifying actions to be consistent with our view of prudent risk management. At year-end 2008, our financial sector holdings were 12.4 percent of our \$2.7 billion publicly traded common stock portfolio, below the Standard & Poor's 500 weighting, and significantly lower than our 56.2 percent financial sector weighting at year-end 2007. Among other changes, we reduced our Fifth Third Bancorp (NASDAQ:FITB) holding to approximately 12 million shares at year-end 2008. Following Fifth Third's further reduction of its dividend payout in December 2008, we sold the remainder of our holding in January 2009 for an additional capital gain. We expect to continue to make changes to the portfolio, as deemed appropriate.

Proceeds of sales are being reinvested in both fixed income and equity securities with yields that we believe are likely to be more secure. This may slow the return to growth in investment income although we believe year-over-year comparisons may turn positive in the second half of 2009.

Common Stock Portfolio Industry Sector Distribution

Sector:	Percent of Publicly Traded Common Stock Portfolio			
	At December 31, 2008		At December 31, 2007	
	Cincinnati Financial	S&P 500 Industry Weightings	Cincinnati Financial	S&P 500 Industry Weightings
Healthcare	21.6 %	14.8 %	10.2 %	12.0 %
Consumer staples	19.8	12.8	10.7	10.2
Energy	16.8	13.3	11.5	12.9
Financial	12.4	13.3	56.2	17.6
Utilities	9.3	4.2	4.8	3.6
Consumer discretionary	6.6	8.4	2.8	8.5
Industrials	6.1	11.1	1.9	11.5
Information technology	4.2	15.3	1.9	16.8
Materials	1.9	3.0	0.0	3.3
Telecomm services	1.3	3.8	0.0	3.6
Total	100.0 %	100.0 %	100.0 %	100.0 %

At year-end 2008, 29.7 percent of our common stock holdings (measured by fair value) were held at the parent company level.

Until June 2008, we had held more than 10 percent of Fifth Third's common stock for many years. We continue to hold more than 5 percent of Piedmont Natural Gas Company (NYSE:PNY). At year-end 2008, there were 12 holdings with a fair value equal to or greater than 2 percent of our publicly traded common stock portfolio compared with 15 similar holdings at year-end 2007. No single issue accounted for more than 14.5 percent at year-end 2008.

Nonredeemable Preferred Stocks

We evaluate preferred stocks in a manner similar to the evaluation we make for fixed-maturity investments, seeking attractive relative yields. We generally focus on investment-grade preferred stocks issued by companies that have a strong history of paying common dividends, providing us with another layer of protection. We believe that careful application of this strategy continues to have merit, although events of 2008 indicated that preferred stocks will not receive preferential treatment in a government-sponsored restructuring. When possible, we seek out preferred stocks that offer a dividend received deduction for income tax purposes.

Additional information regarding the composition of investments is included in Item 8, Note 2 of the Consolidated Financial Statements, Page 104.

OTHER

We report as "Other" the other income of our standard market property casualty insurance subsidiary, as well as non-investment operations of the parent company and its subsidiaries, CFC Investment Company and CinFin Capital Management Company (excluding client investment activities). In 2008, we also included results of our surplus lines operations, The Cincinnati Specialty Underwriters Insurance Company and CSU Producer Resources.

CFC Investment Company

CFC Investment Company offers commercial leasing and financing services to our agents, their clients and other customers. As of year-end 2008, CFC Investment Company had 2,197 accounts and \$71 million in receivables, compared with 2,590 accounts and \$92 million in receivables at year-end 2007.

CinFin Capital Management

CinFin Capital Management provided asset management services to internal and third-party clients. CinFin Capital advised clients in December 2008 that it would close on February 28, 2009. During the recent financial market downturn, this business performed satisfactorily relative to the appropriate benchmarks, and it was profitable over its 10 years in operation. We determined that sufficient future growth through agency referrals or other routes would have required a substantial increase in resources even as we are seeking to increase our focus on our core insurance business with new initiatives. Many of our agencies did not see referrals for investment management services within the scope of their offerings to their clients.

As of year-end 2008, CinFin Capital had 44 institutional, corporate and individual clients. Assets under management were \$817 million. We have given our unaffiliated clients ample opportunity to arrange for another financial adviser and respond to any market changes in a timely manner. We will continue to manage internally our pension plan and Cincinnati Life's separate accounts.

Surplus Lines Property Casualty Insurance

Agencies have access to The Cincinnati Specialty Underwriters Insurance Company's product line through CSU Producer Resources, the wholly owned insurance brokerage subsidiary of parent-company Cincinnati Financial Corporation. CSU Producer Resources has binding authority on all classes of business written through CSU and maintains appropriate agent and surplus lines licenses to process non-admitted business.

Producers can submit risks to CSU Producer Resources, reflecting the mix of accounts Cincinnati agencies currently write in their non-admitted surplus lines markets. CSU Producer Resources currently markets and underwrites commercial general liability, property and miscellaneous errors and omissions coverages in 33 states. It will continue to add lines of business and coverages.

Agency producers have direct access through CSU Producer Resources to our dedicated surplus lines underwriters, and they also can tap into their agencies' broader Cincinnati relationships to bring their policyholders services such as experienced and responsive loss control and claims handling. Our new surplus lines policy administration system delivers electronic copies of policies to producers within minutes of underwriting approval and policy issue. CSU Producer Resources gives extra support to our producers by remitting surplus lines taxes and stamping fees and retaining admitted market affidavits, where required.

REGULATION

STATE REGULATION

The business of insurance primarily is regulated by state law. All of our insurance company subsidiaries are domiciled in the State of Ohio, except The Cincinnati Specialty Underwriters Insurance Company, which is domiciled in the State of Delaware. Each insurance subsidiary is governed by the insurance laws and regulations in its respective state of domicile. We also are subject to state regulatory authorities of all states in which we write insurance. The state laws and regulations that have the most significant effect on our insurance operations and financial reporting are discussed below.

- **Insurance Holding Company Regulation** – We are regulated as an insurance holding company system in the respective states of domicile of our standard market property casualty company subsidiary and its surplus lines and life insurance subsidiaries. These regulations require that we annually furnish financial and other information about the operations of the individual companies within the holding company system. All transactions within a holding company affecting insurers must be fair and equitable. Notice to the state insurance commissioner is required prior to the consummation of transactions affecting the ownership or control of an insurer and prior to certain material transactions between an insurer and any person or entity in its holding company group. In addition, some of those transactions cannot be consummated without the commissioner's prior approval.
- **Subsidiary Dividends** – The Cincinnati Insurance Company is 100 percent owned by Cincinnati Financial Corporation. The dividend-paying capacity of The Cincinnati Insurance Company and its 100 percent owned subsidiaries is regulated by the laws of the applicable state of domicile. Under these laws, our insurance subsidiaries must provide a 10-day advance informational notice to the insurance commissioner for the domiciliary state prior to payment of any dividend or distribution to its shareholders. In all cases, ordinary dividends may be paid only from earned surplus, which for the Ohio subsidiaries is the amount of unassigned funds set forth in an insurance subsidiary's most recent statutory financial statement. For the Delaware subsidiary, it is the amount of available and accumulated funds derived from the subsidiary's net operating profit of its business and realized capital gains.

The insurance company subsidiaries must give 30 days notice to and obtain prior approval from the state insurance commissioner before the payment of an extraordinary dividend as defined by the state's insurance code. You can find information about the dividends paid by our insurance subsidiary in 2008 in Item 8, Note 9 of the Consolidated Financial Statements, Page 110.

- **Insurance Operations** – All of our insurance subsidiaries are subject to licensing and supervision by departments of insurance in the states in which they do business. The nature and extent of such regulations vary, but generally have their source in statutes that delegate regulatory, supervisory and administrative powers to state insurance departments. Such regulations, supervision and administration of the insurance subsidiaries include, among others, the standards of solvency that must be met and maintained; the licensing of insurers and their agents and brokers; the nature and limitations on investments; deposits of securities for the benefit of policyholders; regulation of policy forms and premium rates; policy cancellations and non-renewals; periodic examination of the affairs of insurance companies; annual and other reports required to be filed on the financial condition of insurers or for other purposes; requirements regarding reserves for unearned premiums, losses and other matters; the nature of and limitations on dividends to policyholders and shareholders; the nature and extent of required participation in insurance guaranty funds; the involuntary assumption of hard-to-place or high-risk insurance business, primarily workers' compensation insurance; and the collection, remittance and reporting of certain taxes and fees.

The legislative and regulatory climate in Florida continues to create uncertainty for the insurance industry. In February 2007, we adopted a marketing stance of writing no new business relationships in Florida. This remained our stance through 2008, except in the lines of directors and officers, surety, machinery and equipment and life insurance, which we resumed writing in June 2007, subject to existing guidelines. In 2009, we intend to cautiously resume writing additional commercial lines of business, while working to more actively manage the associated catastrophe risk, carefully underwriting new commercial submissions and non-renewing commercial and personal lines policies that present the most risk of loss because of their age, construction and geographic characteristics. In 2008, our written premiums from Florida agencies were 2.9 percent of total written premiums, compared with 3.2 percent in 2007.

On August 24, 2007, the company received administrative subpoenas from the Florida Office of Insurance Regulation seeking documents and testimony concerning insurance for residential risks located in Florida and communications with reinsurers, risk modeling companies, rating agencies and insurance trade associations. We produced documents to respond to the subpoenas. The Office of Insurance Regulation cancelled and has not rescheduled the hearing noticed in the subpoena for

October 18, 2007. Although inactive, these subpoenas remain outstanding as of December 31, 2008. We continue to assess the changing insurance environment in Florida and hope to resume writing our complete portfolio of insurance products in the state as the market stabilizes.

- Insurance Guaranty Associations – Each state has insurance guaranty association laws under which the associations may assess life and property casualty insurers doing business in the state for certain obligations of insolvent insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the insurer's proportionate share of business written by all member insurers in the state. Our insurance companies incurred a charge of less than \$1 million from guaranty associations in 2008 and a charge of \$2 million in 2007. We cannot predict the amount and timing of any future assessments or refunds on our insurance subsidiaries under these laws.
- Shared Market and Joint Underwriting Plans – State insurance regulation requires insurers to participate in assigned risk plans, reinsurance facilities and joint underwriting associations, which are mechanisms that generally provide applicants with various basic insurance coverages when they are not available in voluntary markets. Such mechanisms are most commonly instituted for automobile and workers' compensation insurance, but many states also mandate participation in FAIR Plans or Windstorm Plans, which provide basic property coverages. Participation is based upon the amount of a company's voluntary market share in a particular state for the classes of insurance involved. Underwriting results related to these organizations, which tend to be adverse to our company, have been immaterial to our results of operations.
- Statutory Accounting – For public reporting, insurance companies prepare financial statements in accordance with GAAP. However, certain data also must be calculated according to statutory accounting rules as defined in the NAIC's Accounting Practices and Procedures Manual (SAP). While not a substitute for any GAAP measure of performance, statutory data frequently is used by industry analysts and other recognized reporting sources to facilitate comparisons of the performance of insurance companies.
- Insurance Reserves – State insurance laws require that property casualty and life insurers analyze the adequacy of reserves annually. Our appointed actuaries must submit an opinion that reserves are adequate for policy claims-paying obligations and related expenses.
- Risk-Based Capital Requirements – The NAIC's risk-based capital (RBC) requirements for property casualty and life insurers serve as an early warning tool for the NAIC and state regulators to identify companies that may be undercapitalized and may merit further regulatory action. The NAIC has a standard formula for annually assessing RBC. The formula for calculating RBC for property casualty companies takes into account asset and credit risks but places more emphasis on underwriting factors for reserving and pricing. The formula for calculating RBC for life insurance companies takes into account factors relating to insurance, business, asset and interest rate risks.

FEDERAL REGULATION

Although the federal government and its regulatory agencies generally do not directly regulate the business of insurance, federal initiatives often have an impact. Some of the current and proposed federal measures that may significantly affect our business are discussed below.

- The Terrorism Risk Insurance Act of 2002 (TRIA) – TRIA was originally signed into law on November 26, 2002, and extended on December 22, 2005, in a revised form, and extended again on December 26, 2007. TRIA provides a temporary federal backstop for losses related to the writing of the terrorism peril in property casualty insurance policies. TRIA now is scheduled to expire December 31, 2014. Under regulations promulgated under this statute, insurers are required to offer terrorism coverage for certain lines of property casualty insurance, including property, commercial multi-peril, fire, ocean marine, inland marine, liability, aircraft and workers' compensation. In the event of a terrorism event defined by TRIA, the federal government would reimburse terrorism claim payments subject to the insurer's deductible. The deductible is calculated as a percentage of subject written premiums for the preceding calendar year. Our deductible in 2008 was \$395 million (20 percent of 2007 subject premiums) and we estimate it will be \$383 million (20 percent of 2008 subject premiums) in 2009.
- Office of Foreign Asset Control (OFAC) – Subject to an Executive Order signed on September 24, 2001, intended to thwart financing of terrorists and sponsors of terrorism, financial institutions were required to block and report transactions and attempted transactions between their organizations and persons and organizations named in a list published by OFAC. We currently use a combination of software, third-party vendor and manual searches to accomplish our transaction blocking and reporting activities.

- Investment Advisers Act of 1940 – Our subsidiary, CinFin Capital Management Company, operates an investment advisory business and is therefore subject to regulation by the SEC as a registered investment adviser under the Investment Advisers Act of 1940. This law imposes certain annual reporting, recordkeeping, client disclosure and compliance obligations on CinFin Capital Management. CinFin Capital Management is terminating operations effective February 28, 2009.
- Troubled Asset Relief Program (TARP), the economic stimulus bill, and related executive, legislative and regulatory actions – The President, Congress and various regulatory agencies have worked, and continue to work, to enact measures designed to improve the economy by recapitalizing banks, stimulating the economy, providing relief to homeowners at risk of foreclosure and enhancing oversight of the financial system. To date, none of these measures directly affect us. We are not a bank or a bank holding company and do not intend to obtain TARP funds. Effects of other statutes and regulations on our business are uncertain, as details of existing and proposed laws continue to emerge.

Item 1A. Risk Factors

Our business involves various risks and uncertainties that may affect achievement of our business objectives. Many of the risks could have ramifications across our organization. For example, while risks related to setting insurance rates and establishing and adjusting loss reserves are insurance activities, errors in these areas could have an impact on our investment activities, growth and overall results. The following discussion should be viewed as a starting point for understanding the significant risks we face. It is not a definitive summary of their potential impacts or of our strategies to manage and control the risks. Please see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Page 37, for a discussion of those strategies.

The risks and uncertainties discussed below are not the only ones we face. There are additional risks and uncertainties that we currently do not believe are material at this time. There also may be risks and uncertainties of which we are not aware. If any risks or uncertainties discussed here develop into actual events, they could have a material adverse effect on our business, financial condition or results of operations. In that case, the market price of our common stock could decline materially.

Readers should carefully consider this information together with the other information we have provided in this report and in other reports and materials we file periodically with the Securities and Exchange Commission as well as news releases and other information we disseminate publicly.

We rely exclusively on independent insurance agents to distribute our products.

We market our products through independent, non-exclusive insurance agents. These agents are not obligated to promote our products and can and do sell our competitors' products. We must offer insurance products that meet the needs of these agencies and their clients. We need to maintain good relationships with the agencies that market our products. If we do not, these agencies may market our competitors' products instead of ours, which may lead to us having a less desirable mix of business and could affect our results of operations.

Events or conditions that could diminish our agents' desire to produce business for us and the competitive advantage that our independent agencies enjoy:

- Downgrade of the financial strength ratings of our insurance subsidiaries. We believe our strong insurer financial strength ratings, in particular the A+ (Superior) rating from A.M. Best for our standard market property casualty insurance subsidiaries, are an important competitive advantage. Ratings agencies could change or expand their requirements. If our property casualty ratings were to be further downgraded, our agents might find it more difficult to market our products or might choose to emphasize the products of other carriers. See Item 1, Our Business and Our Strategy, Page 1, for additional discussion of our financial strength ratings.
- Concerns that doing business with us is difficult or not profitable, perceptions that our level of service is no longer a distinguishing characteristic in the marketplace, or perceptions that our business practices are not compatible with agents' business models. These issues could occur if agents or policyholders believe that we are no longer providing the prompt, reliable personal service that has long been a distinguishing characteristic of our insurance operations.
- Delays in the development, implementation, performance and benefits of technology projects and enhancements or independent agent perceptions that our technology solutions are inadequate to match their needs.

A reduction in the number of independent agencies marketing our products, the failure of agencies to successfully market our products or the choice of agencies to reduce their writings of our products could affect our results of operations if we are unable to replace them with agencies that produce adequate and profitable premiums. We could lose premium if a bank that owns appointed agencies changes its strategies.

Further, policyholders may choose a competitor's product rather than our own because of real or perceived differences in price, terms and conditions, coverage or service. If the quality of the independent agencies with which we do business were to decline, that also might cause policyholders to purchase their insurance through different agencies or channels. Consumers, especially in the personal insurance segments, may increasingly choose to purchase insurance from distribution channels other than independent insurance agents, such as direct marketers.

We could experience an unusually high level of losses due to catastrophic, pandemic or terrorism events or risk concentrations.

In the normal course of our business, we provide coverage against perils for which estimates of losses are highly uncertain, in particular catastrophic and terrorism events. Catastrophes can be caused by a number of events, including hurricanes, tornadoes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Due to the nature of these events, we are unable to predict precisely the frequency or

potential cost of catastrophe occurrences. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Our ability to appropriately manage catastrophe risk depends partially on catastrophe models, the accuracy of which may be impacted by inaccurate or incomplete data, the uncertainty of the frequency and severity of future events and the uncertain impact of climate change.

The geographic regions in which we market insurance are exposed to numerous natural catastrophes, such as:

- Hurricanes in the gulf, eastern and southeastern coastal regions.
- Earthquakes in the New Madrid fault zone, which lies within the central Mississippi valley, extending from northeast Arkansas through southeast Missouri, western Tennessee and western Kentucky to southern Illinois, southern Indiana and parts of Ohio.
- Tornado, wind and hail in the Midwest, South and Southeast and, to a certain extent, the mid-Atlantic.

The occurrence of terrorist attacks in the geographic areas we serve could result in substantially higher claims under our insurance policies than we have anticipated. While we do insure terrorism risk in all areas we serve, we have identified our major terrorism exposure as general commercial risks in the metropolitan Chicago area as well as small co-op utilities, small shopping malls and small colleges throughout our 35 active states. Additionally, our life insurance subsidiary could be adversely affected in the event of a terrorist event or an epidemic such as the avian flu, particularly if the epidemic were to affect a broad range of the population beyond just the very young or the very old. Our associate health plan is self-funded and could similarly be affected.

Our results of operations would be adversely affected if the level of losses we experience over a period of time exceeds our actuarially determined expectations. In addition, our financial condition would be adversely affected if we were required to sell securities prior to maturity or at unfavorable prices to pay an unusually high level of loss and loss expenses. Securities pricing might be even less favorable if a number of insurance companies needed to sell securities during a short period of time because of unusually high losses from catastrophic events.

Our geographic concentration ties our performance to business, economic, environmental and regulatory conditions in certain states. We market our property casualty insurance products in 35 states, but our business is concentrated in the Midwest and Southeast. We also have exposure in states where we do not actively market insurance when clients of our independent agencies have businesses or properties in multiple states.

The Cincinnati Insurance Company also participates in three assumed reinsurance treaties with two reinsurers that spread the risk of very high catastrophe losses among many insurers. In 2009, we have exposure of up to \$7 million of assumed losses in three layers, from \$1.0 billion to \$1.7 billion, from a single event under an assumed reinsurance treaty for Munich Re Group. The other two assumed reinsurance treaties are immaterial.

In the event of a severe catastrophic event or terrorist attack elsewhere in the world, our insurance losses may be immaterial. However, the companies in which we invest might be severely affected, which could affect our financial condition and results of operations. Our reinsurers might experience significant losses, potentially jeopardizing their ability to pay losses we cede to them. We also may be exposed to state guaranty fund assessments if other carriers in a state cannot meet their obligations to policyholders. A catastrophe or epidemic event also could affect our operations by damaging our headquarters facility, injuring associates and visitors at our Fairfield, Ohio, headquarters or disrupting our associates' ability to perform their assigned tasks.

Our ability to achieve our performance objectives could be affected by changes in the financial, credit and capital markets or the general economy.

We invest premiums received from policyholders and other available cash to generate investment income and capital appreciation, maintaining sufficient liquidity to pay covered claims and operating expenses, service our debt obligations and pay dividends.

Investment income is an important component of our revenues and net income. The ability to increase investment income and generate longer-term growth in book value is affected by factors that are beyond our control, such as inflation, economic growth, interest rates, world political conditions, terrorism attacks or threats, adverse events affecting other companies in our industry or the industries in which we invest, market events leading to credit constriction and other widespread unpredictable events. These events may adversely affect the economy generally and could cause our investment income or the value of securities we own to decrease. A significant decline in our investment income could have an adverse effect on our net income, and thereby on our shareholders' equity and our policyholders' surplus. For more detailed discussion of risks associated with our investments, please refer to Item 7A, Qualitative and Quantitative Disclosures About Market Risk, Page 85.

We issue life contracts with guaranteed minimum returns, referred to as bank-owned life insurance contracts (BOLIs). BOLI investment assets must meet certain criteria established by the regulatory authorities in which jurisdiction the group contract holder is subject. Therefore, sales of investments may be mandated to maintain compliance with these regulations, possibly requiring gains or losses to be recorded. We could experience losses if the assets in the accounts are less than liabilities at the time of maturity or termination. We discuss other risks associated with our separate account BOLIs in Item 7, Critical Accounting Estimates, Separate Accounts, Page 47.

Further deterioration in the banking sector or in banks with which we have relationships could affect our results of operations. Our ability to maintain or obtain short-term lines of credit could be affected if the banks from which we obtain these lines are purchased, fail or are otherwise negatively affected. The value of corporate bonds and common equities we hold in the banking sector could further deteriorate. We may lose premium if a bank that owns appointed agencies changes its strategies. We could experience increased losses in our director and officer liability line of business if claims are made against insured financial institutions.

Our investment performance also could suffer because of the types or concentrations of investments, industry groups and/or individual securities in which we choose to invest. Market value changes related to these choices could cause a material change in our financial condition or results of operations.

At year-end 2008, common stock holdings made up 30.6 percent of our invested assets. Adverse news or events affecting the global or U.S. economy or the equity markets could affect our net income, book value and overall results as well as our ability to pay our common stock dividend. See Item 7, Investments Results of Operations, Page 66, and Item 7A, Qualitative and Quantitative Disclosures About Market Risk, Page 85, for discussion of our investment activities.

Deteriorating credit and market conditions could also impair our ability to access credit markets and could affect existing or future lending arrangements.

Our overall results could be affected if a significant portion of our commercial lines policyholders, including those purchasing surety bonds, are adversely affected by marked or prolonged economic downturns and events such as a downturn in construction and related sectors, tightening credit markets and higher fuel costs. Such events could make it more difficult for policyholders to finance new projects, complete projects or expand their businesses, leading to lower premiums from reduced payrolls and sales and lower purchases of equipment and vehicles. These events could also cause claims, including surety claims, to increase due to a policyholder's inability to secure necessary financing to complete projects or to collect on underlying lines of credit in the claims process. Such economic downturns and events could have a greater impact in the construction sector where we have a concentration of risks and in geographic areas that are hardest hit by economic downturns.

Deteriorating economic conditions could also increase the degree of credit risk associated with amounts due from independent agents who collect premiums for payment to us and could hamper our ability to recover amounts due from reinsurers.

Our ability to properly underwrite and price risks and increased competition could adversely affect our results.

Our financial condition, cash flow and results of operations depend on our ability to underwrite and set rates accurately for a full spectrum of risks. We establish our pricing based on assumptions about the level of losses that may occur within classes of business, geographic regions and other criteria.

To properly price our products, we must collect and properly analyze data; the data must be sufficient, reliable and accessible; we need to develop appropriate rating methodologies and formulae; and we may need to identify and respond to trends quickly. If rates are not accurate, we may not generate enough premiums to offset losses and expenses or we may not be competitive in the marketplace.

Setting appropriate rates could be hampered if a state or states where we write business refuses to allow rate increases that we believe are necessary to cover the risks insured. At least one state requires us to purchase reinsurance from a mandatory reinsurance fund. Such reinsurance funds can create a credit risk for insurers if not adequately funded by the state and, in some cases, the existence of a reinsurance fund could affect the prices charged for our policies. The effect of these and similar arrangements could reduce our profitability in any given period or limit our ability to grow our business.

The insurance industry is cyclical and intensely competitive. From time to time, the insurance industry goes through prolonged periods of intense competition during which it is more difficult to attract new business, retain existing business and maintain profitability. Competition in our insurance business is based on many factors, including:

- Competitiveness of premiums charged
- Relationships among carriers, agents, brokers and policyholders

- Underwriting and pricing methodologies that allow insurers to identify and flexibly price risks
- Compensation provided to agents
- Underwriting discipline
- Terms and conditions of insurance coverage
- Speed at which products are brought to market
- Product and marketing innovations, including advertising
- Technological competence and innovation
- Ability to control expenses
- Adequacy of financial strength ratings by independent ratings agencies such as A.M. Best
- Quality of services provided to agents and policyholders
- Claims satisfaction and reputation

If our pricing is incorrect or we are unable to compete effectively because of one or more of these factors, our premium writings could decline and our results of operations and financial condition could be materially adversely affected.

Please see the discussion of our Commercial Lines, Personal Lines and Life Insurance Segments in Item 1, Page 11, Page 14 and Page 16, for a discussion of our competitive position in the insurance marketplace.

Our loss reserves, our largest liability, are based on estimates and could be inadequate to cover our actual losses.

Our consolidated financial statements are prepared using GAAP. These principles require us to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. Actual results could differ materially from those estimates. For a discussion of the significant accounting policies we use to prepare our financial statements and the material implications of uncertainties associated with the methods, assumptions and estimates underlying our critical accounting policies, please refer to Item 8, Note 1 of the Consolidated Financial Statements, Page 98, and Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves and Life Insurance Policy Reserves, Page 41 and Page 44.

Our most critical accounting estimate is loss reserves. Loss reserves are the amounts we expect to pay for covered claims and expenses we incur to settle those claims. The loss reserves we establish in our financial statements represent an estimate of amounts needed to pay and administer claims arising from insured events that have already occurred, including events that have not yet been reported to us. Loss reserves are estimates and are inherently uncertain; they do not and cannot represent an exact measure of liability. Accordingly, our loss reserves for past periods could prove to be inadequate to cover our actual losses and related expenses. Any changes in these estimates are reflected in our results of operations during the period in which the changes are made. An increase in our loss reserves would decrease earnings, while a decrease in our loss reserves would increase earnings.

The estimation process for unpaid loss and loss expense obligations involves uncertainty by its very nature. We continually review the estimates and adjust the reserves as facts about individual claims develop, additional losses are reported and new information becomes known. Adjustments due to loss development on prior periods are reflected in the calendar year in which they are identified. The process used to determine our loss reserves is discussed in Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves and Life Insurance Policy Reserves, Page 41 and Page 44.

Unforeseen losses, the type and magnitude of which we cannot predict, may emerge in the future. These additional losses could arise from changes in the legal environment, laws and regulations, climate change, catastrophic events, increases in loss severity or frequency, or other causes. Such future losses could be substantial.

Our ability to obtain or collect on our reinsurance protection could affect our business, financial condition, results of operations and cash flows.

We buy property casualty and life reinsurance coverage to mitigate the liquidity risk of an unexpected rise in claims severity or frequency from catastrophic events or a single large loss. The availability, amount and cost of reinsurance depend on market conditions and may vary significantly. If we are unable to obtain reinsurance on acceptable terms and in appropriate amounts, our business and financial condition may be adversely affected.

In addition, we are subject to credit risk with respect to our reinsurers. Although we purchase reinsurance to manage our risks and exposures to losses, this reinsurance does not discharge our direct obligations under the policies we write. We would remain liable to our policyholders even if we were unable to recover what we

believe we are entitled to receive under our reinsurance contracts. Reinsurers might refuse or fail to pay losses that we cede to them, or they might delay payment. For long-tail claims, the creditworthiness of our reinsurers may change before we can recover amounts to which we are entitled. A reinsurer's insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement with our insurance subsidiaries could have a material adverse effect on our financial position, results of operations and cash flows.

Prior to 2003, we participated in USAIG, a joint underwriting association of individual insurance companies that collectively functions as a worldwide insurance market for all types of aviation and aerospace accounts. At year-end 2008, 28.6 percent, or \$217 million, of our total reinsurance receivables were related to USAIG, primarily for September 11, 2001, events, offset by \$226 million of amounts ceded to other pool participants and reinsurers. If the pool participants and reinsurers are unable to fulfill their financial obligations and all security collateral that supports the participants' obligations becomes worthless, we could be liable for an additional pool liability of \$283 million and our financial position and results of operations could be materially affected. Currently all pool participants and reinsurers are financially solvent.

We no longer participate in new business generated by USAIG and its members. Please see Item 7, 2009 Reinsurance Programs, Page 81, for a discussion of our reinsurance treaties.

Our business depends on the uninterrupted operation of our facilities, systems and business functions.

Our business depends on our associate's ability to perform necessary business functions, such as processing new and renewal policies and claims. We increasingly rely on technology and systems to accomplish these business functions in an efficient and uninterrupted fashion. Our inability to access our headquarters facilities or a failure of technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis or affect the accuracy of transactions. If sustained or repeated, such a business interruption or system failure could result in a deterioration of our ability to write and process new and renewal business, serve our agents and policyholders, pay claims in a timely manner, collect receivables or perform other necessary business functions. If our disaster recovery and business continuity plans did not sufficiently consider, address or reverse the circumstances of an interruption or failure, this could result in a materially adverse effect on our operating results and financial condition. This risk is exacerbated because approximately 70 percent of our associates work at our Fairfield, Ohio, headquarters.

The effects of changes in industry practices and regulations on our business are uncertain.

As industry practices and legal, judicial, legislative, regulatory, political, social and other environmental conditions change, unexpected and unintended issues related to insurance pricing, claims, and coverage, may emerge. These issues may adversely affect our business by impeding our ability to obtain adequate rates for covered risks, extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, unforeseeable emerging and latent claim and coverage issues may not become apparent until some time after we have issued the insurance policies that could be affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a policy is issued.

Further, the National Association of Insurance Commissioners (NAIC), state insurance regulators and state legislators are continually reexamining existing laws and regulations governing insurance companies and insurance holding companies, specifically focusing on modifications to statutory accounting principles, interpretations of existing laws and the development of new laws and regulations that affect a variety of financial and nonfinancial components of our business. Any proposed or future legislation, regulation or NAIC initiatives, if adopted, may be more restrictive on our ability to conduct business than current regulatory requirements or may result in higher costs.

Additionally, laws and regulations may be enacted in the wake of the current financial and credit crises that have adverse effects on our business, potentially including a change from a state-based system of regulation to a system of federal regulation. While we do not participate or intend to seek to participate in the Troubled Asset Relief Program, the effect of it or any similar legislation on our industry and the economy in general is uncertain.

The effects of such changes could adversely affect our results of operations. Please see Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves and Life Insurance Policy Reserves, Page 41 and Page 44, for a discussion of our reserving practices.

Managing technology initiatives and meeting new data security requirements are significant challenges.

While technology can streamline many business processes and ultimately reduce the cost of operations, technology initiatives present short-term cost, implementation and operational risks. In addition, we may have inaccurate expense projections, implementation schedules or expectations regarding the efficacy of the

end product. These issues could escalate over time. If we are unable to find and retain employees with key technical knowledge, our ability to develop and deploy key technology solutions could be hampered.

We necessarily collect, use and hold data concerning individuals and businesses with whom we have a relationship. Threats to data security rapidly emerge and change, exposing us to rising costs and competing time constraints to secure our data in accordance with customer expectations and statutory and regulatory requirements. A breach of our security that results in unauthorized access to our data could expose us to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage.

Please see Item 1, Strategic Initiatives, Page 7 for a discussion of our technology initiatives.

Our status as an insurance holding company with no direct operations could affect our ability to pay dividends in the future.

Cincinnati Financial Corporation is a holding company that transacts substantially all of its business through its subsidiaries. Our primary assets are the stock in our operating subsidiaries and our investments. Consequently, our cash flow to pay cash dividends and interest on our long-term debt depends on dividends we receive from our operating subsidiaries and income earned on investments held at the parent-company level.

Dividends paid to our parent company by our insurance subsidiary are restricted by the insurance laws of Ohio, its domiciliary state. These laws establish minimum solvency and liquidity thresholds and limits. Currently, the maximum dividend that may be paid without prior regulatory approval is limited to the greater of 10 percent of statutory surplus or 100 percent of statutory net income for the prior calendar year, up to the amount of statutory unassigned surplus as of the end of the prior calendar year. Dividends exceeding these limitations may be paid only with prior approval of the Ohio Department of Insurance. Consequently, at times, we might not be able to receive dividends from our insurance subsidiary, or we might not receive dividends in the amounts necessary to meet our debt obligations or to pay dividends on our common stock. This could affect our financial position.

Please see Item 1, Regulation, Page 22, and Item 8, Note 9 of the Consolidated Financial Statements, Page 110, for discussion of insurance holding company dividend regulations.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Cincinnati Financial Corporation owns our headquarters building located on 100 acres of land in Fairfield, Ohio. This building has approximately 1,508,200 total square feet of available space. In 2008, we completed construction of a 425,400 square foot third office tower and 276,800 square foot underground garage. We expect this expansion to accommodate our business needs for the foreseeable future. The property, including land, is carried in our financial statements at \$159 million as of December 31, 2008, and is classified as land, building and equipment, net, for company use. John J. & Thomas R. Schiff & Co. Inc., a related party, occupies approximately 6,750 square feet (less than 1 percent).

Cincinnati Financial Corporation also owns the Fairfield Executive Center, which is located on the northwest corner of our headquarters property. This four-story office building has approximately 124,000 square feet of available space. The property is carried in the financial statements at \$6 million as of December 31, 2008, and is classified as an other invested asset. Unaffiliated tenants occupy approximately 8 percent. All unoccupied space is currently available for lease.

The Cincinnati Insurance Company owns an unoccupied building on 16 acres of land in Springfield Township, Ohio, approximately six miles from our headquarters. We plan to renovate the 48,000 square foot building to serve as a business continuity center. The property, including land, is carried on our financial statements at \$6 million as of December 31, 2008, and is classified as land, building and equipment, net, for company use.

Item 3. Legal Proceedings

Neither the company nor any of our subsidiaries is involved in any material litigation other than ordinary, routine litigation incidental to the nature of its business.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders of Cincinnati Financial during the fourth quarter of 2008.

Part II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Cincinnati Financial Corporation had approximately 12,000 shareholders of record and approximately 37,000 beneficial shareholders as of December 31, 2008. Many of our independent agent representatives and most of the 4,179 associates of our subsidiaries own the company's common stock. We are unable to quantify those holdings because many are beneficially held.

Our common shares are traded under the symbol CINF on the Nasdaq Global Select Market.

Quarter:	2008				2007			
	1 st	2 nd	3 rd	4 th	1 st	2 nd	3 rd	4 th
High close	\$ 39.71	\$ 39.97	\$ 33.60	\$ 31.71	\$ 45.92	\$ 47.62	\$ 44.79	\$ 44.84
Low close	35.10	25.40	21.83	18.80	42.24	42.57	36.91	38.37
Period-end close	38.04	25.40	28.44	29.07	42.40	43.40	43.31	39.54
Cash dividends declared	0.39	0.39	0.39	0.39	0.355	0.355	0.355	0.355

We discuss the factors that affect our ability to pay cash dividends and repurchase shares in Item 7, Liquidity and Capital Resources, Page 70. One factor we address is regulatory restrictions on the dividends our insurance subsidiary can pay to the parent company, which also is discussed in Item 8, Note 9 of the Consolidated Financial Statements, Page 110.

The following summarizes securities authorized for issuance under our equity compensation plans as of December 31, 2008:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights at December 31, 2008	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) at December 31, 2008
	(a)	(b)	(c)
Equity compensation plans approved by security holders	10,789,082	\$ 36.31	7,333,645
Equity compensation plans not approved by security holders	-	-	-
Total	<u>10,789,082</u>	<u>\$ 36.31</u>	<u>7,333,645</u>

The number of securities remaining available for future issuance includes: 7,304,065 shares available for issuance under the Cincinnati Financial Corporation 2006 Stock Compensation Plan, which can be issued as stock options, service-based, or performance-based restricted stock units, stock appreciation rights or other equity-based grants; 25,394 shares available for issuance of full share grants under the Cincinnati Financial Corporation 2003 Non-Employee Directors' Stock Plan; and 4,186 shares of stock options available for issuance under the Cincinnati Financial Corporation Stock Option Plan VII. Additional information about stock-based associate compensation granted under our equity compensation plans is available in Item 8, Note 17 of the Consolidated Financial Statements, Page 117.

Month	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
January 1-31, 2008	71,003	\$ 0.00	71,003	12,293,608
February 1-29, 2008	1,192,197	37.51	1,192,197	11,101,411
March 1-31, 2008	1,736,800	37.15	1,736,800	9,364,611
April 1-30, 2008	0	0.00	0	9,364,611
May 1-31, 2008	750,957	35.88	750,000	8,614,611
June 1-30, 2008	71,003	34.59	71,003	8,543,608
July 1-31, 2008	0	0.00	0	8,543,608
August 1-31, 2008	0	0.00	0	8,543,608
September 1-30, 2008	0	0.00	0	8,543,608
October 1-31, 2008	0	0.00	0	8,543,608
November 1-30, 2008	0	0.00	0	8,543,608
December 1-31, 2008	0	0.00	0	8,543,608
Totals	<u>3,821,960</u>	36.28	<u>3,821,003</u>	

We did not sell any shares that were not registered under the Securities Act during 2008. The board of directors has authorized share repurchases since 1996. In 2008, we repurchased a total of 3.8 million shares. In January 2008, we acquired 71,003 shares to settle the accelerated share repurchase program authorized in October 2007, when the board of directors expanded an existing repurchase authorization to approximately 13 million shares. Purchases are expected to be made generally through open market transactions. The board gives management discretion to purchase shares at reasonable prices in light of circumstances at the time of purchase, pursuant to SEC regulations.

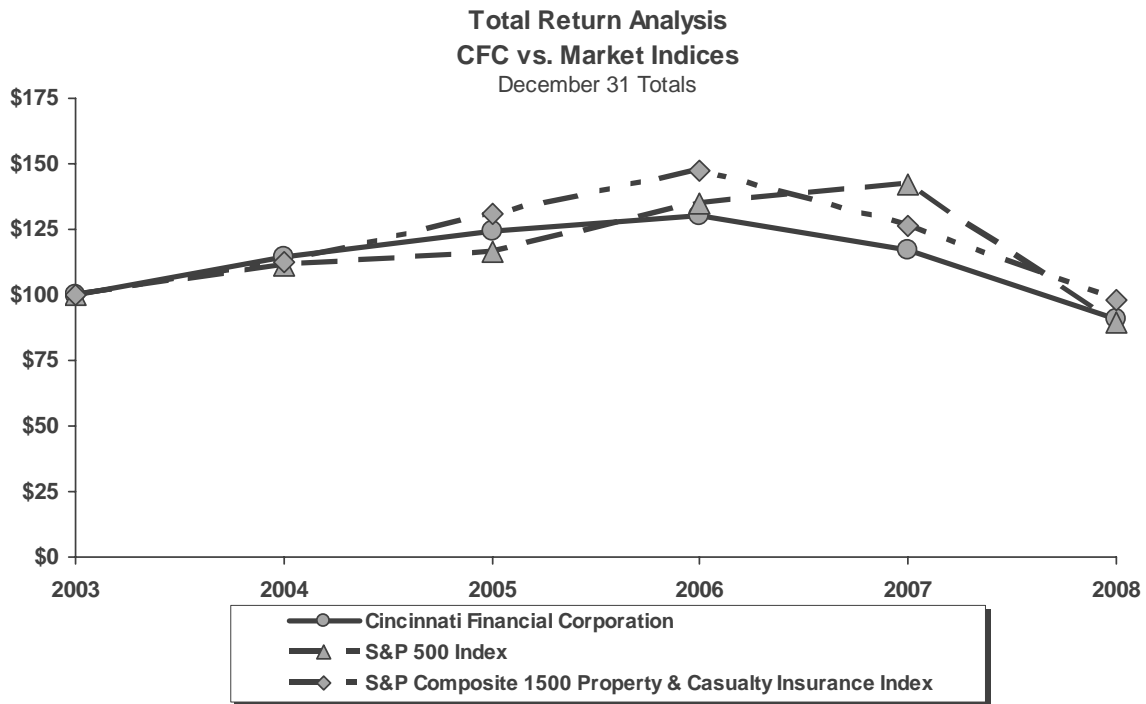
The prior repurchase program for 10 million shares was announced in 2005, replacing a program that had been in effect since 1999. No repurchase program has expired during the period covered by the above table. All of the publicly announced plan repurchases in the table above were made under the expansion announced in October 2007 of our 2005 program. Neither the 2005 nor 1999 program had an expiration date, but no further repurchases will occur under the 1999 program.

Cumulative Total Return

As depicted in the graph below, the five-year total return on a \$100 investment made December 31, 2003, assuming the reinvestment of all dividends, was a negative 9.0 percent for Cincinnati Financial Corporation's common stock compared with a negative 2.1 percent for the Standard & Poor's Composite 1500 Property & Casualty Insurance Index and a negative 10.5 percent for the Standard & Poor's 500 Index.

The Standard & Poor's Composite 1500 Property & Casualty Insurance Index includes 23 companies: Allstate Corporation, Berkley (W R) Corporation, Chubb Corporation, Cincinnati Financial Corporation, Fidelity National Financial Inc., First American Corporation, Hanover Insurance Group Inc., Infinity Property & Casualty Corporation, MBIA Inc., Mercury General Corporation, Navigators Group Inc., Old Republic International Corporation, Proassurance Corporation, Progressive Corporation, RLI Corporation, Safety Insurance Group Inc., Selective Insurance Group Inc., Stewart Information Services, Tower Group Inc., Travelers Companies Inc., United Fire & Casualty Company, XL Capital Ltd. and Zenith National Insurance Corporation.

The Standard & Poor's 500 Index includes a representative sample of 500 leading companies in a cross section of industries of the U.S. economy. Although this index focuses on the large capitalization segment of the market, it is widely viewed as a proxy for the total market.



Item 6. Selected Financial Data

(In millions except per share data)

	Years ended December 31,			
	2008	2007	2006	2005
Consolidated Income Statement Data				
Earned premiums	\$ 3,136	\$ 3,250	\$ 3,278	\$ 3,164
Investment income, net of expenses	537	608	570	526
Realized investment gains and losses*	138	382	684	61
Total revenues	3,824	4,259	4,550	3,767
Net income	429	855	930	602
Net income per common share:				
Basic	\$ 2.63	\$ 5.01	\$ 5.36	\$ 3.44
Diluted	2.62	4.97	5.30	3.40
Cash dividends per common share:				
Declared	1.56	1.42	1.34	1.205
Paid	1.525	1.40	1.31	1.162
Shares Outstanding				
Weighted average, diluted	163	172	175	177
Consolidated Balance Sheet Data				
Invested assets	\$ 8,890	\$ 12,261	\$ 13,759	\$ 12,702
Deferred policy acquisition costs	509	461	453	429
Total assets	13,369	16,637	17,222	16,003
Loss and loss expense reserves	4,086	3,967	3,896	3,661
Life policy reserves	1,551	1,478	1,409	1,343
Long-term debt	791	791	791	791
Shareholders' equity	4,182	5,929	6,808	6,086
Book value per share	25.75	35.70	39.38	34.88
Consolidated Property Casualty Operations				
Earned premiums	\$ 3,010	\$ 3,125	\$ 3,164	\$ 3,058
Unearned premiums	1,542	1,562	1,576	1,557
Loss and loss expense reserves	4,040	3,925	3,860	3,629
Investment income, net of expenses	350	393	367	338
Loss ratio	57.7 %	46.6 %	51.9 %	49.2 %
Loss expense ratio	10.6	12.0	11.6	10.0
Underwriting expense ratio	32.3	31.7	30.8	30.0
Combined ratio	100.6 %	90.3 %	94.3 %	89.2 %

Per share data adjusted to reflect all stock splits and dividends prior to December 31, 2008.

* Realized investment gains and losses are integral to our financial results over the long term, but our substantial discretion in the timing of investment sales may cause this value to fluctuate substantially. Also, applicable accounting standards require us to recognize gains and losses from certain changes in fair values of securities and embedded derivatives without actual realization of those gains and losses. We discuss realized investment gains for the past three years in Item 7, Investments Results of Operations, Page 66.

One-time Charges or Adjustments:

2008 – We changed the form of retirement benefit we offer certain associates to a 401(k) plan with company match from a qualified defined benefit pension plan. We incurred a pretax expense of \$27 million to recognize a settlement loss associated with the partial termination of the qualified pension plan. The expense reduced net income by \$17 million, or 11 cents per share, and raised the combined ratio by 0.8 percentage points.

2003 – As the result of a settlement negotiated with a vendor, pretax results included the recovery of \$23 million of the \$39 million one-time, pretax charge incurred in 2000.

2000 – We recorded a one-time charge of \$39 million, pretax, to write down previously capitalized costs related to the development of software to process property casualty policies. We earned \$5 million in interest in the first quarter from a \$303 million single-premium bank-owned life insurance (BOLI) policy booked at the end of 1999 that was segregated as a separate account effective April 1, 2000. Investment income and realized investment gains and losses from separate accounts generally accrue directly to the contract holder and, therefore, are not included in the company's consolidated financials.

	2004	2003	2002	2001	2000	1999	1998
\$	3,020	\$ 2,748	\$ 2,478	\$ 2,152	\$ 1,907	\$ 1,732	\$ 1,613
	492	465	445	421	415	387	368
	91	(41)	(94)	(25)	(2)	0	65
	3,614	3,181	2,843	2,561	2,331	2,128	2,054
	584	374	238	193	118	255	242
\$	3.30	\$ 2.11	\$ 1.33	\$ 1.10	\$ 0.67	\$ 1.40	\$ 1.31
	3.28	2.10	1.32	1.07	0.67	1.37	1.28
	1.04	0.90	0.81	0.76	0.69	0.62	0.55
	1.02	0.89	0.80	0.74	0.67	0.60	0.54
	178	178	180	179	181	186	190
\$	12,677	\$ 12,485	\$ 11,226	\$ 11,534	\$ 11,276	\$ 10,156	\$ 10,296
	400	372	343	286	259	226	143
	16,107	15,509	14,122	13,964	13,274	11,795	11,484
	3,549	3,415	3,176	2,887	2,473	2,154	2,055
	1,194	1,025	917	724	641	885	536
	791	420	420	426	449	456	472
	6,249	6,204	5,598	5,998	5,995	5,421	5,621
	35.60	35.10	31.43	33.62	33.80	30.35	30.58
\$	2,919	\$ 2,653	\$ 2,391	\$ 2,073	\$ 1,828	\$ 1,658	\$ 1,543
	1,537	1,444	1,317	1,060	920	835	458
	3,514	3,386	3,150	2,894	2,416	2,093	1,979
	289	245	234	223	223	208	204
	49.8 %	56.1 %	61.5 %	66.6 %	71.1 %	61.6 %	65.4 %
	10.3	11.6	11.4	10.1	11.3	10.0	9.3
	29.7	27.0	26.8	28.2	30.4	28.6	29.6
	89.8 %	94.7 %	99.7 %	104.9 %	112.8 %	100.2 %	104.3 %

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The purpose of Management's Discussion and Analysis is to provide an understanding of Cincinnati Financial Corporation's consolidated results of operations and financial condition. Our Management's Discussion and Analysis should be read in conjunction with Item 6, Selected Financial Data, Pages 34 and 35, and Item 8, Consolidated Financial Statements and related Notes, beginning on Page 91. We present per share data on a diluted basis unless otherwise noted, adjusting those amounts for all stock splits and stock dividends.

We begin with an executive summary of our results of operations and outlook, as well as details on critical accounting policies and estimates. Periodically, we refer to estimated industry data so that we can give information on our performance within the context of the overall insurance industry. Unless otherwise noted, the industry data is prepared by A.M. Best, a leading insurance industry statistical, analytical and financial strength rating organization. Information from A.M. Best is presented on a statutory basis. When we provide our results on a comparable statutory basis, we label it as such; all other company data is presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

EXECUTIVE SUMMARY

Through The Cincinnati Insurance Company, Cincinnati Financial Corporation is one of the 25 largest property casualty insurers in the nation, based on written premium volume for approximately 2,000 U.S. stock and mutual insurer groups. We market our insurance products through a select group of independent insurance agencies in 35 states as discussed in Item 1, Our Business and Our Strategy, Page 1.

Although 2008 was a difficult year for our economy, our industry and our company, our long-term perspective lets us address the immediate challenges while focusing on the major decisions that best position the company for success through all market cycles. We believe that this forward-looking view has consistently benefited our policyholders, agents, shareholders and associates.

To measure our progress, we have defined a measure of value creation that we believe captures the contribution of our insurance operations, the success of our investment strategy and the importance we place on paying cash dividends to shareholders. Between 2010 and 2014, we expect the total of 1) our rate of growth in book value per share plus 2) the ratio of dividends declared per share to beginning book value per share to average 12 percent to 15 percent. With the current economic and market uncertainty, we believe this ratio is an appropriate way to measure our long-term progress in creating value.

When looking at our longer-term objectives, we see three performance drivers:

- Premium growth – We believe over any five-year period our agency relationships and initiatives can lead to a property casualty written premium growth rate that exceeds the industry average. The compound annual growth rate of our net written premiums was 1.3 percent over the past five years, equal to the estimated growth rate for a broad group of standard market property casualty insurance companies.
- Combined ratio – We believe our underwriting philosophy and initiatives can generate a GAAP combined ratio over any five-year period that is consistently below 100 percent. Our GAAP combined ratio has averaged 92.8 percent over the past five years. Our combined ratio was below 100 percent in each year during the period, except 2008 when we experienced a record level of catastrophe losses as discussed in Consolidated Property Casualty Insurance Results of Operations, Page 49. Our statutory combined ratio averaged 92.6 percent over the same period compared with an estimated 98.5 percent for the same industry group.
- Investment contribution - We believe our investment philosophy and initiatives can drive investment income growth and lead to a total return on our equity investment portfolio over a five-year period that exceeds the five-year return of the Standard & Poor's 500 Index.
 - Investment income growth has averaged 2.9 percent over the past five years. It grew in each year except 2008 when we experienced a dramatic reduction in dividend payouts by financial services companies held in our equity portfolio, a risk we addressed aggressively during 2008.
 - Over the five years ended December 31, 2008, our compound annual equity portfolio return was a negative 9.0 percent compared with a compound annual total return of a negative 2.1 percent for the Index. Our equity portfolio underperformed the market for the five-year period primarily because of the decline in the market value of our previously large holdings in the financial services sector. In 2008, our compound annual equity portfolio return was a negative 31.5 percent, compared with a negative 36.9 percent for the Index.

The board of directors is committed to rewarding shareholders directly through cash dividends and through share repurchase authorization. The board also has periodically declared stock dividends and splits. Through

2008, the company has increased the indicated annual cash dividend rate for 48 consecutive years, a record we believe is matched by only 11 other publicly traded companies. While seeing merit in continuing that record, in February 2009, our board indicated its first priority was assuring continued financial strength for the company and that its intention was to consider the potential for a 49th year of increase over the course of 2009. We discuss our financial position in more detail in Liquidity and Capital Resources, Page 70.

Strategic Initiatives Highlights

Management has worked with the board of directors to identify the strategies that can lead to long-term success. Our strategies are intended to position us to compete successfully in the markets we have targeted while minimizing risk. We believe successful implementation of the initiatives that support our strategies will help us better serve our agent customers, reduce volatility in our financial results and weather difficult economic, market or pricing cycles.

- **Preserve capital** - Implementation of these initiatives is intended to preserve our capital and liquidity so that we can successfully grow our insurance business. A strong capital position provides the capacity to support premium growth and provides the liquidity to sustain our investment in the people and infrastructure needed to implement our other strategic initiatives.
- **Improve insurance profitability** - Implementation of these operational initiatives is intended to support improved cash flow and profitable growth for the agencies that represent us and for our company. These initiatives primarily seek to strengthen our relationships with agents, allowing them to serve clients faster and manage expenses better. Others may streamline our internal processes so we can devote more resources to agent service.
- **Drive premium growth** - Implementation of these operational initiatives is intended to expand our geographic footprint and diversify our premium sources to obtain profitable growth without significant infrastructure expense. Diversified growth also may reduce our catastrophe exposure risk.

We discuss each of these strategies, along with the metrics we use to assess their progress, in Item 1, Strategic Initiatives, Page 7,

Factors Influencing Our Future Performance

In January and February of 2009, storms affecting our policyholders largely in the Midwest currently are estimated to have resulted in about \$30 million of reported claims, which will be included in first-quarter pretax catastrophe losses. This estimate does not take into account development of these catastrophes, any further catastrophe activity that may occur in the remainder of the first quarter of 2009 or potential development from events in prior periods.

In 2008, the rate of growth in book value plus the rate of dividend contribution was below our target, as discussed in the review of our financial highlights below. In 2009, we believe our value creation ratio may also be below our long-term target for several reasons.

- The weak economy is expected to continue to affect policyholders by deflating their business and personal insurable assets. Until the economy begins to recover, we also do not expect to see significant appreciation of our investments.
- Lingering effects of soft insurance market pricing are expected to affect growth rates and earned premium levels into 2010, continuing to weaken loss ratios and hamper near-term profitability. Economic factors, including inflation, may increase our claims and settlement expenses related to medical care, litigation and construction.
- Property casualty written premium growth may lag as our growth initiatives need more time to reach their full contribution.
- We will incur the cost of continued investment in our business, including technology, new states and process initiatives to create long-term value. In addition, we will not see the full advantage of many of our investments in technology until 2010 and beyond.
- Diversification of the investment portfolio over the past year included sales of selected positions to lock in gains, reduce concentrations and increase liquidity. Proceeds of sales are being reinvested in both fixed income and in equity securities with yields that we believe are likely to be more secure. This may slow the return to growth in investment income although we believe year-over-year comparisons may turn positive in the second half of the year. We expect to continue to make changes to the portfolio, as appropriate.

Our view of the value we can create over the next five years relies on two assumptions about the external environment. First, we're anticipating some firming of commercial insurance pricing during 2009. Second, we believe that the economy and financial markets can resume a growth track by the end of 2010. If those assumptions prove to be inaccurate, we may not be able to achieve our performance targets even if we accomplish our strategic objectives.

Other factors that could influence our ability to achieve our targets include:

- We expect the insurance marketplace to remain competitive, which is likely to cause carriers to pursue strategies that they believe could lead to economies of scale, market share gains or the potential for an improved competitive posture. Direct writers will continue to be a factor in the personal insurance market.
- We expect the independent insurance agency system to remain strong and viable, with continued agency consolidation, especially as agency margins come under more pressure due to soft pricing and the difficult economic environment. The soft commercial market that has extended into 2009 creates additional risk for agencies. We expect the soft market to continue, particularly in non-catastrophe event prone states and lines of business, absent a significant event or events.
- We expect initiatives that make it easier for agents to do business with us will continue to be a significant factor in agency relationships, with technology being a major driver. Policyholders will increasingly demand online services and access from agents or carriers.

We discuss in our Item 1A, Risk Factors, Page 25, many potential risks to our business and our ability to achieve our qualitative and quantitative objectives. These are real risks, but their probability of occurring may not be high. We also believe that our risk management programs generally can mitigate their potential effects, in the event they do occur.

We have formal risk management programs overseen by a senior officer and supported by a team of representatives from business areas. The team reports to our chairman, our president and chief executive officer and our board of directors, as appropriate, on detailed and summary risk assessments, risk metrics and risk plans. Our use of operational audits, strategic plans and departmental business plans, as well as our culture of open communications and our fundamental respect for our code of conduct, continue to help us manage risks on an ongoing basis.

Below we review highlights of our financial results for the past three years. Detailed discussion of these topics appears in Results of Operations, Page 48, and Liquidity and Capital Resources, Page 70.

CORPORATE FINANCIAL HIGHLIGHTS

The value creation ratio discussed in the Executive Summary, Page 37, was a negative 23.5 percent in 2008, a negative 5.7 percent in 2007 and a positive 16.7 percent in 2006. In both 2008 and 2007, a decline in unrealized gains on our investment portfolio was the most significant factor in the decline in book value as discussed below. In 2008, net income also was significantly below the level of the prior two years.

Cash dividends declared per share rose 9.9 percent in 2008, 6.0 percent in 2007 and 11.2 percent in 2006.

Balance Sheet Data and Performance Measures

(Dollars in millions except share data)	At December 31, 2008	At December 31, 2007	At December 31, 2006
Balance sheet data			
Invested assets	\$ 8,890	\$ 12,261	\$ 13,759
Total assets	13,369	16,637	17,222
Short-term debt	49	69	49
Long-term debt	791	791	791
Shareholders' equity	4,182	5,929	6,808
Book value per share	25.75	35.70	39.38
Debt-to-capital ratio	16.7 %	12.7 %	11.0 %
Years ended December 31,			
	2008	2007	2006
Performance measures			
Value creation ratio	(23.5) %	(5.7) %	16.7 %

Invested assets declined because of lower fair values for portfolio investments, largely due to economic factors. The downturn in the economy had a particularly adverse effect on our financial sector equity holdings, which made up a significant portion of the portfolio prior to mid-2008. By year-end 2008, the portfolio was substantially more diversified and generally better positioned to withstand short-term fluctuations. We discuss our investment strategy in Item 1, Investments Segment, Page 17, and results for the segment in Investments Results of Operations, Page 66.

Our ratio of debt to total capital (debt plus shareholders' equity) rose over the three years due to the effect on shareholders' equity of the declining value of our invested assets. Long-term debt was unchanged over the period.

Income Statement and Per Share Data

	Twelve months ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Income statement data					
Earned premiums	\$ 3,136	\$ 3,250	\$ 3,278	(3.5)	(0.9)
Investment income, net of expenses	537	608	570	(11.6)	6.6
Realized investment gains and losses (pretax)	138	382	684	(64.0)	(44.1)
Total revenues	3,824	4,259	4,550	(10.2)	(6.4)
Net income	429	855	930	(49.9)	(8.0)
Per share data (diluted)					
Net income	\$ 2.62	\$ 4.97	\$ 5.30	(47.3)	(6.2)
Cash dividends declared	1.56	1.42	1.34	9.9	6.0
Diluted weighted average shares outstanding	163,362,409	172,167,452	175,451,341	(5.1)	(1.9)

Net income declined in 2008 from the higher levels of the prior two years because of a three-year decline in realized investment gains, a first-ever decline in investment income and a lower aggregate contribution from our insurance segments. The pension plan settlement reduced 2008 net income by \$17 million, or 11 cents per share. The transition from a defined benefit pension plan reduces company risk while providing flexible, company-sponsored 401(k) benefit to associates.

Weighted average shares outstanding may fluctuate from period to period because we repurchase shares under board authorizations and we issue shares when associates exercise stock options. Weighted average shares outstanding on a diluted basis declined 9 million in 2008, 3 million in 2007 and 2 million in 2006.

As discussed in Investments Results of Operation, Page 66, security sales led to realized investment gains in all three years, although 2008 gains were tempered by \$510 million in other-than-temporary impairment charges. Realized investment gains and losses are integral to our financial results over the long term. We have substantial discretion in the timing of investment sales and, therefore, the gains or losses that are recognized in any period. That discretion generally is independent of the insurance underwriting process. Also, applicable accounting standards require us to recognize gains and losses from certain changes in fair values of securities and for securities with embedded derivatives without actual realization of those gains and losses.

Lower income from dividends led to an 11.6 percent decline in net investment income in 2008, the first decline in this measure in company history. The primary reason for the decline was dividend reductions by common and preferred holdings, including reductions during the year on positions subsequently sold or reduced.

Contribution from Insurance Segments

	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Consolidated property casualty highlights					
Written premiums	\$ 3,010	\$ 3,117	\$ 3,178	(3.4)	(1.9)
Earned premiums	3,010	3,125	3,164	(3.7)	(1.2)
Underwriting profit (loss)	(17)	304	181	(105.6)	68.3
				Pt. Change	Pt. Change
GAAP combined ratio	100.6 %	90.3 %	94.3 %	10.3	(4.0)
Statutory combined ratio	100.4	90.3	93.9	10.1	(3.6)
Written premium to statutory surplus	0.9	0.7	0.7	0.2	0.0

The trend in overall written premium growth reflected the competitive and market factors discussed in Item 1, Commercial Lines and Personal Lines Property Casualty Insurance Segment, Page 11 and Page 14.

In 2008, our property casualty insurance operations reported an underwriting loss after achieving record profitability in 2007. Underwriting profitability can be measured by the combined ratio. (The combined ratio is the percentage of each earned premium dollar spent on claims plus all expenses – the lower the ratio, the better the performance.) In 2008 and 2007, higher savings from favorable development on prior period reserves helped offset other loss and loss expenses. Catastrophe losses fluctuated dramatically over the three-year period, making an unusually high contribution of 6.8 percentage points to the combined ratio in 2008 after an unusually low 0.8 points in 2007. The pension plan settlement increased the 2008 combined ratio by 0.8 percentage points.

Our new surplus lines operation contributed \$14 million to net written premiums and \$5 million to earned premiums, but had an immaterial effect on net income. The business achieved its first-year strategic plan objectives.

Our life insurance segment continued to provide a consistent source of profit. We discuss results for the segment in Life Insurance Results of Operations, Page 64. Income and gains from the life insurance investment portfolio are included in Investment segment results.

CRITICAL ACCOUNTING ESTIMATES

Cincinnati Financial Corporation's financial statements are prepared using GAAP. These principles require management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. Actual results could differ materially from those estimates.

The significant accounting policies used in the preparation of the financial statements are discussed in Item 8, Note 1 of the Consolidated Financial Statements, Page 98. In conjunction with that discussion, material implications of uncertainties associated with the methods, assumptions and estimates underlying the company's critical accounting policies are discussed below. The audit committee of the board of directors reviews the annual financial statements with management and the independent registered public accounting firm. These discussions cover the quality of earnings, review of reserves and accruals, reconsideration of the suitability of accounting principles, review of highly judgmental areas including critical accounting policies, audit adjustments and such other inquiries as may be appropriate.

PROPERTY CASUALTY INSURANCE LOSS AND LOSS EXPENSE RESERVES

Overview

We establish loss and loss expense reserves for our property casualty insurance business as balance sheet liabilities. These reserves account for unpaid loss and loss expenses as of a financial statement date. Unpaid loss and loss expenses are the estimated amounts necessary to pay for and settle all outstanding insured claims, including incurred but not reported (IBNR) claims, as of that date.

For some lines of business that we write, a considerable and uncertain amount of time can elapse between the occurrence, reporting and payment of insured claims. The amount we will actually have to pay for such claims also can be highly uncertain. This uncertainty, together with the size of our reserves, makes the loss and loss expense reserves our most significant estimate. Gross loss and loss expense reserves were \$4.040 billion at year-end 2008 compared with \$3.925 billion at year-end 2007.

How Reserves Are Established

Our field claims representatives establish case reserves when claims are reported to the company to provide for our unpaid loss and loss expense obligation associated with these claims. Experienced headquarters claims supervisors review individual case reserves greater than \$35,000 that were established by field claims representatives. Headquarters claims managers also review case reserves greater than \$100,000.

Our claims representatives base their case reserve estimates primarily upon case-by-case evaluations that consider:

- type of claim involved
- circumstances surrounding each claim
- policy provisions pertaining to each claim
- potential for subrogation or salvage recoverable
- general insurance reserving practices

Case reserves of all sizes are subject to review on a 90-day cycle, or more frequently if new information about a loss becomes available. As part of the review process, we monitor industry trends, cost trends, relevant court cases, legislative activity and other current events in an effort to ascertain new or additional loss exposures.

We also establish incurred but not reported (IBNR) reserves to provide for all unpaid loss and loss expenses not accounted for by case reserves:

- For weather events designated as catastrophes, we calculate IBNR reserves directly as a result of an estimated IBNR claim count and an estimated average claim amount for each event. Our claims department management coordinates the assessment of these events and prepares the related IBNR reserve estimates. Such an assessment involves a comprehensive analysis of the nature of the storm, of policyholder exposures within the affected geographic area and of available claims intelligence. Depending on the nature of the event, available claims intelligence could include surveys of field claims associates within the affected geographic area, feedback from a catastrophe claims team sent into the area, as well as data on claims reported as of the financial statement date. We generally use the catastrophe definition provided by Property Claims Service, a division of Insurance Services Office. PCS defines a catastrophe as an event that causes countrywide damage of \$25 million or more in insured property losses and affects a significant number of policyholders and insureds.

- For asbestos and environmental claims, we calculate IBNR reserves by deriving an actuarially based estimate of total unpaid loss and loss expenses. We then reduce the estimate by total case reserves. We discuss the reserve analysis that applies to asbestos and environmental reserves in Asbestos and Environmental Reserves, Page 76.
- For all other claims and events, we calculate IBNR reserves quarterly by first deriving an actuarially based estimate of the ultimate cost of total loss and loss expenses incurred. We then reduce the estimate by total loss and loss expense payments and total case reserves carried. We discuss below the development of actuarial-based estimates of the ultimate cost of total loss and loss expenses incurred.

Our actuarial staff applies significant judgment in selecting models and estimating model parameters when preparing reserve analyses. In addition, unpaid loss and loss expenses are inherently uncertain as to timing and amount. Uncertainties relating to model appropriateness, parameter estimates and actual loss and loss expense amounts are referred to as model, parameter and process uncertainty, respectively. Our management and actuarial staff control for these uncertainties in the reserving process in a variety of ways.

Our actuarial staff bases its IBNR reserve estimates for these losses primarily on the indications of methods and models that analyze accident year data. Accident year is the year in which an insured claim, loss, or loss expense occurred. The specific methods and models that our actuaries have used for the past several years are:

- paid and reported loss development methods
- paid and reported loss Bornhuetter-Ferguson methods
- individual and multiple probabilistic trend family models

Our actuarial staff uses diagnostics provided by stochastic reserving software to evaluate the appropriateness of the models and methods listed above. The software's diagnostics have indicated that the appropriateness of these models and methods for estimating IBNR reserves for our lines of business tends to depend on a line's tail. Tail refers to the time interval between a typical claim's occurrence and its settlement. For our long-tail lines such as workers' compensation and commercial casualty, models from the probabilistic trend family tend to provide superior fits and to validate well compared with models underlying the loss development and Bornhuetter-Ferguson methods. The loss development and Bornhuetter-Ferguson methods, particularly the reported loss variations, tend to produce the more appropriate IBNR reserve estimates for our short-tail lines such as homeowner and commercial property. For our mid-tail lines such as personal and commercial auto liability, all models and methods provide useful insights.

Our actuarial staff also devotes significant time and effort to the estimation of model and method parameters. The loss development and Bornhuetter-Ferguson methods require the estimation of numerous loss development factors. The Bornhuetter-Ferguson methods also involve the estimation of numerous ultimate loss ratios by accident year. Models from the probabilistic trend family require the estimation of development trends, calendar year inflation trends and exposure levels. Consequently, our actuarial staff monitors a number of trends and measures to gain key business insights necessary for exercising appropriate judgment when estimating the parameters mentioned.

These trends and measures include:

- company and industry pricing
- company and industry exposure
- company and industry loss frequency and severity
- past large loss events such as hurricanes
- company and industry premium
- company in-force policy count
- average premium per policy

These trends and measures also support the estimation of ultimate accident year loss ratios needed for applying the Bornhuetter-Ferguson methods and for assessing the reasonability of all IBNR reserve estimates computed. Our actuarial staff reviews these trends and measures quarterly and updates them as necessary.

Quarterly, our actuarial staff summarizes its reserve analysis by preparing an actuarial best estimate and a range of reasonable IBNR reserves intended to reflect the uncertainty of the estimate. An inter-departmental committee that includes our actuarial management team reviews the results of each quarterly reserve analysis. The committee establishes management's best estimate of IBNR reserves, which is the amount that is included in each period's financial statements. In addition to the information provided by actuarial staff, the committee also considers factors such as the following:

- large loss activity and trends in large losses
- new business activity

- judicial decisions
- general economic trends such as inflation
- trends in litigiousness and legal expenses
- product and underwriting changes
- changes in claims practices

The determination of management's best estimate, like the preparation of the reserve analysis that supports it, involves considerable judgment. Changes in reserving data or the trends and factors that influence reserving data may signal fundamental shifts or may simply reflect single-period anomalies. Even if a change reflects a fundamental shift, the full extent of the change may not become evident until years later.

Moreover, since our methods and models do not explicitly relate many of the factors we consider directly to reserve levels, we typically cannot quantify the precise impact of such factors on the adequacy of reserves prospectively or retrospectively.

Due to the uncertainties described above, our ultimate loss experience could prove better or worse than our carried reserves reflect. To the extent that reserves are inadequate and increased, the amount of the increase is a charge in the period that the deficiency is recognized, raising our loss and loss expense ratio and reducing earnings. To the extent that reserves are redundant and released, the amount of the release is a credit in the period that the redundancy is recognized, reducing our loss and loss expense ratio and increasing earnings.

Key Assumptions - Loss Reserving

Our actuarial staff makes a number of key assumptions when using their methods and models to derive IBNR reserve estimates. Appropriate reliance on these key assumptions essentially entails determinations of the likelihood that statistically significant patterns in historical data may extend into the future. The four most significant of the key assumptions used by our actuarial staff and approved by management are:

- Emergence of loss and allocated loss expenses on an accident year basis. Historical paid loss, reported loss and paid allocated loss expense data for the business lines we analyze contain patterns that reflect how unpaid losses, unreported losses and unpaid allocated loss expenses as of a financial statement date will emerge in the future on an accident year basis. Unless our actuarial staff or management identifies reasons or factors that invalidate the extension of historical patterns into the future, these patterns can be used to make projections necessary for estimating IBNR reserves. Our actuaries significantly rely on this assumption in the application of all methods and models mentioned above.
- Calendar year inflation. For long-tail and mid-tail business lines, calendar year inflation trends for future paid losses and paid allocated loss expenses will not vary significantly from a stable, long-term average. Our actuaries base reserve estimates derived from probabilistic trend family models on this assumption.
- Exposure levels. Historical earned premiums, when adjusted to reflect common levels of product pricing and loss cost inflation, can serve as a proxy for historical exposures. Our actuaries require this assumption to estimate expected loss ratios and expected allocated loss expense ratios used by the Bornhuetter-Ferguson reserving methods. They also use this assumption to establish exposure levels for recent accident years, characterized by "green" or immature data, when working with probabilistic trend family models.
- Claims having atypical emergence patterns. Characteristics of certain subsets of claims, such as high frequency, high severity, or mass tort claims, have the potential to distort patterns contained in historical paid loss, reported loss and paid allocated loss expense data. When testing indicates this to be the case for a particular subset of claims, our actuaries segregate these claims from the data and analyze them separately. Subsets of claims that could fall into this category include hurricane claims, individual large claims and asbestos and environmental claims.

These key assumptions have not changed since 2005, when our actuarial staff began using probabilistic trend family models to estimate IBNR reserves.

Paid losses, reported losses and paid allocated loss expenses are subject to random as well as systematic influences. As a result, actual paid losses, reported losses and paid allocated loss expenses are virtually certain to differ from projections. Such differences are consistent with what specific models for our business lines predict and with the related patterns in the historical data used to develop these models. As a result, management does not closely monitor statistically insignificant differences between actual and projected data.

Reserve Estimate Variability

Management believes that the standard error of a reserve estimate, a measure of the estimate's variability, provides the most appropriate measure of the estimate's sensitivity. The reserves we establish depend on the models we use and the related parameters we estimate in the course of conducting reserve analyses.

However, the actual amount required to settle all outstanding insured claims, including IBNR claims, as of a financial statement date depends on stochastic, or random, elements as well as the systematic elements captured by our models and estimated model parameters. For the lines of business we write, process uncertainty – the inherent variability of loss and loss expense payments – typically contributes more to the imprecision of a reserve estimate than parameter uncertainty.

Consequently, a sensitivity measure that ignores process uncertainty would provide an incomplete picture of the reserve estimate's sensitivity. Since a reserve estimate's standard error accounts for both process and parameter uncertainty, it reflects the estimate's full sensitivity to a range of reasonably likely scenarios.

The table below provides standard errors and reserve ranges for lines of business that account for 90.6 percent of our 2008 loss and loss expense reserves as well as the potential effects on our net income, assuming a 35 percent federal tax rate. Standard errors and reserve ranges for assorted groupings of these lines of business cannot be computed by simply adding the standard errors and reserve ranges of the component lines of business, since such an approach would ignore the effects of product diversification. See Range of Reasonable Reserves, Page 74, for a total reserve range. While the table reflects our assessment of the most likely range within which each line's actual unpaid loss and loss expenses may fall, one or more lines' actual unpaid loss and loss expenses could nonetheless fall outside of the indicated ranges.

(In millions)	Net loss and loss expense range of reserves				
	Carried reserves	Low point	High point	Standard error	Net income effect
At December 31, 2008					
Total	\$ <u>3,498</u>	\$ <u>3,256</u>	\$ <u>3,592</u>		
Commercial casualty	\$ 1,559	\$ 1,280	\$ 1,595	\$ 158	\$ 103
Commercial property	137	123	160	19	12
Commercial auto	385	367	401	17	11
Workers' compensation	842	854	943	45	29
Personal auto	165	153	170	8	5
Homeowners	82	74	90	8	5
At December 31, 2007					
Total	\$ <u>3,397</u>	\$ <u>3,132</u>	\$ <u>3,427</u>		
Commercial casualty	\$ 1,565	\$ 1,352	\$ 1,634	\$ 141	\$ 92
Commercial property	121	104	136	16	10
Commercial auto	383	362	395	17	11
Workers' compensation	777	726	786	30	20
Personal auto	189	173	191	9	6
Homeowners	77	75	88	7	5

If actual unpaid loss and loss expenses fall within these ranges, our cash flow and fixed maturity investments should provide sufficient liquidity to make the subsequent payments. To date, our cash flow has covered our loss and loss expense payments, and we have never had to sell investments to make these payments. If this were to become necessary, however, our fixed maturity investments should provide us with ample liquidity. At year-end 2008, consolidated fixed maturity investments exceeded total insurance reserves (including life policy reserves) by more than \$190 million.

LIFE INSURANCE POLICY RESERVES

We establish the reserves for traditional life insurance policies based on expected expenses, mortality, morbidity, withdrawal rates and investment yields, including a provision for uncertainty. Once these assumptions are established, they generally are maintained throughout the lives of the contracts. We use both our own experience and industry experience adjusted for historical trends in arriving at our assumptions for expected mortality, morbidity and withdrawal rates. We use our own experience and historical trends for setting our assumptions for expected expenses. We base our assumptions for expected investment income on our own experience adjusted for current economic conditions.

We establish reserves for our universal life, deferred annuity and investment contracts equal to the cumulative account balances, which include premium deposits plus credited interest less charges and withdrawals. Some of our universal life insurance policies contain no-lapse guarantee provisions. For these policies, we establish a reserve in addition to the account balance based on expected no-lapse guarantee benefits and expected policy assessments.

ASSET IMPAIRMENT

Our fixed-maturity and equity investment portfolios are our largest assets. The company's asset impairment committee continually monitors the holdings in these portfolios and all other assets for signs of other-than-temporary or permanent impairment. The committee monitors significant decreases in the fair value of invested assets, changes in legal factors or in the business climate, an accumulation of costs in excess of the amount originally expected to acquire or construct an asset, uncollectability of all receivable assets, or other factors such as bankruptcy, deterioration of creditworthiness, failure to pay interest or dividends or signs indicating that the carrying amount may not be recoverable.

The application of our impairment policy resulted in other-than-temporary impairment charges that reduced our income before income taxes by \$510 million in 2008, \$16 million in 2007 and \$1 million in 2006. Impairment charges are recorded for other-than-temporary declines in value, if, in the asset impairment committee's judgment, there is little expectation that the value may be recouped within a designated recovery period. Other than-temporary impairment losses represent non-cash charges to income.

Our portfolio managers monitor their assigned portfolios. If a security is trading below book value, the portfolio managers undertake additional reviews. Such declines often occur in conjunction with events taking place in the overall economy and market, combined with events specific to the industry or operations of the issuing organization. Management reviews quantitative measurements such as a declining trend in fair value, the extent of the fair value decline and the length of time the value of the security has been depressed, as well as qualitative measures such as pending events, credit ratings and issuer liquidity. We are even more proactive when these declines in valuation are greater than might be anticipated when viewed in the context of overall economic and market conditions. We provide information about valuation of our invested assets in Item 8, Note 2 of the Consolidated Financial Statements, Page 104.

All securities valued below 100 percent of book value are reported to the asset impairment committee for evaluation. A security valued between 95 percent and 100 percent of book value is not monitored separately by the committee. These assets generally are at this value because of interest rate-driven factors.

When evaluating for other-than-temporary impairments, the committee considers the company's intent and ability to retain a security for a period adequate to recover its cost. Because of the company's financial strength, management may not impair certain securities even when they are trading below cost.

For fixed-maturity investments, we can make that determination based on our ability to hold until their scheduled redemption securities that are meeting their debt obligations and have the potential to recover value. For equity investments, we can make that determination based on a thorough assessment of the potential for recovery over a longer-term horizon. In addition to evaluating the security's current valuation, the impairment committee reviews objective evidence that indicates the potential for a recovery in value. Information is evaluated regarding the security, such as financial performance, near-term prospects and the financial condition of the region and industry in which the issuer operates.

Securities that have previously been impaired are evaluated based on their adjusted book value and written down further, if deemed appropriate. We provide detailed information about securities trading in a continuous loss position at year-end 2008 in Item 7A, Application of Asset Impairment Policy, Page 87. An other-than-temporary decline in the fair value of a security is recognized in net income as realized investment losses.

Other-than-temporary impairment charges are distinct from the ordinary fluctuations seen in the value of a security when considered in the context of overall economic and market conditions. Securities considered to have a temporary decline would be expected to recover their fair value, which may be at maturity. Under the same accounting treatment as fair value gains, temporary declines (changes in the fair value of these securities) are reflected in shareholders' equity on our balance sheet in accumulated other comprehensive income, net of tax, and have no impact on reported net income.

FAIR VALUE MEASUREMENTS

Valuation of Financial Instruments

Valuation of financial instruments, primarily securities held in our investment portfolio, is a critical component of our interim financial statement preparation. We account for our investment portfolio at fair value and apply fair value measurements as defined by SFAS No. 157, Fair Value Measurements, to financial instruments. Fair value is applicable to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, and SFAS No. 107, Disclosures about Fair Value of Financial Instruments.

We adopted the provisions of SFAS No. 157 on January 1, 2008. SFAS No. 157 defines fair value as the exit price or the amount that would be 1) received to sell an asset or 2) paid to transfer a liability in an orderly transaction between marketplace participants at the measurement date. When determining an exit price, we

must, whenever possible, rely upon observable market data. Prior to the adoption of SFAS No. 157, we considered various factors such as liquidity and volatility but primarily obtained pricing from various external services, including broker quotes.

The SFAS No. 157 exit price notion requires our valuation also to consider what a marketplace participant would pay to buy an asset or receive to assume a liability. Therefore, while we can consider pricing data from outside services, we ultimately determine whether the data or inputs used by these outside services are observable or unobservable.

In accordance with SFAS No. 157, we have categorized our financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Consolidated Balance Sheets are categorized based on the inputs to the valuation techniques as described in Item 8, Note 3 of the Consolidated Financial Statements, Page 106.

Level 1 and Level 2 Valuation Techniques

Over 98 percent of our \$8.8 billion invested assets measured at fair value are classified as Level 1 or Level 2. Financial assets that fall within Level 1 and Level 2 are priced according to observable data from identical or similar securities that have traded in the marketplace. Also within Level 2 are securities that are valued by outside services or brokers where we have evaluated the pricing methodology and determined that the inputs are observable.

Included in the Level 2 hierarchy are a small portfolio of collateralized mortgage obligations that represented less than 1 percent of the fair value of our investment portfolio at December 31, 2008. We obtained the CMOs as part of the termination of our securities lending program during 2008. The CMOs were an investment made by one of the short-duration funds, which subsequently dissolved and distributed the assets to its investors. When we terminated the securities lending program, we chose to retain the CMOs rather than sell them at what we felt were distressed prices in an illiquid market.

All \$30 million of the CMOs in our portfolio are collateralized by Alt-A mortgages that originated between 2004 and 2006. We owned investment grade CMOs with a fair value and book value of \$27 million and \$39 million, respectively, at December 31, 2008. Of the \$27 million investment-grade CMOs, \$21 million were rated AAA by Standard & Poor's. We also owned non-investment grade CMOs that had a fair value and book value of \$3 million and \$4 million, respectively. We do not intend to make additional investments in this asset category.

Level 3 Valuation Techniques

Financial assets that fall within the Level 3 hierarchy are valued based upon unobservable market inputs, normally because they are not actively traded on a public market. Level 3 taxable fixed maturities securities include certain private placements, small issues, general corporate bonds and medium-term notes. Level 3 tax-exempt fixed maturities securities include various thinly traded municipal bonds. Level 3 common equities include private equity securities. Level 3 preferred equities include private and thinly traded preferred securities.

Pricing for each Level 3 security is based upon inputs that are market driven, including third-party reviews provided to the issuer or broker quotes. However, we placed in the Level 3 hierarchy securities for which we were unable to obtain the pricing methodology or we could not consider the price provided as binding. Management ultimately determined the pricing for each Level 3 security that we considered to be the best exit price valuation. As of December 31, 2008, total Level 3 assets were 1.6 percent of our investment portfolio measured at fair value, which was relatively stable throughout 2008. Broker quotes are obtained for thinly traded securities that subsequently fall within the Level 3 hierarchy. We obtained two non-binding quotes from brokers and used the more conservative price for fair value. At December 31, 2008, total fair value of assets priced by broker quotes for the SFAS No. 157 disclosure was \$83 million and consisted mostly of taxable fixed maturities.

EMPLOYEE BENEFIT PENSION PLAN

As discussed in Item 8, Note 13 of the Consolidated Financial Statements, Page 113, we modified our qualified defined benefit pension during 2008, terminating participation in the plan for certain participants in a transition to a sponsored 401(k) with company matching of associate contributions. Contributions and pension costs are developed from annual actuarial valuations. These valuations involve key assumptions including discount rates and expected return on plan assets, which are updated each year. Any adjustments to these assumptions are based on considerations of current market conditions. Therefore, changes in the related pension costs or credits may occur in the future due to changes in assumptions.

Key assumptions used in developing the 2008 net pension obligation were a 6.00 percent discount rate and rates of compensation increases ranging from 4 percent to 6 percent. Key assumptions used in developing the 2008 net pension expense were a 6.25 percent discount rate, an 8 percent expected return on plan assets and rates of compensation increases ranging from 4 percent to 6 percent. See Note 13 for additional information on assumptions.

In 2008, the net pension expense was \$47 million, including one-time charges of \$27 million for settlement and \$3 million for curtailment related to the modifications to the qualified pension plan. In 2009, we expect a net pension expense of \$11 million.

Holding all other assumptions constant, a 0.5 percentage point decline in the discount rate would lower our 2009 net income before income taxes by \$1 million. Likewise, a 0.5 percentage point decline in the expected return on plan assets would lower our 2009 income before income taxes by \$1 million.

The fair value of the plan assets was \$52 million less than the accumulated benefit obligation at year end 2008 and \$4 million greater than the accumulated benefit obligation at year-end 2007. The fair value of the plan assets was \$88 million less than the projected plan benefit obligation at year-end 2008 and \$60 million less at year-end 2007. Market conditions and interest rates significantly affect future assets and liabilities of the pension plan. In 2009, we expect to contribute approximately \$33 million to our qualified plan.

DEFERRED ACQUISITION COSTS

We establish a deferred asset for costs that vary with, and are primarily related to, acquiring property casualty and life insurance business. These costs are principally agent commissions, premium taxes and certain underwriting costs, which are deferred and amortized into income as premiums are earned. Deferred acquisition costs track with the change in premiums. Underlying assumptions are updated periodically to reflect actual experience. Changes in the amounts or timing of estimated future profits could result in adjustments to the accumulated amortization of these costs.

For property casualty policies, deferred acquisition costs are amortized over the terms of the policies. For life policies, acquisition costs are amortized into income either over the premium-paying period of the policies or the life of the policy, depending on the policy type.

CONTINGENT COMMISSION ACCRUAL

Another significant estimate relates to our accrual for property casualty contingent (profit-sharing) commissions. We base the contingent commission accrual estimates on property casualty underwriting results and on supplemental information. Contingent commissions are paid to agencies using a formula that takes into account agency profitability, premium volume and other factors, such as prompt monthly payment of amounts due to the company. Due to the complexity of the calculation and the variety of factors that can affect contingent commissions for an individual agency, the amount accrued can differ from the actual contingent commissions paid. The contingent commission accrual of \$75 million in 2008 contributed 2.5 percentage points to the property casualty combined ratio. If contingent commissions paid were to vary from that amount by 5 percent, it would affect 2009 net income by \$2 million (after tax), or 1 cent per share, and the combined ratio by approximately 0.1 percentage points.

SEPARATE ACCOUNTS

We issue life contracts, referred to as bank-owned life insurance policies (BOLI). Based on the specific contract provisions, the assets and liabilities for some BOLIs are legally segregated and recorded as assets and liabilities of the separate accounts. Other BOLIs are included in the general account. For separate account BOLIs, minimum investment returns and account values are guaranteed by the company and also include death benefits to beneficiaries of the contract holders.

Separate account assets are carried at fair value. Separate account liabilities primarily represent the contract holders' claims to the related assets and are carried at an amount equal to the contract holders account value. Generally, investment income and realized investment gains and losses of the separate accounts accrue directly to the contract holders and, therefore, are not included in our Consolidated Statements of Income. However, each separate account contract includes a negotiated realized gain and loss sharing arrangement with the company. This share is transferred from the separate account to our general account

and is recognized as revenue or expense. In the event that the asset value of contract holders' accounts is projected below the value guaranteed by the company, a liability is established through a charge to our earnings.

For our most significant separate account, written in 1999, realized gains and losses are retained in the separate account and are deferred and amortized to the contract holder over a five-year period, subject to certain limitations. Upon termination or maturity of this separate account contract, any unamortized deferred gains and/or losses will revert to the general account. In the event this separate account holder were to exchange the contract for the policy of another carrier in 2009, the account holder would pay a surrender charge equal to 1 percent of the contract's account value. The surrender charge falls to zero in 2010 and beyond.

At year-end 2008, net unamortized realized losses amounted to \$12 million. In accordance with this separate account agreement, the investment assets must meet certain criteria established by the regulatory authorities to whose jurisdiction the group contract holder is subject. Therefore, sales of investments may be mandated to maintain compliance with these regulations, possibly requiring gains or losses to be recorded, and charged to the general account. Potentially, losses could be material; however, unrealized losses are approximately \$36 million before tax in the separate account portfolio, which had a book value of \$521 million at year-end 2008.

RECENT ACCOUNTING PRONOUNCEMENTS

Information about recent accounting pronouncements is provided in Item 8, Note 1 of the Consolidated Financial Statements, Page 98. We have determined that recent accounting pronouncements have not had nor are they expected to have any material impact on our consolidated financial statements.

RESULTS OF OPERATIONS

Consolidated financial results primarily reflect the results of our four reporting segments. These segments are defined based on financial information we use to evaluate performance and to determine the allocation of assets.

- Commercial lines property casualty insurance
- Personal lines property casualty insurance
- Life insurance
- Investments

We report as "Other" the non-investment operations of the parent company and its subsidiaries CFC Investment Company and CinFin Capital Management Company (excluding client investment activities), as well as other income of our standard market property casualty insurance operations. CinFin Capital Management will terminate all operations effective February 28, 2009. Beginning in 2008, we also include in Other the results of The Cincinnati Specialty Underwriters Insurance Company and CSU Producer Resources.

We measure profit or loss for our commercial lines and personal lines property casualty and life insurance segments based upon underwriting results (profit or loss), which represent net earned premium less loss and loss expenses and underwriting expenses on a pretax basis. We also frequently evaluate results for our consolidated property casualty insurance operations, which is the total of our commercial, personal and surplus insurance results. Underwriting results and segment pretax operating income are not substitutes for net income determined in accordance with GAAP.

For our consolidated property casualty insurance operations as well as the insurance segments, statutory accounting data and ratios are key performance indicators that we use to assess business trends and to make comparisons to industry results, since GAAP-based industry data generally is not as readily available.

Investments held by the parent company and the investment portfolios for the insurance subsidiaries are managed and reported as the investments segment, separate from the underwriting businesses. Net investment income and net realized investment gains and losses for our investment portfolios are discussed in the Investments Results of Operations.

The calculations of segment data are described in more detail in Item 8, Note 18 of the Consolidated Financial Statements, Page 119. The following sections review results of operations for each of the four segments. Commercial Lines Insurance Results of Operations begins on Page 51, Personal Lines Insurance Results of Operations begins on Page 59, Life Insurance Results of Operations begins on Page 64, and Investments Results of Operations begins on Page 66. We begin with an overview of our consolidated property casualty operations, which is the total of our commercial lines, personal lines and surplus lines results.

CONSOLIDATED PROPERTY CASUALTY INSURANCE RESULTS OF OPERATIONS

In addition to the factors discussed in Commercial Lines and Personal Lines Insurance Results of Operations, Page 51 and Page 59, growth and profitability for our consolidated property casualty insurance operations were affected by a number of common factors.

Changes in written and earned premiums over the past three years reflected growing price competition partially offset by consistently high retention rates of renewal business. New business written directly by agencies rose in 2008 after declining in 2007. The resurgence in new business was largely due to the contribution of agencies appointed the past five years, the contribution of our surplus lines business and more competitive personal lines pricing. Other written premium is largely ceded reinsurance premiums.

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Agency renewal written premiums	\$ 2,828	\$ 2,960	\$ 2,931	(4.5)	1.0
Agency new business written premiums	368	325	357	13.1	(8.9)
Other written premiums	(186)	(168)	(110)	(10.3)	(54.2)
Net written premiums	<u>3,010</u>	<u>3,117</u>	<u>3,178</u>	<u>(3.4)</u>	<u>(1.9)</u>
Unearned premium change	0	8	(14)	nm	nm
Earned premiums	<u>\$ 3,010</u>	<u>\$ 3,125</u>	<u>\$ 3,164</u>	<u>(3.7)</u>	<u>(1.2)</u>

Our combined ratio before catastrophe losses and savings from favorable prior period reserve development rose substantially in 2008 due to lower pricing prompted by soft market conditions and also due to normal loss cost inflation, a higher level of larger commercial lines losses and the pension plan settlement cost. The pension plan settlement increased the 2008 combined ratio by 0.8 percentage points. Our 2007 combined ratio before catastrophe losses and savings from favorable prior period reserve development rose largely due to the effects of lower pricing, normal loss cost inflation and a higher level of larger commercial lines losses.

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Earned premiums	\$ 3,010	\$ 3,125	\$ 3,164	(3.7)	(1.2)
Loss and loss expenses from:					
Current accident year before catastrophe losses	2,174	2,030	1,947	7.1	4.1
Current accident year catastrophe losses	205	47	176	341.2	(73.4)
Prior accident years before catastrophe losses	(321)	(224)	(113)	(43.5)	(94.3)
Prior accident year catastrophe losses	(2)	(21)	(2)	90.4	nm
Total loss and loss expenses	<u>2,056</u>	<u>1,832</u>	<u>2,008</u>	<u>12.2</u>	<u>(8.8)</u>
Underwriting expenses	971	989	975	(1.8)	1.3
Underwriting profit	<u>\$ (17)</u>	<u>\$ 304</u>	<u>\$ 181</u>	<u>nm</u>	<u>68.3</u>
Ratios as a percent of earned premiums:				Pt. Change	Pt. Change
Current accident year before catastrophe losses	72.2 %	64.9 %	61.6 %	7.3	3.3
Current accident year catastrophe losses	6.8	1.4	5.5	5.4	(4.1)
Prior accident years before catastrophe losses	(10.7)	(7.1)	(3.6)	(3.6)	(3.5)
Prior accident year catastrophe losses	0.0	(0.6)	0.0	0.6	(0.6)
Total loss and loss expenses	<u>68.3</u>	<u>58.6</u>	<u>63.5</u>	<u>9.7</u>	<u>(4.9)</u>
Underwriting expenses	32.3	31.7	30.8	0.6	0.9
Combined ratio	<u>100.6 %</u>	<u>90.3 %</u>	<u>94.3 %</u>	<u>10.3</u>	<u>(4.0)</u>
Combined ratio	100.6 %	90.3 %	94.3 %	10.3	(4.0)
Contribution from catastrophe losses and prior years reserve development	<u>(3.9)</u>	<u>(6.3)</u>	<u>1.9</u>	<u>2.4</u>	<u>(8.2)</u>
Combined ratio before catastrophe losses and prior years reserve development	<u>104.5 %</u>	<u>96.6 %</u>	<u>92.4 %</u>	<u>7.9</u>	<u>4.2</u>

Catastrophe losses contributed 6.8 percentage points to the combined ratio in 2008, the highest catastrophe loss ratio for our company since 1991. In 2007, catastrophe losses added just 0.8 percentage points, the lowest ratio over the same period. The following table shows catastrophe losses incurred, net of reinsurance, for the past three years, as well as the effect of loss development on prior period catastrophe reserves.

Hurricane Ike, which reached the Gulf Coast on September 12, 2008, moved into the Midwest on September 14, causing unusually high winds in Ohio, Indiana and Kentucky. At December 31, 2008, our gross losses from Hurricane Ike were estimated at \$129 million, making it the single largest catastrophe in the company's history. Net of reinsurance, the loss was estimated at \$58 million. Virtually all of the losses reported by our policyholders occurred in the Midwest.

Catastrophe Losses Incurred

(In millions, net of reinsurance)

Dates	Cause of loss	Region	Commercial lines	Personal lines	Total
2008					
Jan. 4-9	Wind, hail, flood, freezing	South, Midwest	\$ 4	\$ 2	\$ 6
Jan. 29-30	Wind, hail	Midwest	5	4	9
Feb. 5-6	Wind, hail, flood	Midwest	5	8	13
Mar. 14	Tornadoes, wind, hail, flood	South	4	0	4
Mar. 15-16	Wind, hail	South	2	8	10
Apr. 9-11	Wind, hail, flood	South	17	2	19
May 1	Wind, hail	South	5	1	6
May 10-12	Wind, hail, flood	South, Mid-Atlantic	3	4	7
May 22-26	Wind, hail	Midwest	4	3	7
May 29- Jun 1	Wind, hail, flood	Midwest	4	4	8
Jun. 2-4	Wind, hail, flood	Midwest	6	4	10
Jun. 5-8	Wind, hail, flood	Midwest	8	6	14
Jun. 11-12	Wind, hail, flood	Midwest	10	4	14
Jun. 25	Wind, hail, flood	Midwest	2	2	4
Jul. 19	Wind, hail, flood	Midwest	2	2	4
Jul. 26	Wind, hail, flood	Midwest	1	7	8
Sep. 12-14	Hurricane Ike	South, Midwest	22	36	58
Other 2008 catastrophes			2	2	4
Development on 2007 and prior catastrophes			(3)	1	(2)
Calendar year incurred total			<u>\$ 103</u>	<u>\$ 100</u>	<u>\$ 203</u>
2007					
Mar. 1-2	Wind, hail, flood	South	\$ 6	\$ 2	\$ 8
Jun. 7-9	Wind, hail, flood	Midwest	4	5	9
Sep. 20-21	Wind, hail, flood	Midwest	2	4	6
Other 2007 catastrophes			14	9	23
Development on 2006 and prior catastrophes			(10)	(10)	(20)
Calendar year incurred total			<u>\$ 16</u>	<u>\$ 10</u>	<u>\$ 26</u>
2006					
Mar. 11-13	Wind, hail	Midwest, Mid-Atlantic	\$ 29	\$ 8	\$ 37
Apr. 2-3	Wind, hail	Midwest	12	5	17
Apr. 6-8	Wind, hail	South	13	24	37
Apr. 13-15	Wind, hail	South	4	6	10
Jun. 18-22	Wind, hail, flood	South	3	2	5
Jul. 19-21	Wind, hail, flood	South	4	1	5
Aug. 23-25	Wind, hail, flood	Midwest	5	2	7
Oct. 2-4	Wind, hail, flood	Midwest	7	31	38
Nov. 30-Dec. 3	Wind, hail, ice, snow	Midwest, South	4	4	8
Other 2006 catastrophes			7	3	10
Development on 2005 and prior catastrophes			1	0	1
Calendar year incurred total			<u>\$ 89</u>	<u>\$ 86</u>	<u>\$ 175</u>

The three-year rise in total underwriting expenses largely was due to the rise in non-commission underwriting expenses, reflecting our continued investment in the people and systems necessary for our future growth.

The change in our pension plan added 0.8 percentage points to the overall combined ratio, including a 0.5 percentage point addition to the non-commission expense ratio.

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Commission expenses	\$ 552	\$ 599	\$ 596	(7.8)	0.4
Underwriting expenses	404	375	363	7.9	3.2
Policyholder dividends	15	15	16	(3.5)	(5.4)
Total underwriting expenses	<u>\$ 971</u>	<u>\$ 989</u>	<u>\$ 975</u>	<u>(1.8)</u>	<u>1.3</u>
Ratios as a percent of earned premiums:					
Commission expenses	18.3 %	19.2 %	18.8 %	(0.9)	0.4
Underwriting expenses	13.5	12.0	11.5	1.5	0.5
Policyholder dividends	0.5	0.5	0.5	0.0	0.0
Total underwriting expense ratio	<u>32.3 %</u>	<u>31.7 %</u>	<u>30.8 %</u>	<u>0.6</u>	<u>0.9</u>

The discussions of our property casualty insurance segments provide additional detail about these factors.

COMMERCIAL LINES INSURANCE RESULTS OF OPERATIONS

Overview – Three-year Highlights

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Earned premiums	\$ 2,316	\$ 2,411	\$ 2,402	(3.9)	0.4
Loss and loss expenses from:					
Current accident year before catastrophe losses	1,671	1,572	1,476	6.3	6.4
Current accident year catastrophe losses	106	26	87	299.7	(69.2)
Prior accident years before catastrophe losses	(270)	(194)	(98)	(39.3)	(94.9)
Prior accident year catastrophe losses	(3)	(10)	1	69.3	nm
Total loss and loss expenses	1,504	1,394	1,466	7.8	(4.8)
Underwriting expenses	742	756	728	(1.8)	3.7
Underwriting profit	\$ 70	\$ 261	\$ 208	683.3	21.6
Ratios as a percent of earned premiums:				Pt. Change	Pt. Change
Current accident year before catastrophe losses	72.1 %	65.2 %	61.4 %	6.9	3.8
Current accident year catastrophe losses	4.6	1.1	3.6	3.5	(2.5)
Prior accident years before catastrophe losses	(11.7)	(8.0)	(4.1)	(3.7)	(3.9)
Prior accident year catastrophe losses	(0.1)	(0.4)	0.1	0.3	(0.5)
Total loss and loss expenses	64.9	57.9	61.0	7.0	(3.1)
Underwriting expenses	32.1	31.3	30.3	0.8	1.0
Combined ratio	97.0 %	89.2 %	91.3 %	7.8	(2.1)
Combined ratio	97.0 %	89.2 %	91.3 %	7.8	(2.1)
Contribution from catastrophe losses and prior years reserve development	(7.2)	(7.3)	(0.4)	0.1	(6.9)
Combined ratio before catastrophe losses and prior years reserve development	104.2 %	96.5 %	91.7 %	7.7	4.8

Performance highlights for the commercial lines segment include:

- Premiums – Pricing in our industry continues to be very competitive, and the poor economy is driving exposures lower. While our net written premium growth rate lagged that of the overall commercial lines industry, we feel our current pace for new and renewal business is consistent with our agents' practice of selecting and retaining accounts with manageable risk characteristics that support the lower prevailing prices. We believe our pace reflects the advantages we achieve through our field focus, which provides us with quality intelligence on local market conditions. Commercial lines industry net written premiums were estimated to decline 3.8 percent in 2008 and 0.3 percent in 2007, after rising 3.5 percent in 2006. Our earned premiums declined in 2008 after rising slightly in 2007.
- Combined ratio – Our commercial lines combined ratio rose to 97.0 percent in 2008 from very strong performances in 2007 and 2006. The 2008 ratio largely reflected higher current accident year losses before catastrophe losses. We continue to focus on sound underwriting fundamentals and obtaining adequate premiums per policy. We discuss factors affecting the combined ratio and reserve development by line of business below. Approximately \$49 million, or 2.1 percentage points, of the rise in current accident year loss and loss expenses was due to refinements made to the allocation of IBNR reserves by accident year.

Our commercial lines statutory combined ratio was 96.6 percent in 2008 compared with 89.2 percent in 2007 and 90.8 percent in 2006. By comparison, the estimated industry commercial lines combined ratio was 106.5 percent in 2008, 95.1 percent in 2007 and 91.2 percent in 2006. Industry commercial lines estimates include the mortgage and financial guaranty insurers, which saw a surge in claims following the historically high level of mortgage defaults in 2008.

Commercial Lines Insurance Premiums

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Agency renewal written premiums	\$ 2,156	\$ 2,271	\$ 2,209	(5.1)	2.8
Agency new business written premiums	312	287	324	8.8	(11.5)
Other written premiums	(157)	(145)	(91)	(8.3)	(57.7)
Net written premiums	2,311	2,413	2,442	(4.2)	(1.2)
Unearned premium change	5	(2)	(40)	nm	94.6
Earned premiums	\$ 2,316	\$ 2,411	\$ 2,402	(3.9)	0.4

As commercial lines markets have grown more competitive over the past several years, we have focused on leveraging our local relationships as well as the efforts of our agents and the teams that work with them. In this environment, we have been careful to maintain appropriate pricing discipline for both new and renewal

business as we emphasize the importance of assessing account quality to our agencies and underwriters. We continue to make case-by-case decisions not to write or renew certain business. We continue to use rate credits to retain renewals of quality business and earn new business. Our experience remains that the larger the account, the higher the credits, with variations by geographic region and class of business. Agency emphasis on larger accounts, convenience and technology considerations were the primary reasons for a slight decline in the number of our smaller policies.

Over the past three years, we continued to focus on seeking and maintaining adequate premium per exposure as well as pursuing non-pricing means of enhancing longer-term profitability. Non-pricing means have included deliberate reviews of each risk, terms and conditions and limits of insurance. We continue to adhere to our underwriting guidelines, to re-underwrite books of business with selected agencies and to update policy terms and conditions. In addition, we continue to leverage our strong local presence. Our field marketing representatives meet with local agencies to reaffirm agreements on the extent of frontline renewal underwriting agents will perform. Loss control, machinery and equipment and field claims representatives continue to conduct on-site inspections. To assist underwriters, field claims representatives prepare full reports on risks of concern.

Both renewal and new business reflected the effects of the economic slowdown in many regions, as exposures declined and policyholders became increasingly focused on reducing expenses. For commercial accounts, we typically calculate general liability premiums based on sales or payroll volume while we calculate workers' compensation premiums based on payroll volume. A change in sales or payroll volume generally indicates a change in demand for a business's goods or services, as well as a change in its exposure to risk. Policyholders who experience sales or payroll volume changes due to economic factors may be purchasers of other types of insurance, such as commercial auto or commercial property, in addition to general liability and workers' compensation. Premium levels for these other types of policies generally are not linked directly to sales or payroll volumes.

In 2008, we estimated that policyholders with a contractor-related ISO general liability code accounted for approximately 38 percent of our general liability premiums, which are included in the commercial casualty line of business, and that policyholders with a contractor-related NCCI workers' compensation code accounted for approximately 47 percent of our workers' compensation premiums. The contractor market has been one of the more adversely affected by the economic slowdown.

The decline in 2008 agency renewal written premiums was largely driven by the pricing and exposure declines while policy retention rates remained relatively steady. For renewal business, our headquarters underwriters talk regularly with agents. Our field teams are available to assist headquarters underwriters by conducting inspections and holding renewal review meetings with agency staff. These activities can help verify that a commercial account retains the characteristics that caused us to write the business initially. For renewal business, the typical pricing decline has moved into the mid-single-digits, although higher declines occur. In addition to pricing pressures, premiums confirmed by audits of policyholder sales and payrolls declined for 2008.

For new business, our field associates are in our agents' offices helping to judge the quality of each account, emphasizing the Cincinnati value proposition, calling on sales prospects with those agents, carefully evaluating risk exposure and working up their best quotes. In 2008, new business premium growth largely was driven by agencies appointed in the past five years with relatively stable contributions from the remaining agencies. At year-end 2008, our field marketing representatives reported pricing down about 5 percent to 10 percent on average to write the same piece of quality new business we would have quoted in 2007, the third consecutive year of significant declines in our new business pricing. Pricing on new business remains competitive as many carriers appear to be managing the soft market by working aggressively to protect their renewal portfolios.

In 2007 and 2008, other written premiums lowered net written premiums more than 2006. Higher ceded reinsurance costs were the primary driver in both 2007 and 2008, including the reinsurance reinstatement premium incurred in 2008.

Commercial Lines Insurance Loss and Loss Expenses

Loss and loss expenses include both net paid losses and reserve changes for unpaid losses as well as the associated loss expenses.

(Dollars in millions)

Accident year loss and loss expenses incurred and ratios to earned premiums:

Accident Year:	2008	2007	2006	2008	2007	2006
as of December 31, 2008	\$ 1,777	\$ 1,493	\$ 1,397	76.7 %	61.9 %	58.2 %
as of December 31, 2007		1,599	1,457		66.3	60.6
as of December 31, 2006			1,563			65.1

For our larger business lines, the trend in the current accident year loss and loss expense ratio before catastrophe losses over the past three years reflected normal loss cost inflation as well as competitive

market conditions and softer pricing that began in 2005 and continued through 2008, as discussed above. In 2008, we saw a higher level of larger losses from director and officer liability coverages, as discussed below. The increase in larger losses in 2007 was primarily seen in general liability, commercial auto and workers' compensation.

Catastrophe losses were highly volatile over the three year period as discussed in Consolidated Property Casualty Insurance Results of Operations, Page 49. Savings from prior period reserve development continued to trend favorably in 2008 as discussed in Commercial Lines Insurance Segment Reserves, Page 77.

Commercial Lines Insurance Losses by Size

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
New losses greater than \$4,000,000	\$ 41	\$ 4	\$ 0	835.3	nm
New losses \$2,000,000-\$4,000,000	75	111	111	(32.8)	0.3
New losses \$1,000,000-\$2,000,000	78	90	67	(13.8)	34.2
New losses \$750,000-\$1,000,000	41	33	28	21.8	18.8
New losses \$500,000-\$750,000	45	48	40	(6.0)	20.9
New losses \$250,000-\$500,000	98	74	64	33.7	14.1
Case reserve development above \$250,000	229	201	201	13.9	0.3
Total large losses incurred	607	561	511	8.0	10.0
Other losses excluding catastrophe losses	547	502	562	8.9	(10.6)
Catastrophe losses	103	16	89	560.2	(82.3)
Total losses incurred	\$ 1,257	\$ 1,079	\$ 1,162	16.4	(7.0)
Ratios as a percent of earned premiums:					
New losses greater than \$4,000,000	1.8 %	0.2 %	0.0 %	Pt. Change 1.6	Pt. Change 0.2
New losses \$2,000,000-\$4,000,000	3.2	4.6	4.6	(1.4)	0.0
New losses \$1,000,000-\$2,000,000	3.4	3.7	2.8	(0.3)	0.9
New losses \$750,000-\$1,000,000	1.8	1.4	1.2	0.4	0.2
New losses \$500,000-\$750,000	2.0	2.0	1.7	0.0	0.3
New losses \$250,000-\$500,000	4.2	3.0	2.7	1.2	0.3
Case reserve development above \$250,000	9.9	8.4	8.3	1.5	0.1
Total large loss ratio	26.3	23.3	21.3	3.0	2.0
Other losses excluding catastrophe losses	23.4	20.8	23.4	2.6	(2.6)
Catastrophe losses	4.5	0.7	3.7	3.8	(3.0)
Total loss ratio	54.2 %	44.8 %	48.4 %	9.4	(3.6)

The rise in the loss and loss expense ratio reflected a growing contribution from new losses and case reserve increases greater than \$250,000. In total, commercial lines new losses and reserve increases greater than \$250,000 rose to 26.3 percent of earned premiums from 23.3 percent in 2007 and 21.3 percent in 2006. Our analysis indicated no unexpected concentration of these losses and reserve increases by geographic region, policy inception, agency or field marketing territory. We believe the increase was due to a number of factors, including a larger number of director and officer liability claims, changes in retention levels for our per risk reinsurance programs, changes in case reserving practices for our workers' compensation business line, natural volatility and general inflationary trends in loss costs, which we continue to monitor. In 2006 and 2007, our retention for our property and casualty working treaties was \$4 million. In 2008, we raised the casualty retention to \$5 million.

Commercial Lines Insurance Underwriting Expenses

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Commission expenses	413	454	444	(8.9)	2.0
Underwriting expenses	314	287	268	9.5	7.0
Policyholder dividends	15	15	16	(3.5)	(5.4)
Total underwriting expenses	\$ 742	\$ 756	\$ 728	(1.8)	3.7
Ratios as a percent of earned premiums:					
Commission expenses	17.8 %	18.8 %	18.5 %	Pt. Change (1.0)	Pt. Change 0.3
Underwriting expenses	13.7	11.9	11.1	1.8	0.8
Policyholder dividends	0.6	0.6	0.7	0.0	(0.1)
Total underwriting expense ratio	32.1 %	31.3 %	30.3 %	0.8	1.0

Commercial lines commission expense as a percent of earned premium declined in 2008 from the relatively stable level of the prior two years. The change in the ratio reflected both the decline in earned premiums and a lower level of contingent commissions in 2008. Commission expenses include our profit-sharing, or contingent, commissions, which are calculated on the profitability of an agency's aggregate property casualty book of Cincinnati business, taking into account longer-term profit and premium volume, with a percentage for prompt payment of premiums and other criteria, to reward the agency's effort. These profit-based commissions generally fluctuate with our loss and loss expense ratio. Our 2008 contingent commission

accrual reflected our estimate of the profit-sharing commissions to be paid to our agencies in early 2009, based largely on each agency's performance in 2008.

In both 2007 and 2008, non-commission expenses rose on flat or declining earned premiums, which also led to unfavorable deferred acquisition expense comparisons. Further, in 2008, the salary cost contribution rose by approximately 0.8 percentage points and the change in our pension plan contributed 0.5 percentage points to the ratio. In 2007, our surplus lines start-up activities contributed slightly to higher staffing and technology expenses. Surplus lines expenses were included in Other in 2008. Refinements in the allocation of expenses between our commercial lines and personal lines segments also contributed to minor variations in the non-commission underwriting expenses.

Commercial Lines Insurance Outlook

Industrywide commercial lines written premiums are expected to decline approximately 1.4 percent in 2009 with the industry combined ratio estimated at 105.1 percent. As discussed in Item 1, Commercial Lines Insurance Marketplace, Page 13, over the past several years, renewal and new business pricing has come under steadily increasing pressure, reinforcing the need for more flexibility and careful risk selection. We expect commercial lines price declines to slow in 2009.

We intend to continue marketing our products to a broad range of business classes, pricing our products appropriately and taking a package approach. We intend to maintain our underwriting selectivity and carefully manage our rate levels as well as our programs that seek to accurately match exposures with appropriate premiums. We will continue to evaluate each risk individually and to make decisions about rates, the use of three-year commercial policies and other policy conditions on a case-by-case basis, even in lines and classes of business that are under competitive pressure. Nonetheless, we expect commercial lines profitability to remain under pressure in 2009.

In Item 1, Strategic Initiatives, Page 7, we discuss the initiatives we are implementing to achieve our corporate performance objectives. We discuss our overall outlook for our property casualty insurance operations in the Executive Summary, Page 37.

Commercial Lines of Business Analysis

Approximately 95 percent of our commercial lines premiums relate to accounts with coverages from more than one of our business lines. As a result, we believe that the commercial lines segment is best measured and evaluated on a segment basis. However, we provide line of business data to summarize growth and profitability trends separately for each line. The accident year loss data provides current estimates of incurred loss and loss expenses and corresponding ratios over the most recent three accident years.

Accident year data classifies losses according to the year in which the corresponding loss events occur, regardless of when the losses are actually reported, recorded or paid.

Commercial Casualty

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006	
	2008	2007	2006	Change %	Change %	
Commercial casualty:						
Written premiums	\$ 764	\$ 830	\$ 838	(7.9)	(1.0)	
Earned premiums	763	827	831	(7.8)	(0.5)	
Loss and loss expenses from:						
Current accident year before catastrophe losses	576	572	540	0.7	6.0	
Current accident year catastrophe losses	0	0	0	nm	nm	
Prior accident years before catastrophe losses	(257)	(149)	(100)	(72.3)	(50.1)	
Prior accident year catastrophe losses	0	0	0	nm	nm	
Total loss and loss expenses	\$ 319	\$ 423	\$ 440	(24.7)	(4.0)	
Ratios as a percent of earned premiums:						
Current accident year before catastrophe losses	75.4 %	69.2 %	65.0 %	Pt. Change 6.2	Pt. Change 4.2	
Current accident year catastrophe losses	0.0	0.0	0.0	0.0	0.0	
Prior accident years before catastrophe losses	(33.7)	(18.1)	(12.0)	(15.6)	(6.1)	
Prior accident year catastrophe losses	0.0	0.0	0.0	0.0	0.0	
Total loss and loss expense ratio	41.7 %	51.1 %	53.0 %	(9.4)	(1.9)	
Accident year loss and loss expenses incurred and ratios to earned premiums:						
Accident Year:	2008	2007	2006	2008	2007	2006
as of December 31, 2008	\$ 576	\$ 479	\$ 414	75.4 %	57.9 %	49.8 %
as of December 31, 2007		572	469		69.2	56.4
as of December 31, 2006			540			65.0

Commercial casualty is our largest business line. The decline in commercial casualty net written premiums reflected the intensifying competition in the casualty market. In addition, premiums for this business line can reflect economic trends, including changes in underlying exposures.

The calendar year loss and loss expense ratio improved in 2008 and 2007, largely because of higher savings from favorable development on prior period reserves. Factors contributing to the higher savings included

refinements to our IBNR reserve allocation, quarter-to-quarter reductions in actuarial reserve estimates, the introduction of an additional umbrella reserving model, sooner-than-expected moderation in the inflation trend of allocated loss expenses and unusual deviations from predictions of reserving methods and models. These factors are discussed in Commercial Lines Insurance Segment Reserves, Page 77. The level of new losses and case reserve increases greater than \$250,000 was slightly lower than in 2007.

The current accident year loss and loss expense ratio before catastrophe losses deteriorated over the three-year period, primarily because of lower pricing per exposure and normal loss cost inflation. Further, the commercial casualty business line includes some of our longest tail exposures, making initial estimates of accident year loss and loss expenses incurred more uncertain, as we discuss in Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 41.

Commercial Property

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006	
	2008	2007	2006	Change %	Change %	
Commercial property:						
Written premiums	\$ 481	\$ 499	\$ 505	(3.6)	(1.1)	
Earned premiums	487	497	491	(2.0)	1.2	
Loss and loss expenses from:						
Current accident year before catastrophe losses	282	240	216	17.3	11.1	
Current accident year catastrophe losses	81	20	62	304.2	(67.4)	
Prior accident years before catastrophe losses	(7)	(10)	(2)	29.1	(519.7)	
Prior accident year catastrophe losses	(3)	(9)	6	73.4	nm	
Total loss and loss expenses	\$ <u>353</u>	\$ <u>241</u>	\$ <u>282</u>	46.7	(14.6)	
Ratios as a percent of earned premiums:						
Current accident year before catastrophe losses	57.7 %	48.3 %	44.0 %	Pt. Change 9.4	Pt. Change 4.3	
Current accident year catastrophe losses	16.6	4.0	12.6	12.6	(8.6)	
Prior accident years before catastrophe losses	(1.3)	(2.0)	(0.4)	0.7	(1.6)	
Prior accident year catastrophe losses	(0.4)	(1.8)	1.3	1.4	(3.1)	
Total loss and loss expense ratio	<u>72.6 %</u>	<u>48.5 %</u>	<u>57.5 %</u>	<u>24.1</u>	<u>(9.0)</u>	
Accident year loss and loss expenses incurred and ratios to earned premiums:						
Accident Year:	2008	2007	2006	2008	2007	2006
as of December 31, 2008	\$ 363	\$ 260	\$ 266	74.3 %	52.3 %	54.2 %
as of December 31, 2007		260	274		52.3	55.7
as of December 31, 2006			278			56.6

Commercial property is our second largest business line. The decline in commercial property net written premiums over the three-year period reflected pricing declines exacerbated by higher reinsurance premiums, including the premium reinstatement premium in 2008.

The calendar year loss and loss expense ratio deteriorated substantially in 2008 after improving in 2007, primarily due to fluctuations in catastrophe losses. New losses and case reserve increases greater than \$250,000 added 3.4 percentage points to the 2008 ratio. Development on prior period reserves was relatively stable over the period.

The current accident year loss and loss expense ratio before catastrophe losses deteriorated over the three-year period. A portion of the increase was due to a higher loss expense allocation because of the level of catastrophe and weather-related losses. In addition, the refinement in the allocation of IBNR reserves by accident year artificially accentuated the difference between the 2007 and 2008 ratios by approximately 2 percentage points.

Commercial Auto

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Commercial auto:					
Written premiums	\$ 402	\$ 429	\$ 450	(6.2)	(4.7)
Earned premiums	411	440	453	(6.7)	(2.9)
Loss and loss expenses from:					
Current accident year before catastrophe losses	303	303	296	(0.5)	3.0
Current accident year catastrophe losses	2	1	4	240.5	(83.4)
Prior accident years before catastrophe losses	(8)	(25)	(22)	67.6	(18.5)
Prior accident year catastrophe losses	0	(1)	0	nm	nm
Total loss and loss expenses	\$ 297	\$ 278	\$ 278	6.3	0.2
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	73.7 %	69.3 %	65.2 %	Pt. Change 4.4	Pt. Change 4.1
Current accident year catastrophe losses	0.6	0.0	0.9	0.6	(0.9)
Prior accident years before catastrophe losses	(2.0)	(5.8)	(4.6)	3.8	(1.2)
Prior accident year catastrophe losses	0.0	0.0	0.0	0.0	0.0
Total loss and loss expense ratio	72.3 %	63.5 %	61.5 %	8.8	2.0

Accident year loss and loss expenses incurred and ratios to earned premiums:

Accident Year:	2008	2007	2006	2008	2007	2006
as of December 31, 2008	\$ 305	\$ 298	\$ 289	74.3 %	67.7 %	63.8 %
as of December 31, 2007		304	284		69.3	62.7
as of December 31, 2006			300			66.1

The decline in commercial auto written premiums over the three-year period reflected the downward pressure exerted by the market on the pricing of commercial accounts. Commercial auto is one of the business lines that we renew and price annually, so market trends may be reflected here more quickly than in other lines. Commercial auto also experiences pricing pressure because it often represents the largest portion of insurance costs for many commercial policyholders.

The calendar year loss and loss expense ratios moved above the range we consider appropriate in 2008 due to ongoing pricing pressures and normal loss cost inflation. We believe volatility in the number of commercial auto losses greater than \$1 million reflected natural volatility and general inflationary trends in loss costs. Savings from development on prior period reserves was lower in 2008 than 2007 and 2006 as commercial auto paid and reported loss development trends were relatively stable.

Pricing and normal loss cost inflation were the primary drivers of the deterioration in the accident year loss and loss expense ratio before catastrophe losses over the past three years.

Workers' Compensation

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Workers' compensation:					
Written premiums	\$ 382	\$ 378	\$ 379	1.1	(0.3)
Earned premiums	375	373	366	0.6	1.9
Loss and loss expenses from:					
Current accident year before catastrophe losses	342	326	300	4.9	7.4
Current accident year catastrophe losses	0	0	0	nm	nm
Prior accident years before catastrophe losses	(3)	(10)	13	75.0	nm
Prior accident year catastrophe losses	0	0	0	nm	nm
Total loss and loss expenses	\$ 339	\$ 316	\$ 313	7.5	1.0
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	91.1 %	87.3 %	82.8 %	Pt. Change 3.8	Pt. Change 4.5
Current accident year catastrophe losses	0.0	0.0	0.0	0.0	0.0
Prior accident years before catastrophe losses	(0.7)	(2.7)	2.6	2.0	(5.3)
Prior accident year catastrophe losses	0.0	0.0	0.0	0.0	0.0
Total loss and loss expense ratio	90.4 %	84.6 %	85.4 %	5.8	(0.8)

Accident year loss and loss expenses incurred and ratios to earned premiums:

Accident Year:	2008	2007	2006	2008	2007	2006
as of December 31, 2008	\$ 342	\$ 305	\$ 284	91.1 %	81.7 %	77.6 %
as of December 31, 2007		326	284		87.3	77.6
as of December 31, 2006			300			82.8

Workers' compensation written premiums have been relatively flat over the past three years. Although we have seen rising policy counts, these gains have been offset by reductions in payroll levels due to the troubled economy as well as rate decreases and the use of credits in a majority of our territories. We have had initiatives in place to judiciously expand our workers' compensation business in selected states that

traditionally have been profitable markets for us and to enter states, such as Arizona and West Virginia, where we previously were not actively writing the line. We cannot offer workers' compensation coverage in Ohio, our highest total property casualty premium volume state, because it is provided solely by the state instead of private insurers.

Since we pay a lower commission rate on workers' compensation business, this line has a higher calendar year loss and loss expense breakeven point than our other commercial business lines. Nonetheless, the ratio remained above our target levels over the three-year period. Management is actively pursuing programs to improve financial performance for this line. For example, in 2009, we are putting in place a predictive modeling program to improve our pricing accuracy, and we are accelerating our delivery of loss control services to help manage our workers' compensation profitability.

In addition, the workers' compensation business line includes our longest tail exposures, making initial estimates of accident year loss and loss expenses incurred more uncertain. Due to the lengthy payout period of workers' compensation claims, small shifts in medical cost inflation and payout periods could have a significant effect on our potential future liability compared with our current projections.

Specialty Packages

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Specialty packages:					
Written premiums	\$ 145	\$ 146	\$ 144	(0.5)	1.5
Earned premiums	144	146	141	(1.3)	3.1
Loss and loss expenses from:					
Current accident year before catastrophe losses	87	80	71	9.2	12.8
Current accident year catastrophe losses	23	6	20	287.4	(71.8)
Prior accident years before catastrophe losses	(3)	0	8	nm	nm
Prior accident year catastrophe losses	(1)	0	(4)	nm	nm
Total loss and loss expenses	\$ 106	\$ 86	\$ 95	22.0	(7.6)
Ratios as a percent of earned premiums:				Pt. Change	Pt. Change
Current accident year before catastrophe losses	60.8 %	54.8 %	50.2 %	6.0	4.6
Current accident year catastrophe losses	15.6	4.0	14.5	11.6	(10.5)
Prior accident years before catastrophe losses	(2.5)	0.5	4.7	(3.0)	(4.2)
Prior accident year catastrophe losses	(0.4)	0.1	(3.1)	(0.5)	3.2
Total loss and loss expense ratio	73.5 %	59.4 %	66.3 %	14.1	(6.9)

Accident year loss and loss expenses incurred and ratios to earned premiums:

Accident Year:	2008	2007	2006	2008	2007	2006
as of December 31, 2008	\$ 110	\$ 87	\$ 91	76.4 %	59.9 %	64.7 %
as of December 31, 2007		86	92		58.9	65.3
as of December 31, 2006			91			64.7

Specialty packages net written premiums were relatively flat over the three-year period. Our commercial lines policy processing system for Businessowners Policies, which are included in this business line, is helping us meet changing agency needs and address pricing, technology and service innovations that other carriers have introduced for similar products in recent years.

The calendar year loss and loss expense ratio reflected the volatility in catastrophe losses over the three-year period. In addition, the current accident year loss and loss expense ratio before catastrophe losses has risen over the period because of pricing reductions and normal loss cost inflation.

Surety and Executive Risk

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Surety and executive risk:					
Written premiums	\$ 107	\$ 102	\$ 97	4.0	5.2
Earned premiums	107	100	93	7.7	7.8
Loss and loss expenses from:					
Current accident year before catastrophe losses	71	41	41	75.2	(1.4)
Current accident year catastrophe losses	0	0	0	nm	nm
Prior accident years before catastrophe losses	7	1	6	494.7	(79.7)
Prior accident year catastrophe losses	0	0	0	nm	nm
Total loss and loss expenses	\$ <u>78</u>	\$ <u>42</u>	\$ <u>47</u>	87.0	(11.1)
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	66.1 %	40.6 %	44.4 %	Pt. Change 25.5	Pt. Change (3.8)
Current accident year catastrophe losses	0.0	0.0	0.0	0.0	0.0
Prior accident years before catastrophe losses	6.5	1.2	6.3	5.3	(5.1)
Prior accident year catastrophe losses	0.0	0.0	0.0	0.0	0.0
Total loss and loss expense ratio	<u>72.6 %</u>	<u>41.8 %</u>	<u>50.7 %</u>	30.8	(8.9)

Accident year loss and loss expenses incurred and ratios to earned premiums:

Accident Year:	2008		2007		2006	
as of December 31, 2008	\$ 71	\$ 54	\$ 42	66.1 %	54.3 %	45.2 %
as of December 31, 2007		41	44		40.6	47.3
as of December 31, 2006			41			44.4

Surety and executive risk net written premiums rose over the three-year period as we enhanced our marketing of these products.

Director and officer liability coverage accounted for 58.9 percent of surety and executive risk premiums in 2008 compared with 62.3 percent in 2007 and 60.5 percent in 2006. We actively manage the potentially high risk of writing director and officer liability by:

- Marketing primarily to nonprofit organizations, which accounted for approximately 80 percent of the director and officer liability policies we wrote in 2008.
- Writing on a claims-made basis, which normally restricts coverage to losses reported during the policy term.
- Providing limits no higher than \$15 million with facultative or treaty reinsurance in place in 2009 for losses greater than \$6 million.
- Limiting the number of for-profit policies. At year-end 2008, our in-force director and officer liability policies provided coverage to 30 non-financial publicly traded companies, including two Fortune 1000 companies. We also provided this coverage to approximately 500 banks, savings and loans and other financial institutions. The majority of these financial institution policyholders are smaller community banks, and we believe they have no unusual exposure to credit-market concerns, including subprime mortgages. Based on new policy data or information from the most recent policy renewal, only 12 of our bank and savings and loan policyholders have assets greater than \$2 billion, including one Fortune 500 company; only 23 have assets between \$1 billion and \$2 billion; and 49 have assets between \$500 million and \$1 billion.

The calendar year and current accident year loss and loss expense ratios rose substantially in 2008, driven by additional director and officer new losses and case reserve increases greater than \$250,000. During 2008, 38 of the new director and officer losses and case reserve increases added approximately \$43 million to loss and loss expenses compared with 20 adding about \$9 million in 2007 and 16 adding about \$16 million in 2006. The higher level in 2008 was largely due to six new losses and five case reserve increases greater than \$1 million on claims made in 2007. Eight of these 11 items were related to lending practices at financial institutions. To address the potential risk of this portion of our surety and executive risk business line moving forward, we are working with our agents to limit the number of new director and officer policies for financial institutions. At renewal, we are carefully re-underwriting each account based on credit rating and other metrics.

Machinery and Equipment

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Machinery and equipment:					
Written premiums	\$ 30	\$ 29	\$ 29	3.5	0.2
Earned premiums	29	28	27	3.1	2.4
Loss and loss expenses from:					
Current accident year before catastrophe losses	11	10	11	10.9	(11.2)
Current accident year catastrophe losses	0	0	0	nm	nm
Prior accident years before catastrophe losses	1	(2)	1	nm	nm
Prior accident year catastrophe losses	0	0	0	nm	nm
Total loss and loss expenses	\$ 12	\$ 8	\$ 12	57.7	(32.3)
Ratios as a percent of earned premiums:				Pt. Change	Pt. Change
Current accident year before catastrophe losses	36.1 %	33.6 %	38.8 %	2.5	(5.2)
Current accident year catastrophe losses	0.9	0.0	0.4	0.9	(0.4)
Prior accident years before catastrophe losses	5.5	(5.5)	2.8	11.0	(8.3)
Prior accident year catastrophe losses	0.0	(0.3)	0.0	0.3	(0.3)
Total loss and loss expense ratio	42.5 %	27.8 %	42.0 %	14.7	(14.2)

Accident year loss and loss expenses incurred and ratios to earned premiums:

Accident Year:	2008	2007	2006	2008	2007	2006
as of December 31, 2008	\$ 11	\$ 10	\$ 11	37.0 %	34.2 %	41.1 %
as of December 31, 2007		10	10		33.6	35.9
as of December 31, 2006			11			39.2

Machinery and equipment net written premiums rose in 2008 after a relatively flat 2007. Because of the relatively small size of this business line, the calendar year and accident year loss and loss expense ratios can fluctuate substantially.

PERSONAL LINES INSURANCE RESULTS OF OPERATIONS

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Earned premiums	\$ 689	\$ 714	\$ 762	(3.4)	(6.3)
Loss and loss expenses from:					
Current accident year before catastrophe losses	498	459	471	8.7	(3.0)
Current accident year catastrophe losses	99	20	89	396.4	(77.5)
Prior accident years before catastrophe losses	(51)	(30)	(15)	(67.6)	(90.2)
Prior accident year catastrophe losses	1	(11)	(3)	nm	(270.3)
Total loss and loss expenses	547	438	542	25.2	(19.3)
Underwriting expenses	224	233	247	(3.9)	(5.6)
Underwriting profit (loss)	\$ (82)	\$ 43	\$ (27)	nm	nm
Ratios as a percent of earned premiums:				Pt. Change	Pt. Change
Current accident year before catastrophe losses	72.2 %	64.3 %	62.1 %	7.9	2.2
Current accident year catastrophe losses	14.4	2.8	11.6	11.6	(8.8)
Prior accident years before catastrophe losses	(7.3)	(4.3)	(2.1)	(3.0)	(2.2)
Prior accident year catastrophe losses	0.1	(1.5)	(0.4)	1.6	(1.1)
Total loss and loss expenses	79.4	61.3	71.2	18.1	(9.9)
Underwriting expenses	32.5	32.6	32.4	(0.1)	0.2
Combined ratio	111.9 %	93.9 %	103.6 %	18.0	(9.7)
Combined ratio	111.9 %	93.9 %	103.6 %	18.0	(9.7)
Contribution from catastrophe losses and prior years reserve development	7.2	(3.0)	9.1	10.2	(12.1)
Combined ratio before catastrophe losses and prior years reserve development	104.7 %	96.9 %	94.5 %	7.8	2.4

Overview – Three-year Highlights

Performance highlights for the personal lines segment include:

- Premiums – Over the past three years, competition in our personal lines markets rose and we continued to adjust pricing in an effort to return to consistent profitability in our personal lines segment. Our written premiums declined on lower premiums per policy and higher reinsurance-related premiums as new business growth remained positive. Industry average written premium growth was estimated at 1.0 percent in 2008 after being flat in 2007 and rising 2.0 percent in 2006.
- Combined ratio – The combined ratio rose substantially in 2008 after improving in 2007. The year-over-year differences were partially due to dramatic fluctuations in the level of catastrophe losses. In 2008,

the current accident year loss and loss expense ratio before catastrophe losses also rose substantially. Approximately \$20 million, or 2.9 percentage points, of the rise in current accident year loss and loss expenses was due to refinements made to the allocation of IBNR reserves by accident year.

Our personal lines statutory combined ratio was 111.6 percent in 2008, 94.1 percent in 2007 and 103.6 percent in 2006. By comparison, the estimated industry personal lines combined ratio was 103.3 percent in 2008, 96.1 percent in 2007 and 92.3 percent in 2006. Our concentration of business in areas hard-hit by catastrophe events contributed to recent results that differed from the overall industry.

Personal Lines Insurance Premiums

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Agency renewal written premiums	\$ 672	\$ 690	\$ 721	(2.5)	(4.4)
Agency new business written premiums	42	38	32	9.5	16.9
Other written premiums	(29)	(24)	(17)	(22.5)	(36.3)
Net written premiums	685	704	736	(2.7)	(4.4)
Unearned premium change	4	10	26	(53.2)	(59.1)
Earned premiums	\$ 689	\$ 714	\$ 762	(3.4)	(6.3)

Personal lines insurance is a strategic component of our overall relationship with many of our agencies and an important component of our agencies' relationships with their clients. We believe agents recommend Cincinnati personal insurance products for their value-oriented clients who seek to balance quality and price and who are attracted by our superior claims service and the benefits of our package approach.

Our personal lines policyholder retention and new business levels have remained at higher levels following our July 2006 introduction of a limited program of policy credits for personal auto and homeowner pricing in most of the states in which our Diamond system is in use. The program provided credits for eligible new and renewal policyholders identified as above-average risks.

The rate of decline in our personal lines agency renewal written premiums further slowed in 2008, as the benefits of additional tiers to our pricing structure were seen in many states. These tiers are intended to improve our ability to compete for our agents' highest quality personal lines accounts, increasing opportunities for our agents to market the advantages of our personal lines products and services to their clients.

The number of in-force homeowner and personal auto policies has declined steadily, but the year-over-year rate of decline slowed to 2.3 percent as of year-end 2008 compared with 3.1 percent at year-end 2007. Additional pricing and credit changes were implemented in early 2009, with introductions in additional states planned for subsequent months. This round of changes further improves pricing for the best accounts, which should help us retain and attract even more of our agents' preferred business.

Our personal lines new business written by our agencies rose for the third consecutive year in 2008 as the number of agency locations writing our personal lines rose by over 130, or 14.0 percent, in 2008. We set the stage to improve our geographic diversification by opening Arizona and Utah to personal lines. We also expanded our activity in Maryland and North Carolina by introducing personal auto and appointing additional locations from our existing agency network. However, the increased new business did not fully offset the impact of lost business and lower rates on above-average quality renewal business.

In 2007 and 2008, other written premiums lowered net written premiums more than 2006. Higher ceded reinsurance costs were the primary driver in both years, including the reinsurance reinstatement premium incurred in 2008.

Personal Lines Insurance Loss and Loss Expenses

Loss and loss expenses include both net paid losses and reserve changes for unpaid losses as well as the associated loss expenses. The increase in the current accident year loss and loss expense ratio before catastrophe losses over the past three years was due to the pricing factors discussed above, normal loss cost inflation, refinements made to the allocation of IBNR reserves by accident year and higher non-catastrophe weather-related losses. Larger personal lines losses were a smaller percentage of earned premiums in 2008.

(Dollars in millions)						
Accident year loss and loss expenses incurred and ratios to earned premiums:						
Accident Year:	2008	2007	2006	2008	2007	2006
as of December 31, 2008	\$ 597	\$ 480	\$ 535	86.6 %	67.3 %	70.2 %
as of December 31, 2007		478	547		67.0	71.8
as of December 31, 2006			561			73.6

Catastrophe losses were highly volatile over the three-year period as discussed in Consolidated Property Casualty Insurance Results of Operations, Page 49. Savings from prior period reserve development continued to trend favorably in 2008 as discussed in Personal Lines Insurance Segment Reserves, Page 79.

Personal Lines Insurance Losses by Size

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
New losses greater than \$4,000,000	\$ 5	\$ 0	\$ 0	nm	nm
New losses \$2,000,000-\$4,000,000	0	13	8	(100.0)	72.0
New losses \$1,000,000-\$2,000,000	16	15	14	10.7	3.5
New losses \$750,000-\$1,000,000	7	8	9	(11.5)	(6.7)
New losses \$500,000-\$750,000	11	10	8	9.6	20.9
New losses \$250,000-\$500,000	26	26	22	1.9	15.5
Case reserve development above \$250,000	16	19	23	(20.1)	(16.4)
Total large losses incurred	81	91	84	(11.0)	8.1
Other losses excluding catastrophe losses	295	279	309	5.6	(9.7)
Catastrophe losses	100	10	86	958.8	(89.0)
Total losses incurred	\$ 476	\$ 380	\$ 479	25.4	(20.8)
Ratios as a percent of earned premiums:					
New losses greater than \$4,000,000	0.7 %	0.0 %	0.0 %	0.7	0.0
New losses \$2,000,000-\$4,000,000	0.0	1.9	1.0	(1.9)	0.9
New losses \$1,000,000-\$2,000,000	2.3	2.0	1.8	0.3	0.2
New losses \$750,000-\$1,000,000	1.0	1.1	1.1	(0.1)	0.0
New losses \$500,000-\$750,000	1.6	1.5	1.1	0.1	0.4
New losses \$250,000-\$500,000	3.8	3.6	2.9	0.2	0.7
Case reserve development above \$250,000	2.3	2.7	3.1	(0.4)	(0.4)
Total large losses incurred	11.7	12.8	11.0	(1.1)	1.8
Other losses excluding catastrophe losses	42.8	39.1	40.6	3.7	(1.5)
Catastrophe losses	14.5	1.3	11.3	13.2	(10.0)
Total loss ratio	69.0 %	53.2 %	62.9 %	15.8	(9.7)

The effect on the loss and loss expense ratio from new losses and case reserve increases greater than \$250,000 was lower in 2008 than it was in 2007. Our analysis indicated no unexpected concentration of these losses and reserve increases by risk category, geographic region, policy inception, agency or field marketing territory. We believe the increase in 2007 largely was due to general inflationary trends in loss costs, which we continue to monitor, as well as natural volatility.

Personal Lines Insurance Underwriting Expenses

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Commission expenses	\$ 136	\$ 145	\$ 152	(6.4)	(4.4)
Underwriting expenses	88	88	95	0.4	(7.5)
Total underwriting expenses	\$ 224	\$ 233	\$ 247	(3.9)	(5.6)
Ratios as a percent of earned premiums:					
Commission expenses	19.7 %	20.3 %	19.9 %	(0.6)	0.4
Underwriting expenses	12.8	12.3	12.5	0.5	(0.2)
Total underwriting expense ratio	32.5 %	32.6 %	32.4 %	(0.1)	0.2

Personal lines commission expense as a percent of earned premium declined in 2008 after rising slightly in 2007. The 2008 decline in the ratio reflected both the decline in earned premiums and a lower level of contingent commissions. Commission expenses include our profit-sharing, or contingent, commissions, which are calculated on the profitability of an agency's aggregate property casualty book of Cincinnati business, taking into account longer-term profit and premium volume, with a percentage for prompt payment of premiums and other criteria, to reward the agency's effort. These profit-based commissions generally fluctuate with our loss and loss expense ratio. Our 2008 contingent commission accrual reflected our estimate of the profit-sharing commissions to be paid to our agencies in early 2009 based largely on each agency's performance in 2008.

Non-commission underwriting expenses were relatively stable over the three-year period. The modest increase in 2008 was due to the pension charge. Refinements in the allocation of expenses between our commercial lines and personal lines segments also contributed to minor variations in the non-commission underwriting expenses.

Personal Lines Insurance Outlook

Industry analysts currently anticipate industrywide personal lines written premiums may rise approximately 2.5 percent in 2009, with the combined ratio estimated at 97.6 percent. While the improvement in our new business levels and policy retention rates over the past several years are positive indications for our personal lines business, we expect our growth rate to be below that of the industry as we continue to address our pricing. In Item 1, Strategic Initiatives, Page 7, we discuss the initiatives we are implementing to address the unsatisfactory performance of our personal lines segment, in particular the homeowner line of business.

We describe steps that will enhance our response to the changing marketplace. We are aware that our personal lines pricing and loss activity are at levels that could put achievement of our corporate financial objectives at risk if those trends continue. We discuss our overall outlook for our property casualty insurance operations in the Executive Summary, Page 37.

Personal Lines of Business Analysis

We prefer to write personal lines coverage on an account basis that includes both auto and homeowner coverages as well as coverages from the other personal business line. As a result, we believe that the personal lines segment is best measured and evaluated on a segment basis. However, we provide line of business data to summarize growth and profitability trends separately for each line. The accident year loss data provides current estimates of incurred loss and loss expenses and corresponding ratios over the most recent three accident years. Accident year data classifies losses according to the year in which the corresponding loss events occur, regardless of when the losses are actually reported, recorded or paid.

Personal Auto

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Personal auto:					
Written premiums	\$ 320	\$ 332	\$ 359	(3.7)	(7.5)
Earned premiums	325	342	385	(5.0)	(11.0)
Loss and loss expenses from:					
Current accident year before catastrophe losses	226	225	237	0.3	(5.2)
Current accident year catastrophe losses	4	1	11	266.3	(89.4)
Prior accident years before catastrophe losses	(12)	5	2	nm	190.3
Prior accident year catastrophe losses	0	(3)	0	nm	nm
Total loss and loss expenses	\$ 218	\$ 228	\$ 250	(4.4)	(8.6)
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	69.4 %	65.8 %	61.7 %	3.6	4.1
Current accident year catastrophe losses	1.2	0.3	2.7	0.9	(2.4)
Prior accident years before catastrophe losses	(3.4)	1.6	0.5	(5.0)	1.1
Prior accident year catastrophe losses	0.0	(0.9)	0.1	0.9	(1.0)
Total loss and loss expense ratio	67.2 %	66.8 %	65.0 %	0.4	1.8

Accident year loss and loss expenses incurred and ratios to earned premiums:

Accident Year:	2008	2007	2006	2008	2007	2006
as of December 31, 2008	\$ 230	\$ 237	\$ 247	70.6 %	69.2 %	64.3 %
as of December 31, 2007		226	251		66.1	65.4
as of December 31, 2006			248			64.4

The decline in written and earned premiums slowed over the past three years as we continued to modify pricing, improving retention and attracting new policyholders. New business activity is nearing a level that would allow us to replace premiums lost due to price reductions and normal attrition. We continue to monitor and modify selected rates and credits to address our competitive position.

The calendar year loss and loss expense ratio rose slightly over the three-year period. In recent years, we have seen generally higher costs for liability claims, including severe injuries, and we have sought rate increases for liability coverages that partially offset price decreases for physical damage coverages.

Pricing decreases and normal loss cost inflation also were primary drivers in the rise in the accident year loss and loss expense ratio before catastrophe losses over the past three years. In addition, the 2008 accident year loss and loss expense ratio rose by approximately 4 percentage points because of the refinements made to our IBNR reserve allocation by accident year.

Homeowner

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006	
	2008	2007	2006	Change %	Change %	
Homeowner:						
Written premiums	\$ 277	\$ 284	\$ 290	(2.5)	(2.1)	
Earned premiums	277	285	289	(2.6)	(1.6)	
Loss and loss expenses from:						
Current accident year before catastrophe losses	194	161	163	20.5	(1.7)	
Current accident year catastrophe losses	89	17	72	416.6	(76.1)	
Prior accident years before catastrophe losses	(9)	(3)	8	(235.4)	nm	
Prior accident year catastrophe losses	1	(7)	(3)	nm	(109.1)	
Total loss and loss expenses	\$ 275	\$ 168	\$ 240	63.7	(30.0)	
Ratios as a percent of earned premiums:						
Current accident year before catastrophe losses	69.9 %	56.5 %	56.6 %	13.4	(0.1)	
Current accident year catastrophe losses	32.1	6.0	24.9	26.1	(18.9)	
Prior accident years before catastrophe losses	(3.2)	(1.0)	2.7	(2.2)	(3.7)	
Prior accident year catastrophe losses	0.4	(2.5)	(1.2)	2.9	(1.3)	
Total loss and loss expense ratio	99.2 %	59.0 %	83.0 %	40.2	(24.0)	
Accident year loss and loss expenses incurred and ratios to earned premiums:						
Accident Year:	2008	2007	2006	2008	2007	2006
as of December 31, 2008	\$ 283	\$ 177	\$ 226	102.0 %	62.3 %	78.2 %
as of December 31, 2007		178	229		62.5	79.2
as of December 31, 2006			235			81.5

Written and earned premium trends in 2008 and 2007 reflected improved new business levels offset by higher reinsurance premiums in both years. Reinsurance premiums, including a reinstatement premium of \$8 million in 2008, were \$33 million in 2008, \$21 million in 2007 and \$16 million in 2006. The pricing changes of the past several years have had a positive effect on policyholder retention and new business activity. We continue to monitor and modify selected rates and credits to address our competitive position.

The calendar year loss and loss expense ratio over the past three years fluctuated with catastrophe losses. Catastrophe losses have been above our expected range in recent years, averaging 24.7 percent of homeowner earned premium from 2006 to 2008, compared with a five-year average of 20.9 percent.

The current accident year loss and loss expense ratio before catastrophe losses rose significantly in 2008, in part because of the decline in earned premiums, which largely reflected rate changes we made to keep our retention rate and new business at acceptable levels. Non-catastrophe weather-related losses contributed about 5 percentage points to the 2008 ratio. In addition, the refinements made to our IBNR reserve allocation by accident year and a lower estimate of salvage and subrogation reserves raised the ratio by about 2 percentage points.

Other Personal

(Dollars in millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Other personal:					
Written premiums	\$ 88	\$ 88	\$ 87	0.6	0.4
Earned premiums	87	87	88	0.1	(1.2)
Loss and loss expenses from:					
Current accident year before catastrophe losses	79	72	71	8.6	1.3
Current accident year catastrophe losses	6	2	6	271.0	(73.6)
Prior accident years before catastrophe losses	(30)	(33)	(25)	8.4	(28.3)
Prior accident year catastrophe losses	(1)	0	0	nm	nm
Total loss and loss expenses	\$ 54	\$ 41	\$ 52	32.5	(21.7)
Ratios as a percent of earned premiums:				Pt. Change	Pt. Change
Current accident year before catastrophe losses	89.9 %	82.9 %	81.0 %	7.0	1.9
Current accident year catastrophe losses	6.9	1.9	7.0	5.0	(5.1)
Prior accident years before catastrophe losses	(34.4)	(37.6)	(29.0)	3.2	(8.6)
Prior accident year catastrophe losses	(0.2)	(0.2)	0.4	0.0	(0.6)
Total loss and loss expense ratio	62.2 %	47.0 %	59.4 %	15.2	(12.4)

Accident year loss and loss expenses incurred and ratios to earned premiums:

Accident Year:	2008	2007	2006	2008	2007	2006
as of December 31, 2008	\$ 85	\$ 66	\$ 61	96.8 %	76.1 %	69.6 %
as of December 31, 2007		74	67		84.8	75.7
as of December 31, 2006			77			88.0

Other personal written premiums were essentially unchanged over the three-year period. The decline in the number of homeowner and personal auto policies over the past several years hindered growth in this business line since most of our other personal coverages are endorsed to homeowner or auto policies.

The calendar year loss and loss expense ratio for other personal deteriorated in 2008 after improving in 2007. Variations in catastrophe losses and favorable development on prior period reserves accounted for this result. Savings from favorable development on prior period reserves is high for this business line because personal umbrella losses, which are a major component of other personal losses, can fluctuate significantly.

LIFE INSURANCE RESULTS OF OPERATIONS

Overview – Three-year Highlights

Performance highlights for the life insurance segment include:

- Revenues – Driven by higher term life insurance premiums, earned premiums have grown over the past three years although separate account management fees have fluctuated, primarily reflecting a net realized capital loss sharing agreement between the separate account and the general account. Life insurance premiums have driven the increase in gross in-force policy face amounts to \$65.888 billion at year-end 2008 from \$61.875 billion at year-end 2007 and \$56.971 billion at year-end 2006.
- Profitability – The life insurance segment frequently reports only a small profit or loss on a GAAP basis because most of its investment income is included in investment segment results. We include only investment income credited to contract holders (interest assumed in life insurance policy reserve calculations) in life insurance segment results. The segment reported a \$4 million profit in 2008.

At the same time, we recognize that assets under management, capital appreciation and investment income are integral to evaluation of the success of the life insurance segment because of the long duration of life products. For that reason, we also evaluate GAAP data, including all investment activities on life insurance-related assets. Due to realized investment losses in 2008, the life insurance company reported a GAAP net loss of \$19 million compared with net profit of \$65 million in 2007 and \$63 million in 2006. The life insurance company portfolio had after-tax realized investment losses of \$58 million in 2008, including \$66 million in other-than-temporary impairment charges. For 2007 and 2006, realized investment losses were minimal, and we reported after-tax realized investment gains of \$26 million and \$29 million in those years. Realized investment gains and losses are discussed under Investments Results of Operations, Page 66.

Life Insurance Results

(In millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Written premiums	\$ <u>185</u>	\$ <u>167</u>	\$ <u>161</u>	11.0	3.2
Earned premiums	\$ <u>126</u>	\$ <u>125</u>	\$ <u>115</u>	0.8	9.0
Separate account investment management fees	<u>2</u>	<u>4</u>	<u>3</u>	(56.0)	25.1
Total revenues	<u>128</u>	<u>129</u>	<u>118</u>	(1.1)	9.5
Contract holders benefits incurred	<u>142</u>	<u>133</u>	<u>122</u>	6.1	9.2
Investment interest credited to contract holders	<u>(63)</u>	<u>(59)</u>	<u>(54)</u>	5.2	9.8
Operating expenses incurred	<u>45</u>	<u>52</u>	<u>51</u>	(12.8)	0.8
Total benefits and expenses	<u>124</u>	<u>126</u>	<u>119</u>	(1.2)	5.3
Life insurance segment profit (loss)	\$ <u>4</u>	\$ <u>3</u>	\$ <u>(1)</u>	0.9	nm

Life Insurance Growth

We market term, whole and universal life products, fixed annuities and disability income products. In addition, we offer term, whole and universal life and disability insurance to employees at their worksite. These products provide our property casualty agency force with excellent cross-serving opportunities for both commercial and personal accounts.

Earned premiums increased slightly in 2008 largely because of growth in our term insurance business. Total statutory life insurance net written premiums rose in 2008 to \$185 million, compared with \$167 million and \$161 million in 2007 and 2006. Total statutory written premiums for life insurance operations for all periods include life insurance, annuity and accident and health premiums. The increase in total statutory life insurance written premiums primarily was due to sales of term life insurance and annuity products.

Earned premiums for universal life products declined because fee income decreased 21 percent in 2008, principally reflecting an increase in our liability for unearned front-end loads, an actuarial adjustment.

Separate account investment management fee income contributed \$2 million to total revenue in 2008, compared with a \$4 million contribution in 2007 and \$3 million in 2006. These fees declined primarily because of a net realized capital loss sharing agreement between the separate account and the general account.

Over the past several years, we have worked to maintain a portfolio of simple, yet competitive products, primarily under the LifeHorizons banner. Our product development efforts emphasize death benefit protection and guarantees. Distribution expansion within our property casualty insurance agencies remains a high priority. In the past several years, we have added life field marketing representatives for the western, southeastern and northeastern states. Our 30 life field marketing representatives work in partnership with our more than 100 property casualty field marketing representatives. Approximately 71 percent of our term and other life insurance product premiums were generated through our property casualty insurance agency relationships.

Life Insurance Profitability

Life segment expenses consist principally of:

- Contract holders (policyholders) benefits incurred related to traditional life and interest-sensitive products accounted for 75.7 percent of 2008 total benefits and expenses compared with 71.9 percent in 2007 and 73.8 percent in 2006. Total benefits and expenses rose due to net death claims that increased but remained within our range of pricing expectations.
- Operating expenses incurred, net of deferred acquisition costs, accounted for 24.3 percent of 2008 total benefits and expenses compared with 28.1 percent in 2007 and 26.2 percent in 2006. Operating expenses declined on an absolute and percentage basis principally because of the level of deferred acquisition costs associated with new term life insurance policies.

Life segment profitability depends largely on premium levels, the adequacy of product pricing, underwriting skill and operating efficiencies. Life segment results include only investment interest credited to contract holders (interest assumed in life insurance policy reserve calculations). The remaining investment income is reported in the investment segment results. The life investment portfolio is managed to earn target spreads between earned investment rates on general account assets and rates credited to policyholders. We consider the value of assets under management and investment income for the life investment portfolio as key performance indicators for the life insurance segment.

We seek to maintain a competitive advantage with respect to benefits paid and reserve increases by consistently achieving better than average claims experience due to skilled underwriting. Commissions paid by the life insurance operation are on par with industry averages.

During the past several years, we have invested in imaging and workflow technology and have significantly improved application processing. We have achieved process efficiencies while improving our service. These

efficiencies have played a significant role in cost containment and in our ability to increase total premiums and policy count over the past 10 years with minimal headcount additions.

Life Insurance Outlook

The life insurance industry faced a difficult year as broad and deep dislocations in the financial markets led to investment losses. While our investments also suffered, Cincinnati Life finished 2008 with very strong statutory capital and surplus and risk based capital ratios.

The difficulties have been most acute for writers of variable and equity-indexed products. In addition to losing significant amounts of fee income, such writers must draw down on capital to establish additional reserves for product guarantees and they must pay a higher cost for hedging programs as the markets have declined and become more volatile. We have not entered the variable or equity-indexed market, so we are not subject to the severe costs associated with these products.

Companies writing competitively priced term life insurance also must deal with very conservative statutory reserves and the associated heavy capital requirements. Many term life writers have used capital market solutions to move redundant reserves off their balance sheets. The increased cost of these solutions has decreased their viability as a method for relieving reserve strain. Because of our financial strength, we have not had to employ these solutions, and their unavailability is not curtailing our ability to continue offering competitively priced term life insurance.

Some life companies are adopting new rules and/or requesting permitted practices from their domiciliary state that allow them to strengthen their statutory balance sheets by reducing their reserve and/or capital requirements. In view of our strong capital, we have elected not to follow such a course of action. Even in the current difficult business and economic environment, we believe that we are in a good position to grow at reasonable and profitable levels in 2009.

INVESTMENTS RESULTS OF OPERATIONS

Overview – Three-year Highlights

The investment segment contributes investment income and realized gains and losses to results of operations. Investments provide our primary source of pretax and after-tax profits.

- Investment income – Pretax investment income declined 11.6 percent in 2008, primarily because of dividend reductions by common and preferred holdings, including reductions during the year on positions subsequently sold or reduced. Investment income rose 6.6 percent to a record high in 2007 on strong cash flow for new investments, higher interest income from the healthy fixed-maturity portfolio and increased dividend income from the common stock portfolio.
- Realized investment gains and losses – We reported realized investment gains in all three years, largely due to investment sales that were discretionary in timing and amount. In 2008, those sales were offset by \$510 million of other-than-temporary impairment charges for the writedown of 126 securities.

Investment Results

(In millions)	Years ended December 31,			2008-2007 Change %	2007-2006 Change %
	2008	2007	2006		
Investment income:					
Interest	\$ 326	\$ 308	\$ 300	6.0	2.5
Dividends	204	294	262	(30.5)	12.1
Other	14	15	15	(4.5)	(0.5)
Investment expenses	(7)	(9)	(7)	12.6	(18.7)
Total investment income, net of expenses	537	608	570	(11.6)	6.6
Investment interest credited to contract holders	(63)	(59)	(54)	(5.2)	(9.8)
Realized investment gains and losses summary:					
Realized investment gains and losses	686	409	678	67.6	(39.6)
Change in fair value of securities with embedded derivatives	(38)	(11)	7	(243.8)	nm
Other-than-temporary impairment charges	(510)	(16)	(1)	nm	nm
Total realized investment gains and losses	138	382	684	(64.0)	(44.1)
Investment operations income	\$ 612	\$ 931	\$ 1,200	(34.2)	(22.4)

Investment Income

The primary drivers of investment income were:

- Interest income rose again in 2008. Purchases of new fixed maturity securities over the course of 2008 served to offset market value declines generally driven by macro factors. At year-end 2008, the fixed maturity portfolio was trading at 96.2 percent of book value compared with 101.1 percent at year-end 2007.

- Dividend income declined 30.5 percent in 2008 after rising in 2007 and 2006. Because our equity portfolio was heavily concentrated in the financial sector at the beginning of 2008, we experienced dividend reductions by many common and preferred holdings, including reductions during the year on positions subsequently sold or reduced.

We are investing available cash flow in both fixed income and equity securities with yields that we believe are likely to be more secure. This may slow the return to growth in investment income although we believe year-over-year comparisons may turn positive in the second half of 2009.

Net Realized Investment Gains and Losses

Net realized investment gains and losses are made up of realized investment gains and losses on the sale of securities, changes in the valuation of embedded derivatives within certain convertible securities and other-than-temporary impairment charges. These three areas are discussed below.

Investment gains or losses are recognized upon the sales of investments or as otherwise required under GAAP. The timing of realized gains or losses from sales can have a material effect on results in any quarter. However, such gains or losses usually have little, if any, effect on total shareholders' equity because most equity and fixed maturity investments are carried at fair value, with the unrealized gain or loss included as a component of other comprehensive income. Impairment charges are recorded for other-than-temporary declines in value if, in the asset impairment committee's judgment, there is little expectation that the value may be recouped within a designated recovery period. Other-than-temporary impairment losses represent non-cash charges to income.

Realized Investment Gains and Losses

As appropriate, we buy, hold or sell both fixed-maturity and equity securities on an ongoing basis to help achieve our portfolio objectives.

Pretax realized investment gains in the past three years largely were due to the sale of equity holdings.

In 2008, most of the gain was due to sales of holdings of common and preferred stocks of financial services issuers, reflecting our historical weighting in financial sector securities. The majority of these holdings were sold following reductions or elimination of their cash dividends to shareholders. Because of our low cost basis, we were able to record gains on many of these sales despite the decline in overall stock market values during 2008. Realized gains were lower in 2007, although we chose to take gains from partial sales of selected holdings and to sell other holdings because of general credit concerns that began in the subprime mortgage market and spread to other areas in the homebuilding and related industries over the course of 2007. The gain in 2006 largely was due to the sale of our entire Alltel common stock holding.

During the past three years, fixed maturity securities were divested as a result of calls or as outright sales executed to either improve yield prospects or in response to adverse credit concerns. Although we prefer to hold fixed-maturity investments until they mature, a decision to sell reflects our perception of a change in the underlying fundamentals of the security and preference to allocate those funds to investments that more closely meet our established parameters for long-term stability and growth. Our opinion that a security fundamentally no longer meets our investment parameters may reflect a loss of confidence in the issuer's management, a change in underlying risk factors (such as political risk, regulatory risk, sector risk or credit risk), or a strategic shift in business strategy that is not consistent with our long-term outlook.

Change in the Valuation of Securities with Embedded Derivatives

We have a small portfolio of convertible preferred stocks and bonds, which have an embedded derivative component under GAAP accounting rules. In 2008 and 2007, we recorded \$38 million and \$11 million in fair value declines compared with \$7 million in fair value increases in 2006. In 2008 and 2007, these changes in fair value were due to the application of SFAS No. 155, which allows us to account for the entire hybrid financial instrument at fair value, with changes recognized in realized investment gains and losses. In 2006, these changes in fair value were due to the application of SFAS No. 133, which required measurement of the fluctuations in the value of the embedded derivative features in selected convertible securities. The changes in fair values are recognized in net income in the period they occur. See the discussion of Derivative Financial Instruments and Hedging Activities in Item 8, Note 1 of the Consolidated Financial Statements, Page 98, for details on the accounting for convertible security embedded options.

Other-than-temporary Impairment Charges

In 2008, we recorded \$510 million in write-downs of 126 securities that we deemed had experienced an other-than-temporary decline in fair value versus \$16 million in 2007 and \$1 million in 2006. The factors we consider when evaluating impairments are discussed in Critical Accounting Estimates, Asset Impairment, Page 45. The other-than-temporary impairment charges in 2008 represented 5.7 percent of our total invested assets at year-end. Other-than-temporary impairment charges also include unrealized losses of holdings that we had identified for sale but not yet completed a transaction.

Other-than-temporary impairment charges from the investment portfolio by the asset class we described in Item 1, Investments Segment, Page 17, are summarized below:

(Dollars in millions)	Years ended December 31,		
	2008	2007	2006
Taxable fixed maturities:			
Impairment amount	\$ (162)	\$ (14)	\$ (1)
New book value	\$ 187	\$ 46	\$ 0
Percent to total owned	6 %	1 %	0 %
Number of securities impaired	86	18	1
Percent to total owned	10 %	2 %	0 %
Tax-exempt fixed maturities:			
Impairment amount	\$ (1)	\$ 0	\$ 0
New book value	\$ 1	\$ 0	\$ 0
Percent to total owned	0 %	0 %	0 %
Number of securities impaired	1	0	0
Percent to total owned	0 %	0 %	0 %
Common equities:			
Impairment amount	\$ (214)	\$ (2)	\$ 0
New book value	\$ 87	\$ 2	\$ 0
Percent to total owned	5 %	0 %	0 %
Number of securities impaired	9	2	0
Percent to total owned	18 %	4 %	0 %
Preferred equities:			
Impairment amount	\$ (133)	\$ 0	\$ 0
New book value	\$ 98	\$ 0	\$ 0
Percent to total owned	52 %	0 %	0 %
Number of securities impaired	30	0	0
Percent to total owned	86 %	0 %	0 %
Total:			
Impairment amount	\$ <u>(510)</u>	\$ <u>(16)</u>	\$ <u>(1)</u>
New book value	\$ <u>373</u>	\$ <u>48</u>	\$ <u>0</u>
Percent to total owned	5 %	1 %	0 %
Number of securities impaired	<u>126</u>	<u>20</u>	<u>1</u>
Percent to total owned	6 %	1 %	0 %

Other-than-temporary impairment charges from the investment portfolio by industry are summarized as follows:

(In millions)	Years ended December 31,		
	2008	2007	2006
Fixed maturities:			
Financial	\$ (72)	\$ (4)	\$ 0
Real estate	(49)	0	0
Consumer cyclical	(14)	(1)	(1)
Service cyclical	(17)	(6)	0
Other	(11)	(3)	0
Total fixed maturities	<u>(163)</u>	<u>(14)</u>	<u>(1)</u>
Common equities:			
Financial	(184)	0	0
Health	(30)	0	0
Real estate	0	(2)	0
Total common equities	<u>(214)</u>	<u>(2)</u>	<u>0</u>
Preferred equities:			
Financial	(132)	0	0
Other	(1)	0	0
Total preferred equities	<u>(133)</u>	<u>0</u>	<u>0</u>
Total	\$ <u>(510)</u>	\$ <u>(16)</u>	\$ <u>(1)</u>

The increase in other-than-temporary impairment charges in 2008 was largely due to writedowns of holdings of bonds and common and preferred stocks of financial services issuers, reflecting our historical weighting in this sector and the decline in overall stock market values during 2008. Impairment charges rose slightly in 2007 on the initial concerns regarding the real estate market. While we own only \$30 million of

mortgage backed securities in our investment portfolio, we do own investments in industries directly affected by this credit environment.

Investments Outlook

We continue to focus on portfolio strategies to balance near-term income generation and long-term book value growth. In 2009, we expect to continue to allocate a portion of cash available for investment to equity securities, taking into consideration corporate liquidity and income requirements, as well as insurance department regulations and ratings agency comments. We discuss our portfolio strategies in Item 1, Investments Segment, Page 17.

We believe a continuation of the current credit environment, if exacerbated by recessionary economic conditions, could lead to further declines in portfolio values and additional other-than-temporary impairment charges. All but 83 securities of the 2,223 securities in the portfolio were trading at or above 70 percent of book value at year-end 2008. Our asset impairment committee continues to monitor the investment portfolio. The current asset impairment policy is described in Critical Accounting Estimates, Asset Impairment, Page 45.

OTHER

Revenues were relatively stable over the three years for our Other business. This includes the other income of our standard market insurance subsidiary, as well as non-investment operations of the parent company and its subsidiaries, CFC Investment Company and CinFin Capital Management Company (excluding client investment activities). In 2008, we also include results of our surplus lines operations, The Cincinnati Specialty Underwriters Insurance Company and CSU Producer Resources.

Losses before income taxes for our Other business were largely driven by interest expense from debt of the parent company. In 2008, the loss also reflected expenses related to the surplus lines operation.

(In millions)	Years ended December 31,			2008-2007	2007-2006
	2008	2007	2006	Change %	Change %
Interest and fees on loans and leases	\$ 8	\$ 10	\$ 11	(21.1)	(9.5)
Earned premiums	5	0	0	nm	nm
Money management fees	2	3	2	(29.2)	4.0
Other revenues	1	2	1	(27.8)	398.8
Total revenues	<u>16</u>	<u>15</u>	<u>14</u>	6.6	7.1
Interest expense	53	51	53	3.8	(3.1)
Losses and loss expenses	5	0	0	nm	nm
Underwriting expenses	5	1	0	318.9	nm
Operating expenses	17	9	12	74.3	(19.8)
Total expenses	<u>80</u>	<u>61</u>	<u>65</u>	20.8	(4.4)
Pre-tax loss	\$ <u>(64)</u>	\$ <u>(46)</u>	\$ <u>(51)</u>	(25.3)	7.6

TAXES

We had \$111 million of income tax expense in 2008 compared with \$337 million in 2007 and \$399 million in 2006. The effective tax rate for 2008 was 20.7 percent compared with 28.3 percent in 2007 and 30.0 percent in 2006.

The primary reason for the change in the effective tax rate was the level and timing of realized gains as discussed in Investments Results of Operations, Page 66. In 2008, we had pretax realized gains of \$138 million compared with pretax gains of \$382 million in 2007 and \$684 million in 2006. Growth in the tax-exempt municipal bond portfolio, lower investment income from dividends and changes in operating earnings over the periods also contributed to the change in the effective tax rate for 2008.

We pursue a strategy of investing some portion of cash flow in tax-advantaged fixed-maturity and equity securities to minimize our overall tax liability and maximize after-tax earnings. For our insurance subsidiaries, approximately 85 percent of income from tax-advantaged fixed-maturity investments is exempt from federal tax. Our non-insurance companies own no tax-advantaged fixed-maturity investments. For our insurance subsidiaries, the dividend received deduction, after the dividend proration of the 1986 Tax Reform Act, exempts approximately 60 percent of dividends from qualified equities from federal tax. For our non-insurance subsidiaries, the dividend received deduction exempts 70 percent of dividends from qualified equities. Details about our effective tax rate are found in Item 8, Note 11 of the Consolidated Financial Statements, Page 111.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and capital resources represent the overall financial strength of our company and our ability to generate cash flows to meet the short- and long-term cash requirements of business obligations and growth needs. We seek to maintain prudent levels of liquidity and financial strength for the protection of our policyholders, creditors and shareholders. We manage liquidity at two levels. The first is the liquidity of the parent company. The second is the liquidity of our insurance subsidiary. The management of liquidity at both levels is essential because each has different funding needs and sources and each is subject to certain regulatory guidelines and requirements.

Parent Company Liquidity

The parent company's primary means of meeting liquidity requirements are dividends from our insurance subsidiary, investment income and after-tax sale proceeds from investments held at the parent company level. The parent company's primary contractual obligations are interest and principal payments on long- and short-term debt as described under Contractual Obligations, Page 73. Other uses of parent company cash include general operating expenses described under Other Commitments, Page 73, as well as dividends to shareholders and common stock repurchases.

This table shows a summary of the major sources and uses of liquidity by the parent company:

(In millions)	Years ended December 31,		
	2008	2007	2006
Sources of liquidity:			
Dividends received from insurance subsidiary	\$ 220	\$ 450	\$ 275
Dividend received from other operating subsidiaries	10	0	0
Investment income	68	101	98
Uses of liquidity:			
Interest on debt	\$ 53	\$ 52	\$ 51
Pension payments	34	10	0
Dividends to shareholders	250	240	228
Purchase of treasury shares	139	307	120

At the discretion of the board of directors, the company can return cash directly to shareholders:

- Dividends to shareholders – Over the past 10 years, the company has paid an average of 38.5 percent of net income as dividends. Dividends paid over the period have averaged 2.9 percent of beginning shareholders' equity. The ability of the company to continue paying cash dividends is subject to factors the board of directors may deem relevant.

Through 2008, the board had increased our cash dividend for 48 consecutive years. In February 2009, the board of directors cited current economic and market conditions as it chose to continue for later discussion the potential for an increase in the 2009 dividend payout level. While the board and management believe there is merit to sustaining the company's record of dividend increases, our first priority is the company's financial strength.

- Common stock repurchase – Generally, our board believes that stock repurchases can help fulfill our commitment to enhancing shareholder value. Consequently, the board has authorized the repurchase of outstanding shares, giving management discretion to purchase shares at reasonable prices in light of circumstances at the time of purchase, pursuant to SEC regulations.

In 2008, we repurchased 3.8 million shares, all in the first six months of the year. As economic and market conditions deteriorated, we choose to preserve capital rather than continue repurchase activity. In the past, repurchases have occurred when we believe that stock prices on the open market are favorable for such repurchases. Our corporate code of conduct restricts repurchases during certain time periods. At a minimum, we historically have repurchased to offset dilution from share-based compensation.

The details of the repurchase authorizations and activity are described in Item 5, Related Stockholder Matters and Issuer Purchases of Equity Securities, Page 32. Between February 1999 and year-end 2008, we have repurchased 28.7 million shares at a total cost to the company of \$1.105 billion. We do not adjust the number of shares repurchased and average price per repurchased share for stock dividends.

Insurance Subsidiary Liquidity

Our insurance subsidiary's primary means of meeting liquidity requirements are investment income and after-tax sale proceeds from investments held at the subsidiary level and collection of insurance premiums. Property casualty insurance premiums generally are received before losses are paid under the policies purchased with those premiums. While first-year life insurance expenses normally exceed first-year

premiums, subsequent premiums are used to generate investment income until the policy benefits are paid or the policy term expires.

Our insurance subsidiary's primary contractual obligations are property casualty loss and loss expenses and life policyholder obligations as well as certain ongoing operating expenses as shown under Contractual Obligations, Page 73. Other uses of insurance subsidiary cash include payments of dividends to the parent company and other operating expenses as discussed under Other Commitments, Page 73.

This table shows a summary of operating cash flow of the insurance subsidiary (direct method):

(In millions)	Years ended December 31,		
	2008	2007	2006
Premiums collected	\$ 3,163	\$ 3,256	\$ 3,285
Loss and loss expenses paid	(2,064)	(1,888)	(1,859)
Commissions and other underwriting expenses paid	(1,078)	(1,053)	(1,036)
Insurance subsidiary cash flow from underwriting	21	315	390
Investment income received	481	505	471
Insurance subsidiary operating cash flow	\$ 502	\$ 820	\$ 861

Over the past three years, cash receipts from property casualty and life insurance premiums, along with investment income, have been more than sufficient to pay claims, operating expenses and dividends to the parent company. We discuss the factors that affected insurance operations in Commercial Lines and Personal Lines Insurance Results of Operations, Page 51 and Page 59.

Additional Sources of Liquidity

Investing is a primary source of liquidity for both the parent company and insurance subsidiary. At both the parent company and insurance subsidiary, cash in excess of operating requirements is invested in fixed-maturity and equity securities. Equity securities provide the potential for future increases in dividend income and for appreciation. In Item 1, Investments Segment, Page 17, we discuss our investment strategy, portfolio allocation and quality.

Income from our investments is the most important investment contribution to cash flow. After-tax proceeds of call or maturities also can provide liquidity. Although we have never sold investments to make claims payments, the sale of investments could provide an additional source of liquidity at either the parent company or insurance subsidiary level, if required, although we follow a buy-and-hold investment philosophy seeking to compound cash flows over the long-term. At year-end 2008, total unrealized gains in the investment portfolio, before deferred income taxes, were \$588 million, down from \$3.339 billion at year-end 2007, because of investment sales and market value declines of our equity holdings.

Further, financial resources of the parent company also could be made available to our insurance subsidiary, if circumstances required. This would include our ability to access the capital markets and short-term bank borrowings.

One way we seek to maintain a solid financial position and provide capital flexibility is by keeping our ratio of debt to total capital low. We now are targeting a ratio below 20 percent. At year-end 2008, the ratio was 16.7 percent compared with 12.7 percent at year-end 2007. The change was due entirely to the lower level of shareholders' equity at year-end 2008. Based on our present capital requirements, we do not believe we will need to materially increase debt levels during 2009. As a result, we believe that changes in our debt-to-capital ratio will again be a function of changes in shareholders' equity.

We had \$791 million of long-term debt and \$49 million in borrowings on our short-term lines of credit at year-end 2008. We generally have minimized our reliance on debt financing although we may use lines of credit to fund short-term cash needs.

Long-term Debt

We provide details of our three long-term notes in Item 8, Note 8 of the Consolidated Financial Statements, Page 109. None of the notes are encumbered by rating triggers:

- \$392 million aggregate principal amount of 6.92% senior debentures due 2028.
- \$28 million aggregate principal amount of 6.9% senior debentures due 2028.
- \$375 million aggregate principal amount of 6.125% senior debentures due 2034.

On December 22, 2008, A.M. Best removed our ratings from under review with negative implications, raised the outlook to stable and lowered Cincinnati Financial Corporation's issuer credit rating and senior debt ratings to a from aa-; the issuer credit ratings of our standard market property casualty insurance group and member companies to aa from aa+; and the issuer credit ratings of our life insurance subsidiary to a+ from aa-.

On February 13, 2009, Fitch Ratings affirmed the ratings it had assigned on July 17, 2008, when it lowered the issuer default rating of Cincinnati Financial Corporation to A from AA- and its senior debt ratings to A- from A+, with a negative outlook.

Moody's Investors Service removed our ratings from review on September 25, 2008, lowering the senior debt rating of Cincinnati Financial Corporation to A3 from A2 with a stable outlook. Moody's maintained a two-notch spread between the debt rating and insurance financial strength ratings due to significant financial flexibility and liquidity afforded by the holding company's large investment portfolio representing over 100 percent of its outstanding debt.

Standard & Poor's Ratings Services removed our counterparty credit ratings from credit watch on June 30, 2008, lowering Cincinnati Financial Corporation to BBB+ and our standard market property casualty insurance companies and our life insurance subsidiary to A+ with a negative outlook.

Short-term Debt

At year-end 2008, we had two lines of credit with commercial banks amounting to \$225 million with \$49 million outstanding.

Our \$75 million unsecured line of credit with PNC Bank, N.A. was established more than five years ago and was renewed effective June 30, 2008 for a one-year term to expire on June 30, 2009. The line has no financial covenants, and we currently believe we may be able to renew it under terms and conditions that are essentially unchanged. CFC Investment Company, a subsidiary of Cincinnati Financial Corporation, also is a borrower under this line of credit. At year-end 2008, there was \$49 million outstanding on this line of credit at a rate of LIBOR plus 50 basis points. PNC Bank is a subsidiary of PNC Financial Services Group, Inc. (NYSE:PNC)

The second line of credit is an unsecured \$150 million revolving line of credit administered by The Huntington National Bank. It was established in 2007 and will mature in 2012. The line contains customary financial covenants that we presently meet. It is to be used for general corporate purposes. We borrowed \$20 million against the line in 2007, which was repaid during 2008.

The line of credit includes a swing line sub-facility for same-day borrowing in the amount of \$35 million. The credit agreement provides alternative interest charges based on the type of borrowing and our debt rating. The interest rate charged for an advancement is adjusted LIBOR plus the applicable margin. Based on our debt ratings at year-end 2008, interest for Eurodollar rate advances is adjusted LIBOR plus 33 basis points, and for floating rate advances is adjusted LIBOR. Utilization and commitment fees based on Cincinnati Financial Corporation's current debt rating are 5 basis points and 8 basis points, respectively. CFC Investment Company, a subsidiary of Cincinnati Financial Corporation, is a co-borrower under the agreement.

The Huntington National Bank, a subsidiary of Huntington Bancshares Inc. (NASDAQ:HBAN), is the lead participant with a \$75 million share. U.S. Bancorp (NYSE:USB), Bank of America (NYSE:BAC) and Northern Trust Corporation (NASDAQ: NTRS) also participate, each providing \$25 million of capacity.

Liquidity and Capital Resources Outlook

A long-term perspective governs all of our major decisions, with the goal of benefiting our policyholders, agents, shareholders and associates over time. Exacerbating the effect of our weaker insurance results, the ongoing instability of the financial markets in 2008 highlighted the value of building a cushion of financial strength over a period of years. In responding to current economic pressures, we are confident in the steps we have taken to protect our capital. We also are confident in our strategies to return our insurance operations to growth and profitability.

Our consistent cash flows and prudent cash balances continue to create exceptional liquidity. We enter 2009 with slightly more than \$1 billion in cash and cash equivalents on hand, in part due to an unusual level of investment sales and bond calls in the second half of 2008, as well as unusual challenges in making new investments due to economic and market conditions. That high cash level gives us the flexibility to meet current obligations while building value by prudently investing where we see potential for both current income and long-term return.

In any year, we consider the most likely source of pressure on liquidity would be an unusually high level of catastrophe losses in a short period of time. This could create additional obligations for our insurance operations by increasing the severity or frequency of claims. To address the risk of unusual insurance loss obligations including catastrophe events, we maintain property casualty reinsurance contracts with highly rated reinsurers, as discussed under 2009 Reinsurance Programs, Page 81. We also monitor the financial condition of our reinsurers because an insolvency could place in jeopardy a portion of our \$759 million in outstanding reinsurance recoverables as of December 31, 2008.

Continued economic weakness also has the potential to affect our liquidity and capital resources in a number of different ways, including: delinquent payments from agencies, defaults on interest payments by fixed-maturity holdings in our portfolio, dividend reductions by holdings in our equity portfolio or declines in the market value of holdings in our portfolio.

Further, parent company liquidity could be constrained by State of Ohio regulatory requirements that restrict the dividends insurance subsidiaries can pay. During 2009, total dividends that our insurance subsidiary can pay to our parent company without regulatory approval are approximately \$336 million.

Off-balance Sheet Arrangements

We do not use any special-purpose financing vehicles or have any undisclosed off-balance sheet arrangements (as that term is defined in applicable SEC rules) that are reasonably likely to have a current or future material effect on the company's financial condition, results of operation, liquidity, capital expenditures or capital resources. Similarly, the company holds no fair-value contracts for which a lack of marketplace quotations would necessitate the use of fair-value techniques.

OBLIGATIONS

We pay obligations to customers, suppliers and associates in the normal course of our business operations. Some are contractual obligations that define the amount, circumstances and/or timing of payments. We have other commitments for business expenditures, however, the amount, circumstances and/or timing of our other commitments are not dictated by contractual arrangements.

Other Commitments

As of December 31, 2008, we believe our most significant other commitments are:

- Qualified pension plan – In 2009, we currently estimate a voluntary cash contribution of \$33 million to pension plan assets. Our results of operation would reflect an anticipated \$11 million net pension expense and an estimated \$8 million expense for company 401(k) contributions. Going forward, potential savings due to lower funding requirements for the pension plan are expected to be offset by the company 401(k) contributions. We chose to transition away from a defined benefit plan to reduce the company's future market risk while offering associates an up-to-date, more flexible benefits program. We discuss the change to the pension plan and future contributions in Item 8, Note 13 to the Consolidated Financial Statements, Page 113.
- Commissions – We expect commission payments to generally track with written premiums. We discuss commission trends in the Commercial Lines and Personal Lines Insurance Results of Operations, Page 51 and Page 59.
- Other operating expenses – Many of our operating expenses are not contractual obligations but reflect the ongoing expenses of our business. Non-commission operating expenses paid rose in the past two years.
 - Staffing – Staffing expenses are the largest component of our operating expenses. We expect a minimal increase in staffing expenses in 2009. Recent growth in our associate base has been largely limited to positions supporting enhanced service and technology to our agencies and staffing additional field territories.
 - Technology – In addition to contractual obligations for hardware and software discussed below, we anticipate capitalizing approximately \$50 million in spending for key technology initiatives in 2009. Technology projects are discussed in Item 1, Strategic Initiatives, Page 7. Capitalized development costs related to key technology initiatives totaled \$38 million in 2008. These activities are conducted at our discretion, and we have no material contractual obligations for activities planned as part of these projects.

Contractual Obligations

As of December 31, 2008, we estimate our future contractual obligations as follows:

(In millions)	Payment due by period				Total
	Year 2009	Years 2010-2011	Years 2012-2013	There- after	
Gross property casualty loss and loss expense payments	\$ 1,247	\$ 1,330	\$ 579	\$ 884	\$ 4,040
Gross life policyholder obligations	50	66	102	3,295	3,513
Interest on long-term debt	52	104	104	892	1,152
Long-term debt	0	0	0	795	795
Short-term debt	49	0	0	0	49
Profit-sharing commissions	75	0	0	0	75
Operating property	6	1	0	0	7
Capital lease obligations	7	7	0	0	14
Computer hardware and software	6	10	5	0	21
Other invested assets	8	10	9	7	34
Liability for uncertain tax positions	0	2	0	0	2
Total	\$ 1,500	\$ 1,530	\$ 799	\$ 5,873	\$ 9,702

Our most significant contractual obligations are discussed in conjunction with related insurance reserves in Gross Property Casualty Loss and Loss Expense Payments and Gross Life Insurance Policyholder Obligations on Page 74 and Page 80, respectively. Other future contractual obligations include:

- Interest on long- and short-term debt – We expect total interest expense to be approximately \$53 million in 2009. We discuss outstanding debt in Additional Sources of Liquidity, Page 71.
- Profit-sharing commissions – Profit-sharing, or contingent, commissions are paid to agencies using a formula that takes into account agency profitability and other factors. We estimate 2009 contingent commission payments of approximately \$75 million. We discuss commission expense trends in Commercial Lines and Personal Lines Results of Operations, Page 51 and Page 59.
- Computer hardware and software – We expect to need approximately \$21 million over the next three years for current material commitments for computer hardware and software, including maintenance contracts on hardware and other known obligations. We discussed above the non-contractual expenses we anticipate for computer hardware and software in 2009.
- Operating property – We expect to invest a total of \$9 million, including \$7 million over the next two years to renovate an unoccupied building several miles from our headquarters for use as a business continuity center.

Property Casualty Loss and Loss Expense Obligations and Reserves

Gross Property Casualty Loss and Loss Expense Payments

Our estimate of future gross property casualty loss and loss expense payments of \$4.040 billion is lower than loss and loss expense reserves of \$4.086 billion as of year-end 2008. The \$46 million difference is due to life and health loss reserves, as discussed in Item 8, Note 5 of the Consolidated Financial Statements, Page 108.

While we believe that historical performance of property casualty and life loss payment patterns is a reasonable source for projecting future claims payments, there is inherent uncertainty in this estimate of contractual obligations. We believe that we could meet our obligations under a significant and unexpected change in the timing of these payments because of the liquidity of our invested assets, strong financial position and access to lines of credit.

Our estimates of gross property casualty loss and loss expense payments also do not include reinsurance receivables or ceded losses. As discussed in 2009 Reinsurance Programs, Page 81, we purchase reinsurance to mitigate our property casualty risk exposure. Ceded property casualty reinsurance receivables of \$542 million at year-end 2008 are an offset to our gross property casualty loss and loss expense obligations. Our reinsurance program mitigates the liquidity risk of a single large loss or an unexpected rise in claims severity or frequency due to a catastrophic event. Reinsurance does not relieve us of our obligation to pay covered claims. The financial strength of our reinsurers is important because our ability to recover for losses under one of our reinsurance agreements depends on the financial viability of the reinsurer.

We direct our associates and agencies to settle claims and pay losses as quickly as is practical and made \$1.955 billion in net claim payments during 2008. At year-end 2008, net property casualty reserves reflected \$2.009 billion in unpaid amounts on reported claims (case reserves), \$802 million in loss expense reserves and \$687 million in estimates of claims that were incurred but had not yet been reported (IBNR). The specific amounts and timing of obligations related to case reserves and associated loss expenses are not set contractually. The amounts and timing of obligations for IBNR claims and related loss expenses are unknown. We discuss our methods to establish loss and loss expense reserves and our belief that reserves are adequate in Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 41.

The historical pattern of using premium receipts for the payment of loss and loss expenses has enabled us to extend slightly the maturities of our investment portfolio beyond the estimated settlement date of the loss reserves. The effective duration of our fixed-maturity portfolio was 5.4 years at year-end 2008. By contrast, the duration of our loss and loss expense reserves was 3.0 years, and the duration of all insurance operation liabilities was 3.3 years. We believe this difference in duration does not affect our ability to meet current obligations because cash flow from operations is sufficient to meet these obligations. In addition, investment holdings could be liquidated, if necessary, to meet higher than anticipated loss and loss expenses.

Range of Reasonable Reserves

The company established a reasonably likely range for net loss and loss expense reserves of \$3.256 billion to \$3.592 billion at year-end 2008, with the company carrying net reserves of \$3.498 billion. The likely range was \$3.132 billion to \$3.427 billion at year-end 2007, with the company carrying net reserves of \$3.397 billion. Our loss and loss expense reserves are not discounted for the time-value of money, but we have reduced the reserves by an estimate of the amount of salvage and subrogation payments we expect to recover. We provide a reconciliation of the property casualty reserves with the loss and loss expense reserve as shown on the balance sheet in Item 8, Note 5 of the Consolidated Financial Statements, Page 108.

The low point of each year's range corresponds to approximately one standard error below each year's mean reserve estimate, while the high point corresponds to approximately one standard error above each year's mean reserve estimate. We discussed management's reasons for basing reasonably likely reserve ranges on standard errors in Critical Accounting Estimates, Reserve Estimate Variability, Page 43.

The ranges reflect our assessment of the most likely unpaid loss and loss expenses at year-end 2008 and 2007. However, actual unpaid loss and loss expenses could nonetheless fall outside of the indicated ranges. Management's best estimate of total loss reserves as of year-end 2008 was consistent with the corresponding actuarial best estimate. Management's best estimate of total loss reserves as of year-end 2007 also was consistent with the corresponding actuarial best estimate.

Development of Loss and Loss Expenses

We reconcile the beginning and ending balances of our reserves for loss and loss expenses at December 31, 2008, 2007 and 2006, in Item 8, Note 5 of the Consolidated Financial Statements, Page 108. The reconciliation of our year-end 2007 reserve balance to net incurred losses one year later recognizes approximately \$323 million of redundant reserves.

The table on the following page shows the development of estimated reserves for loss and loss expenses the past 10 years.

- Section A shows our total property casualty loss and loss expense reserves recorded at the balance sheet date for each of the indicated calendar years on a gross and net basis. Those reserves represent the estimated amount of unpaid loss and loss expenses for claims arising in the indicated calendar year and all prior accident years at the balance sheet date, including losses that were incurred but not yet reported to the company.
- Section B shows the cumulative net amount paid with respect to the previously recorded reserve as of the end of each succeeding year. For example, as of December 31, 2008, we had paid \$1.429 billion of loss and loss expenses in calendar years 1999 through 2008 for losses that occurred in accident years 1998 and prior. An estimated \$170 million of losses remained unpaid as of year-end 2009 (net re-estimated reserves of \$1.599 billion from Section C less cumulative paid loss and loss expenses of \$1.429 billion).
- Section C shows the re-estimated amount of the previously reported reserves based on experience as of the end of each succeeding year. The estimate is increased or decreased as we learn more about the development of the related claims.
- Section D, cumulative net redundancy, represents the aggregate change in the estimates for all years subsequent to the year the reserves were initially established. For example, reserves established at December 31, 1998, had developed a \$241 million redundancy over 10 years, net of reinsurance, which was reflected in income over the 10 years. The table shows favorable development in redundant reserves as a negative number. The reconciliation shows the effects on income in 2008, 2007 and 2006 of changes in estimates of the reserves for loss and loss expenses for all accident years.

In evaluating the development of our estimated reserves for loss and loss expenses for the past 10 years, note that each amount includes the effects of all changes in amounts for prior periods. For example, payments or reserve adjustments related to losses settled in 2008 but incurred in 2002 are included in the cumulative deficiency or redundancy amount for 2002 and each subsequent year. In addition, this table presents calendar year data, not accident or policy year development data, which readers may be more accustomed to analyzing. Conditions and trends that affected development of the reserves in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on this data.

Differences between the property casualty reserves reported in the accompanying consolidated balance sheets (prepared in accordance with GAAP) and those same reserves reported in the annual statements (filed with state insurance departments in accordance with statutory accounting practices – SAP), relate principally to the reporting of reinsurance recoverables, which are recognized as receivables for GAAP and as an offset to reserves for SAP.

Development of Estimated Reserves for Loss and Loss Expenses

(In millions)	Calendar year ended December 31,										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
A. Originally reported reserves for unpaid loss and loss expenses:											
Gross of reinsurance	\$ 1,978	\$ 2,093	\$ 2,401	\$ 2,865	\$ 3,150	\$ 3,386	\$ 3,514	\$ 3,629	\$ 3,860	\$ 3,925	\$ 4,040
Reinsurance recoverable	138	161	219	513	542	541	537	518	504	528	542
Net of reinsurance	<u>\$ 1,840</u>	<u>\$ 1,932</u>	<u>\$ 2,182</u>	<u>\$ 2,352</u>	<u>\$ 2,608</u>	<u>\$ 2,845</u>	<u>\$ 2,977</u>	<u>\$ 3,111</u>	<u>\$ 3,356</u>	<u>\$ 3,397</u>	<u>\$ 3,498</u>
B. Cumulative net paid as of:											
One year later	\$ 522	\$ 591	\$ 697	\$ 758	\$ 799	\$ 817	\$ 907	\$ 944	\$ 1,006	\$ 979	
Two years later	833	943	1,116	1,194	1,235	1,293	1,426	1,502	1,547		
Three years later	1,067	1,195	1,378	1,455	1,519	1,626	1,758	1,845			
Four years later	1,207	1,327	1,526	1,614	1,716	1,823	1,963				
Five years later	1,283	1,412	1,623	1,717	1,823	1,945					
Six years later	1,333	1,464	1,680	1,778	1,889						
Seven years later	1,366	1,496	1,717	1,819							
Eight years later	1,390	1,520	1,750								
Nine years later	1,409	1,545									
Ten years later	1,429										
C. Net reserves re-estimated as of:											
One year later	\$ 1,724	\$ 1,912	\$ 2,120	\$ 2,307	\$ 2,528	\$ 2,649	\$ 2,817	\$ 2,995	\$ 3,112	\$ 3,074	
Two years later	1,728	1,833	2,083	2,263	2,377	2,546	2,743	2,871	2,893		
Three years later	1,636	1,802	2,052	2,178	2,336	2,489	2,657	2,724			
Four years later	1,615	1,771	2,010	2,153	2,299	2,452	2,578				
Five years later	1,608	1,757	1,999	2,127	2,276	2,414					
Six years later	1,602	1,733	1,992	2,122	2,259						
Seven years later	1,577	1,739	1,994	2,111							
Eight years later	1,593	1,746	1,986								
Nine years later	1,603	1,741									
Ten years later	1,599										
D. Cumulative net redundancy as of:											
One year later	\$ (116)	\$ (20)	\$ (62)	\$ (45)	\$ (80)	\$ (196)	\$ (160)	\$ (116)	\$ (244)	\$ (323)	
Two years later	(112)	(99)	(99)	(89)	(231)	(299)	(234)	(240)	(463)		
Three years later	(204)	(130)	(130)	(174)	(272)	(356)	(320)	(387)			
Four years later	(225)	(161)	(172)	(199)	(309)	(393)	(399)				
Five years later	(232)	(175)	(183)	(225)	(332)	(431)					
Six years later	(238)	(199)	(190)	(230)	(349)						
Seven years later	(263)	(193)	(188)	(241)							
Eight years later	(247)	(186)	(196)								
Nine years later	(237)	(191)									
Ten years later	(241)										
Net reserves re-estimated—latest	\$ 1,599	\$ 1,741	\$ 1,986	\$ 2,111	\$ 2,259	\$ 2,414	\$ 2,578	\$ 2,724	\$ 2,893	\$ 3,074	
Re-estimated recoverable—latest	211	218	245	517	552	532	553	518	525	513	
Gross liability re-estimated—latest	<u>\$ 1,810</u>	<u>\$ 1,959</u>	<u>\$ 2,231</u>	<u>\$ 2,628</u>	<u>\$ 2,811</u>	<u>\$ 2,946</u>	<u>\$ 3,131</u>	<u>\$ 3,242</u>	<u>\$ 3,418</u>	<u>\$ 3,587</u>	
Cumulative gross redundancy	<u>\$ (168)</u>	<u>\$ (134)</u>	<u>\$ (170)</u>	<u>\$ (237)</u>	<u>\$ (339)</u>	<u>\$ (440)</u>	<u>\$ (383)</u>	<u>\$ (387)</u>	<u>\$ (442)</u>	<u>\$ (338)</u>	

Asbestos and Environmental Reserves

We carried \$114 million of net loss and loss expense reserves for asbestos and environmental claims as of year-end 2008, compared with \$123 million for such claims as of year-end 2007. These amounts constitute 2.8 percent and 3.1 percent of total loss and loss expense reserves as of these year-end dates.

We believe our exposure to asbestos and environmental claims is limited, largely because our reinsurance retention was \$500,000 or below prior to 1987. We also predominantly were a personal lines company in the 1960s and 1970s when asbestos and pollution exclusions were not widely used. During the 1980s and early 1990s, commercial lines grew as a percentage of our overall business and our exposure to asbestos and environmental claims grew accordingly. Over that period, we endorsed to or included in most policies an asbestos and environmental exclusion.

Additionally, since 2002, we have revised policy terms where permitted by state regulation to limit our exposure to mold claims prospectively and further reduce our exposure to other environmental claims generally. Finally, we have not engaged in any mergers or acquisitions through which such a liability could have been assumed. We continue to monitor our claims for evidence of material exposure to other mass tort classes such as silicosis, but we have found no such credible evidence to date.

Reserving data for asbestos and environmental claims has characteristics that limit the usefulness of the methods and models used to analyze loss and loss expense reserves for other claims. Specifically, asbestos and environmental loss and loss expenses for different accident years do not emerge independently of one another as loss development and Bornhuetter-Ferguson methods assume. In addition, asbestos and

environmental loss and loss expense data available to date does not reflect a well-defined tail, greatly complicating the identification of an appropriate probabilistic trend family model.

Due to these considerations, our actuarial staff elected to use a paid survival ratio method to estimate reserves for incurred but not yet reported asbestos and environmental claims. Although highly uncertain, reserve estimates obtained via this method have held up reasonably well since 2004. Between 2006 and 2008, total asbestos and environmental reserves decreased 11.6 percent. Our exposure to such claims is limited; therefore, we do not believe that a more detailed reserve analysis would be an appropriate use of resources.

Commercial Lines Insurance Segment Reserves

For the business lines in the commercial lines insurance segment, the following table shows the breakout of gross reserves among case, IBNR and loss expense reserves. The rise in total gross reserves for our commercial business lines is partially due to normal loss cost inflation and exposure growth in our workers' compensation business line, the higher level of catastrophe losses in 2008 and an increase in larger surety and executive risk losses, as discussed in Commercial Lines Insurance Results of Operations, Page 51.

(In millions)	Loss reserves		Loss expense reserves	Total gross reserves	Percent of total
	Case reserves	IBNR reserves			
At December 31, 2008					
Commercial casualty	\$ 1,046	\$ 327	\$ 527	\$ 1,900	52.0 %
Commercial property	135	7	32	174	4.8
Commercial auto	276	48	65	389	10.6
Workers' compensation	445	353	126	924	25.3
Specialty packages	74	1	10	85	2.3
Surety and executive risk	129	(4)	50	175	4.8
Machinery and equipment	3	3	1	7	0.2
Total	<u>\$ 2,108</u>	<u>\$ 735</u>	<u>\$ 811</u>	<u>\$ 3,654</u>	<u>100.0 %</u>
At December 31, 2007					
Commercial casualty	\$ 1,035	\$ 389	\$ 524	\$ 1,948	55.1 %
Commercial property	104	6	29	139	3.9
Commercial auto	276	48	65	389	11.0
Workers' compensation	426	315	119	860	24.3
Specialty packages	67	1	9	77	2.3
Surety and executive risk	68	2	42	112	3.2
Machinery and equipment	4	3	1	8	0.2
Total	<u>\$ 1,980</u>	<u>\$ 764</u>	<u>\$ 789</u>	<u>\$ 3,533</u>	<u>100.0 %</u>

The following table shows net reserve changes at year-end 2008, 2007 and 2006 by commercial line of business and accident year:

(Dollars in millions)	Commercial casualty	Commercial property	Commercial auto	Workers' compensation	Specialty packages	Surety & exec risk	Machinery & equipment	Totals
As of December 31, 2008								
2007 accident year	\$ (93)	\$ 0	\$ (7)	\$ (21)	\$ 1	\$ 14	\$ 0	\$ (106)
2006 accident year	(55)	(7)	5	0	(1)	(2)	1	(59)
2005 accident year	(48)	(2)	(1)	5	(2)	(2)	0	(50)
2004 accident year	(28)	1	(4)	4	(2)	(3)	0	(32)
2003 accident year	(19)	0	1	6	0	(1)	0	(13)
2002 accident year	(4)	0	(2)	1	0	1	0	(4)
2001 and prior accident years	(11)	(2)	0	3	0	0	0	(10)
Deficiency/(redundancy)	<u>\$ (258)</u>	<u>\$ (10)</u>	<u>\$ (8)</u>	<u>\$ (2)</u>	<u>\$ (4)</u>	<u>\$ 7</u>	<u>\$ 1</u>	<u>\$ (274)</u>
Reserves estimated as of December 31, 2007	\$ 1,565	\$ 121	\$ 383	\$ 777	\$ 76	\$ 94	\$ 8	\$ 3,024
Reserves re-estimated as of December 31, 2008	<u>1,307</u>	<u>111</u>	<u>375</u>	<u>775</u>	<u>72</u>	<u>101</u>	<u>9</u>	<u>2,750</u>
Deficiency/(redundancy)	<u>\$ (258)</u>	<u>\$ (10)</u>	<u>\$ (8)</u>	<u>\$ (2)</u>	<u>\$ (4)</u>	<u>\$ 7</u>	<u>\$ 1</u>	<u>\$ (274)</u>
As of December 31, 2007								
2006 accident year	\$ (70)	\$ (4)	\$ (15)	\$ (20)	\$ 1	\$ 3	\$ (1)	\$ (106)
2005 accident year	(22)	(13)	(6)	0	2	3	(1)	(37)
2004 accident year	(34)	(1)	1	1	(1)	(1)	0	(35)
2003 accident year	(2)	0	(3)	(1)	0	(3)	0	(9)
2002 accident year	(15)	(1)	1	5	(1)	(3)	0	(14)
2001 accident year	(8)	0	(1)	2	0	1	0	(6)
2000 and prior accident years	2	0	(2)	3	0	1	0	4
Deficiency/(redundancy)	<u>\$ (149)</u>	<u>\$ (19)</u>	<u>\$ (25)</u>	<u>\$ (10)</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ (2)</u>	<u>\$ (203)</u>
Reserves estimated as of December 31, 2006	\$ 1,483	\$ 170	\$ 386	\$ 713	\$ 84	\$ 83	\$ 9	\$ 2,928
Reserves re-estimated as of December 31, 2007	<u>1,334</u>	<u>151</u>	<u>361</u>	<u>703</u>	<u>85</u>	<u>84</u>	<u>7</u>	<u>2,725</u>
Deficiency/(redundancy)	<u>\$ (149)</u>	<u>\$ (19)</u>	<u>\$ (25)</u>	<u>\$ (10)</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ (2)</u>	<u>\$ (203)</u>
As of December 31, 2006								
2005 accident year	\$ (52)	\$ 17	\$ (17)	\$ (2)	\$ 3	\$ 7	\$ 1	\$ (43)
2004 accident year	(21)	(3)	1	5	(1)	(3)	0	(22)
2003 accident year	(12)	(3)	1	0	1	(1)	0	(14)
2002 accident year	2	(1)	(2)	(3)	0	1	0	(3)
2001 accident year	(9)	(4)	(2)	(1)	0	1	0	(15)
2000 accident year	(9)	(1)	(1)	1	(1)	0	0	(11)
1999 and prior accident years	2	0	(1)	9	0	0	0	10
Deficiency/(redundancy)	<u>\$ (99)</u>	<u>\$ 5</u>	<u>\$ (21)</u>	<u>\$ 9</u>	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ (98)</u>
Reserves estimated as of December 31, 2005	\$ 1,359	\$ 160	\$ 386	\$ 634	\$ 73	\$ 63	\$ 6	\$ 2,681
Reserves re-estimated as of December 31, 2006	<u>1,260</u>	<u>165</u>	<u>365</u>	<u>643</u>	<u>75</u>	<u>68</u>	<u>7</u>	<u>2,583</u>
Deficiency/(redundancy)	<u>\$ (99)</u>	<u>\$ 5</u>	<u>\$ (21)</u>	<u>\$ 9</u>	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ (98)</u>

Overall favorable development for commercial lines reserves of \$274 million in 2008 illustrated the potential for revisions inherent in estimating reserves, especially for long-tail lines such as commercial casualty. Favorable reserve development for the commercial casualty line accounted for 94.2 percent of the segment total in 2008. Five factors, accounting for \$182 million of favorable reserve development for the commercial casualty line of business as discussed below, were atypical.

- Refinements in IBNR reserve allocation** - Systems limitations prior to 2006 restricted the detail in which our actuaries could allocate IBNR reserves by accident year. The implementation of new systems at the end of 2005 eliminated those limitations. By the end of 2008, our actuaries had refined their IBNR reserve allocation by accident year to take advantage of the new systems' flexibility and to more precisely reflect the findings of their quarterly reserve analyses. The new allocation placed a total for all lines of \$69 million more reserves in the latest accident year, accident year 2008, than the old allocation would have. Of that \$69 million, approximately \$49 million was related to commercial lines of business. Accordingly, commercial lines favorable reserve development increased by a like amount for all of calendar year 2008. Commercial casualty's share of the favorable reserve development was approximately \$36 million.
- Quarter-to-quarter reductions in actuarial reserve estimates** - Our actuaries perform a detailed reserve analysis in the fourth quarter of each year, based on data available through the end of the preceding third quarter to estimate reserves the company should carry at the end of the year. Once fourth quarter data becomes available, they update their analysis to reflect the actual data. The actuaries use the updated analysis to estimate the range of reasonable reserves shown in Range of Reasonable Reserves, Page 74, as well as to guide reserving decisions in the first half of the following year. The updated analysis for 2007 reflected reserve estimates that were \$66 million lower than the analysis conducted during the fourth quarter, including updated reserve estimates for commercial casualty that were

approximately \$43 million lower. The release in 2008 of \$43 million of commercial casualty reserves on prior accident years added to the line's favorable reserve development.

- **Introduction of additional umbrella reserving model** - Our actuaries became increasingly dissatisfied in 2008 with the performance of the reserving model they had been using to estimate commercial umbrella loss reserves, which are a component of our commercial casualty reserves. As a result, they began using blended trends from two separate reserving models to estimate required commercial umbrella reserves as of year-end 2008. If the actuaries had estimated required commercial umbrella reserves as of year-end 2007 in a similar fashion, commercial casualty reserves at year-end 2007 would have been approximately \$54 million lower. Accordingly, 2008 favorable reserve development for the commercial casualty line would have been reduced by a like amount.
- **Sooner-than-expected moderation in inflation trend of allocated loss expenses** - For some of our commercial casualty coverages, the claims department's early settlement resolution initiative caused calendar year payments for allocated loss expenses to inflate at a temporarily higher rate beginning in 2005. Based on data available in 2007, our actuaries expected the higher inflation rate to persist through the end of 2007. In 2008, they learned that the inflation rate had reverted to normal in 2007. If our actuaries had recognized this reversion when deriving year-end 2007 reserve estimates, commercial casualty reserves as of year-end 2007 would have been approximately \$8 million lower.
- **Unusual deviations from predictions of reserving methods and models** - At year-end 2007, our actuaries based loss reserve estimates for commercial multi-peril liability coverages, which are part of the commercial casualty line, on the indications of the reported loss development method and a selected paid loss probabilistic trend family model. In deriving the reported loss development estimate, the actuaries relied heavily on five-year averages to guide their parameter selections. The vast majority of these selections proved high in 2008, some significantly so. Our actuaries also identified a significant deviation in 2008 related to the use of the paid loss probabilistic trend family model. Consideration of premium growth, pricing changes and loss cost trends for commercial multi-peril liability coverages led them to use an index to capture exposure growth that paid loss data for immature accident years could fail to reflect. In 2008, it became apparent that the index was not needed. We believe that the implementation of tighter terms and conditions on general liability policies between 2002 and 2005 played a role in this deviation. If our actuaries had recognized these deviations when deriving year-end 2007 reserve estimates, commercial casualty reserves as of year-end 2007 would have been approximately \$39 million lower.

Factors contributing to the remaining \$76 million of commercial casualty favorable reserve development were not unusual or unexpected. As noted in Critical Accounting Estimates, Key Assumptions - Loss Reserving, Page 43, our models predict that actual loss and loss expense emergence will differ from projections, and we do not attempt to monitor or identify such normal variations.

Personal Lines Insurance Segment Reserves

For the business lines in the personal lines insurance segment, the following table shows the breakout of gross reserves among case, IBNR and loss expense reserves. Total gross reserves were down slightly from year-end 2007 due to the decline in premiums and exposures for this segment. However, gross reserves for the homeowner line of business rose slightly on a higher level of catastrophe losses in 2008, as we discussed in Personal Lines Insurance Results of Operations, Page 59.

(In millions)	Loss reserves		Loss expense reserves	Total gross reserves	Percent of total
	Case reserves	IBNR reserves			
At December 31, 2008					
Personal auto	\$ 141	\$ (3)	\$ 28	\$ 166	43.5 %
Homeowners	67	17	15	99	26.0
Other personal	53	52	11	116	30.5
Total	<u>\$ 261</u>	<u>\$ 66</u>	<u>\$ 54</u>	<u>\$ 381</u>	<u>100.0 %</u>
At December 31, 2007					
Personal auto	\$ 163	\$ (4)	\$ 30	\$ 189	48.2 %
Homeowners	61	8	14	83	21.0
Other personal	54	54	12	120	30.8
Total	<u>\$ 278</u>	<u>\$ 58</u>	<u>\$ 56</u>	<u>\$ 392</u>	<u>100.0 %</u>

The following table shows net reserve changes at year-end 2008, 2007 and 2006 by personal line of business and accident year:

(Dollars in millions)	Personal auto	Homeowner	Other personal	Totals
As of December 31, 2008				
2007 accident year	\$ 11	\$ (1)	\$ (8)	\$ 2
2006 accident year	(4)	(3)	(5)	(12)
2005 accident year	(9)	(1)	(8)	(18)
2004 accident year	(5)	(2)	(3)	(10)
2003 accident year	(2)	(1)	(4)	(7)
2002 accident year	(1)	0	(1)	(2)
2001 and prior accident years	(1)	0	(1)	(2)
Deficiency/(redundancy)	<u>\$ (11)</u>	<u>\$ (8)</u>	<u>\$ (30)</u>	<u>\$ (49)</u>
Reserves estimated as of December 31, 2007	\$ 189	\$ 77	\$ 107	\$ 373
Reserves re-estimated as of December 31, 2008	178	69	77	324
Deficiency/(redundancy)	<u>\$ (11)</u>	<u>\$ (8)</u>	<u>\$ (30)</u>	<u>\$ (49)</u>
As of December 31, 2007				
2006 accident year	\$ 3	\$ (7)	\$ (11)	\$ (15)
2005 accident year	5	0	(5)	0
2004 accident year	(2)	(3)	(10)	(15)
2003 accident year	(3)	(1)	(1)	(5)
2002 accident year	(1)	0	(4)	(5)
2001 accident year	0	0	(1)	(1)
2000 and prior accident years	0	1	(1)	0
Deficiency/(redundancy)	<u>\$ 2</u>	<u>\$ (10)</u>	<u>\$ (33)</u>	<u>\$ (41)</u>
Reserves estimated as of December 31, 2006	\$ 206	\$ 104	\$ 118	\$ 428
Reserves re-estimated as of December 31, 2007	208	94	85	387
Deficiency/(redundancy)	<u>\$ 2</u>	<u>\$ (10)</u>	<u>\$ (33)</u>	<u>\$ (41)</u>
As of December 31, 2006				
2005 accident year	\$ 4	\$ 5	\$ (7)	\$ 2
2004 accident year	6	1	(2)	5
2003 accident year	(3)	0	(4)	(7)
2002 accident year	(2)	(1)	(4)	(7)
2001 accident year	(2)	0	(2)	(4)
2000 accident year	(1)	0	(3)	(4)
1999 and prior accident years	0	0	(3)	(3)
Deficiency/(redundancy)	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ (25)</u>	<u>\$ (18)</u>
Reserves estimated as of December 31, 2005	\$ 213	\$ 99	\$ 118	\$ 430
Reserves re-estimated as of December 31, 2006	215	104	93	412
Deficiency/(redundancy)	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ (25)</u>	<u>\$ (18)</u>

Favorable development for personal lines segment reserves illustrates the potential for revisions inherent in estimating reserves. As discussed in Commercial Lines Insurance Segment Reserves, Page 77, several atypical factors contributed to commercial lines favorable reserve development in 2008, two of which also contributed to personal lines favorable reserve development. First, during 2008, we refined our allocation of IBNR reserves by accident year. The new allocation placed approximately \$20 million more reserves in the latest accident year, accident year 2008, than would have occurred using the prior allocation method. Accordingly, favorable reserve development increased by the same amount for calendar year 2008. Also during 2008, we began using blended trends from two separate reserving models to estimate required personal umbrella reserves as of year-end 2008. This added approximately \$14 million of savings from development on prior accident years to the other personal business line.

Life Insurance Policyholder Obligations and Reserves

Gross Life Insurance Policyholder Obligations

Our estimates of life, annuity and disability policyholder obligations reflect future estimated cash payments to be made to policyholders for future policy benefits, policyholders' account balances and separate account liabilities. These estimates include death and disability claims, policy surrenders, policy maturities, annuity payments, minimum guarantees on separate account products, commissions and premium taxes offset by expected future deposits and premiums on in-force contracts.

Our estimates of gross life, annuity and disability obligations do not reflect net recoveries from reinsurance agreements. Ceded life reinsurance receivables were \$206 million at year-end 2008. As discussed in 2009 Reinsurance Programs, Page 81, we purchase reinsurance to mitigate our life insurance risk exposure. At year-end 2008, ceded death benefits represented approximately 51.2 percent of our total policy face amounts in force.

These estimated cash outflows are undiscounted with respect to interest. As a result, the sum of the cash outflows for all years of \$3.513 billion (total of life insurance obligations) exceeds the liabilities recorded in life policy reserves and separate accounts for future policy benefits and claims of \$2.144 billion (total of life insurance policy reserves and separate account policy reserves). Separate account policy reserves make up all but \$1 million of separate accounts liabilities.

We have made significant assumptions to determine the estimated undiscounted cash flows of these policies and contracts that include mortality, morbidity, future lapse rates and interest crediting rates. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results.

Life Insurance Reserves

Gross life policy reserves were \$1.551 billion at year-end 2008, compared with \$1.478 billion at year-end 2007. We establish reserves for traditional life insurance policies based on expected expenses, mortality, morbidity, withdrawal rates and investment yields, including a provision for uncertainty. Once these assumptions are established, they generally are maintained throughout the lives of the contracts. We use both our own experience and industry experience adjusted for historical trends in arriving at our assumptions for expected mortality, morbidity and withdrawal rates. We use our own experience and historical trends for setting our assumptions for expected expenses. We base our assumptions for expected investment income on our own experience adjusted for current economic conditions.

We establish reserves for our universal life, deferred annuity and investment contracts equal to the cumulative account balances, which include premium deposits plus credited interest less charges and withdrawals. Some of our universal life insurance policies contain no-lapse guarantee provisions. For these policies, we establish a reserve in addition to the account balance based on expected no-lapse guarantee benefits and expected policy assessments.

We regularly review our life insurance business to ensure that any deferred acquisition cost associated with the business is recoverable and that our actuarial liabilities (life insurance segment reserves) make sufficient provision for future benefits and related expenses.

2009 REINSURANCE PROGRAMS

A single large loss or an unexpected rise in claims severity or frequency due to a catastrophic event could present us with a liquidity risk. In an effort to control such losses, we forego marketing property casualty insurance in specific geographic areas, monitor our exposure in certain coastal regions, review aggregate exposures to huge disasters and purchase reinsurance. We use the Risk Management Solutions (RMS) and Applied Insurance Research (AIR) models to evaluate exposures to a once-in-a-100 year and a once-in-a-250 year event to help determine appropriate reinsurance coverage programs. In conjunction with these activities, we also continue to evaluate information provided by our reinsurance broker. These various sources explore and analyze credible scientific evidence, including the impact of global climate change, which may affect our exposure under insurance policies.

Reinsurance mitigates the risk of highly uncertain exposures and limits the maximum net loss that can arise from large risks or risks concentrated in areas of exposure. Management's decisions about the appropriate level of risk retention are affected by various factors, including changes in our underwriting practices, capacity to retain risks and reinsurance market conditions. Reinsurance does not relieve us of our obligation to pay covered claims. The financial strength of our reinsurers is important because our ability to recover for losses covered under any reinsurance agreement depends on the financial viability of the reinsurer.

Currently participating on our standard market property and casualty per-risk and per-occurrence programs are Hannover Reinsurance Company, Munich Reinsurance America, Partner Reinsurance Company of the U.S. and Swiss Reinsurance America Corporation, all of which have A.M. Best insurer financial strength ratings of A (Excellent) or A+ (Superior). Our property catastrophe program is subscribed through a broker by reinsurers from the United States, Bermuda, London and the European markets.

Primary components of the 2009 property and casualty reinsurance program include:

- Property per risk treaty – The primary purpose of the property treaty is to provide capacity up to \$25 million, adequate for the majority of the risks we write. It also includes protection for extra-contractual liability coverage losses. We retain the first \$5 million of each loss, up from the \$4 million retention in 2008. Losses between \$5 million and \$25 million are reinsured at 100 percent. The ceded premium is estimated at \$34 million for 2009, compared with \$37 million in 2008 and \$35 million in 2007.
- Casualty per occurrence treaty – The casualty treaty provides capacity up to \$25 million. Similar to the property treaty, it provides sufficient capacity to cover the vast majority of casualty accounts we insure and also includes protection for extra-contractual liability coverage losses. We retain the first \$6 million of each loss, up from the \$5 million retention in 2008. Losses between \$6 million and \$25 million are

reinsured at 100 percent. The ceded premium is estimated at \$40 million in 2009, compared with \$43 million in 2008 and \$50 million in 2007.

- Casualty excess treaties – We purchase a casualty reinsurance treaty that provides an additional \$25 million in protection for certain casualty losses. This treaty, along with the casualty per occurrence treaty, provides a total of \$50 million of protection for workers' compensation, extra-contractual liability coverage and clash coverage losses, which would apply when a single occurrence involved multiple policyholders of The Cincinnati Insurance Companies or multiple coverages for one insured. The ceded premium is estimated at \$2 million in 2009, unchanged from 2008.

We purchase a second casualty excess treaty, which provides an additional \$20 million in casualty loss coverage. This treaty also provides catastrophic coverage for workers' compensation and extra-contractual liability coverage losses. The ceded premium is estimated at less than \$1 million for 2009, similar to the premium we paid in 2008.

- Property catastrophe treaty – To protect against catastrophic events such as wind and hail, hurricanes or earthquakes, we purchase property catastrophe reinsurance with a limit up to \$500 million. For the 2009 treaty, ceded premiums are estimated at \$48.6 million compared with \$41.3 million in 2008 and \$48 million in 2007. We retain the first \$45 million of any loss and varying shares of losses up to \$500 million:
 - 33 percent of losses between \$45 million and \$70 million
 - 19 percent of losses between \$70 million and \$105 million
 - 14 percent of losses between \$105 million and \$200 million
 - 20 percent of losses between \$200 million and \$300 million
 - 18 percent of losses between \$300 million and \$400 million and
 - 7 percent of losses between \$400 million and \$500 million.

After reinsurance, our maximum exposure to a catastrophic event that caused \$500 million in covered losses would be \$118 million compared with \$105 million in 2008. The largest catastrophe loss in our history was Hurricane Ike in September 2008, which was estimated to be \$129 million before reinsurance. The treaty contains one reinstatement provision.

Individual risks with insured values in excess of \$25 million, as identified in the policy, are handled through a different reinsurance mechanism. We typically reinsure property coverage for individual risks with insured values between \$25 million and \$65 million under an automatic facultative treaty. For risks with property values exceeding \$65 million, we negotiate the purchase of facultative coverage on an individual certificate basis. For casualty coverage on individual risks with limits exceeding \$25 million, facultative reinsurance coverage is placed on an individual certificate basis.

Terrorism coverage at various levels has been secured in most of our reinsurance agreements. The broadest coverage for this peril is found in the property and casualty working treaties, which provide coverage for commercial and personal risks. Our property catastrophe treaty provides coverage for personal risks, and the majority of its reinsurers provide limited coverage for commercial risks with total insured values of \$10 million or less. For insured values between \$10 million and \$25 million, there also may be coverage in the property working treaty.

Reinsurance protection for the company's surety business is covered under separate treaties with many of the same reinsurers that write the property casualty working treaties.

CSU, the company's newly formed surplus lines subsidiary, has purchased a property and casualty reinsurance treaty for 2009 through Swiss Reinsurance America Corporation. Primary components of the treaty include:

- Property per risk treaty – The property treaty provides limits up to \$5 million, which provides adequate capacity for the risk profile we expect to write in 2009. We retain the first \$1 million of any policy loss. Losses between \$1 million and \$5 million are reinsured at 100 percent.
- Casualty per occurrence treaty - The casualty treaty provides limits up to \$5 million, which provides adequate capacity for the risk profile we expect to write in 2009. We retain the first \$1 million of any policy loss. Losses between \$1 million and \$5 million are reinsured at 100 percent.
- Basket retention – CSU has purchased this coverage to limit our retention to \$1 million in the event that the same occurrence results in both a property and a casualty loss.
- Property catastrophe treaty – As a subsidiary of The Cincinnati Insurance Company, CSU has been added as a named insured under our property catastrophe treaty. All terms and conditions of this treaty apply to policies underwritten by CSU.

For property or casualty risks with limits exceeding \$5 million, underwriters place facultative reinsurance coverage on an individual certificate basis. The combined property and casualty treaty provides protection on

a participating basis for extra contractual obligations, as well as exposure to losses in excess of policy limits. The limit is \$5 million for both property and casualty.

Cincinnati Life, our life insurance business, purchases reinsurance under separate treaties with many of the same reinsurers that write the property casualty working treaties. In 2005, we modified our reinsurance protection for our term life insurance business due to changes in the marketplace that affected the cost and availability of reinsurance for term life insurance. We are retaining no more than a \$500,000 exposure, ceding the balance using excess over retention mortality coverage, and retaining the policy reserve. Retaining the policy reserve has no direct impact on GAAP results. However, because of the conservative nature of statutory reserving principles, retaining the policy reserve unduly depresses our statutory earnings and requires a large commitment of our capital. We also have catastrophe reinsurance coverage on our life insurance operations that reimburses us up to \$50 million for covered net losses in excess of \$10 million. The treaty contains a reinstatement provision, provided the covered losses are not due to terrorism, and contains protection for extra-contractual liability coverage losses. For term life insurance business written prior to 2005, we retain 10 percent to 25 percent of each term policy, not to exceed \$500,000, ceding the balance of mortality risk and policy reserve.

The NAIC recently rejected a package of industry proposals to relax certain statutory reserve and capital requirements. Due to our strong capital position, we do not intend to seek permission from the Ohio Department of Insurance to use these proposals as permitted practices. We continue to monitor the marketplace for attractive alternatives to finance the redundant statutory reserve strain associated with our term life insurance products.

SAFE HARBOR STATEMENT

This is our "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995. Our business is subject to certain risks and uncertainties that may cause actual results to differ materially from those suggested by the forward-looking statements in this report. Some of those risks and uncertainties are discussed in our Item 1A, Risk Factors, Page 25. Although we often review or update our forward-looking statements when events warrant, we caution our readers that we undertake no obligation to do so.

Factors that could cause or contribute to such differences include, but are not limited to:

- Further decline in overall stock market values negatively affecting the company's equity portfolio and book value
- Events, such as the credit crisis, followed by prolonged periods of economic instability, that lead to:
 - Significant or prolonged decline in the value of a particular security or group of securities and impairment of the asset(s)
 - Significant decline in investment income due to reduced or eliminated dividend payouts from a particular security or group of securities
 - Significant rise in losses from surety and director and officer policies written for financial institutions
- Recession or other economic conditions or regulatory, accounting or tax changes resulting in lower demand for insurance products
- Prolonged low interest rate environment or other factors that limit the company's ability to generate growth in investment income or interest rate fluctuations that result in declining values of fixed-maturity investments, including declines in accounts in which we hold bank-owned life insurance contract assets
- Further deterioration in the banking sector or with banks with which we have relationships
- Changing consumer buying habits and consolidation of independent insurance agencies that could alter our competitive advantages
- Unusually high levels of catastrophe losses due to risk concentrations, changes in weather patterns, environmental events, terrorism incidents or other causes
- Increased frequency and/or severity of claims
- Delays or inadequacies in the development, implementation, performance and benefits of technology projects and enhancements
- Ability to obtain adequate reinsurance on acceptable terms, amount of reinsurance purchased, financial strength of reinsurers and the potential for non-payment or delay in payment by reinsurers
- Increased competition that could result in a significant reduction in the company's premium growth rate
- Events or conditions that could weaken or harm the company's relationships with its independent agencies and hamper opportunities to add new agencies, resulting in limitations on the company's opportunities for growth, such as:
 - Multi-notch downgrades of the company's financial strength ratings

- Concerns that doing business with the company is too difficult
- Perceptions that the company's level of service, particularly claims service, is no longer a distinguishing characteristic in the marketplace
- Underwriting and pricing methods adopted by competitors that could allow them to identify and flexibly price risks, which could decrease our competitive advantages
- Personal lines pricing and loss trends that lead management to conclude that this segment could not attain sustainable profitability, which could prevent the capitalization of policy acquisition costs
- Actions of insurance departments, state attorneys general or other regulatory agencies, including a change to a federal system of regulation from a state-based system, that:
 - Restrict our ability to exit or reduce writings of unprofitable coverages or lines of business
 - Place the insurance industry under greater regulatory scrutiny or result in new statutes, rules and regulations
 - Increase our expenses
 - Add assessments for guaranty funds, other insurance related assessments or mandatory reinsurance arrangements; or that impair our ability to recover such assessments through future surcharges or other rate changes
 - Limit our ability to set fair, adequate and reasonable rates
 - Place us at a disadvantage in the marketplace
 - Restrict our ability to execute our business model, including the way we compensate agents
- Adverse outcomes from litigation or administrative proceedings
- Events or actions, including unauthorized intentional circumvention of controls, that reduce the company's future ability to maintain effective internal control over financial reporting under the Sarbanes-Oxley Act of 2002
- Inaccurate estimates or assumptions used for critical accounting estimates
- Unforeseen departure of certain executive officers or other key employees due to retirement, health or other causes that could interrupt progress toward important strategic goals or diminish the effectiveness of certain longstanding relationships with insurance agents and others
- Events, such as an epidemic, natural catastrophe or terrorism, that could hamper our ability to assemble our workforce at our headquarters location

Further, the company's insurance businesses are subject to the effects of changing social, economic and regulatory environments. Public and regulatory initiatives have included efforts to adversely influence and restrict premium rates, restrict the ability to cancel policies, impose underwriting standards and expand overall regulation. The company also is subject to public and regulatory initiatives that can affect the market value for its common stock, such as recent measures affecting corporate financial reporting and governance. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

INTRODUCTION

Market risk is the potential for a decrease in securities value resulting from broad yet uncontrollable forces such as: inflation, economic growth, interest rates, world political conditions or other widespread unpredictable events. It is comprised of many individual risks that, when combined, create a macroeconomic impact. The company accepts and manages risks in the investment portfolio as part of the means of achieving portfolio objectives. Some of the risks are:

- Political – the potential for a decrease in value due to the real or perceived impact of governmental policies or conditions
- Regulatory – the potential for a decrease in value due to the impact of legislative proposals or changes in laws or regulations
- Economic – the potential for a decrease in value due to changes in general economic factors (recession, inflation, deflation, etc.)
- Revaluation – the potential for a decrease in value due to a change in relative value (change in market multiple) of the market brought on by general economic factors
- Interest-rate – the potential for a decrease in value of a security or portfolio due to its sensitivity to changes (increases or decreases) in the general level of interest rates
- Company-specific risk is the potential for a particular issuer to experience a decline in value due to the impact of sector or market risk on the holding or because of issues specific to the firm:
- Fraud – the potential for a negative impact on an issuer’s performance due to actual or alleged illegal or improper activity of individuals it employs
- Credit – the potential for deterioration in an issuer’s financial profile due to specific company issues, problems it faces in the course of its operations or industry-related issues
- Default – the possibility that an issuer will not make a required payment (interest payment or return of principal) on its debt. Generally this occurs after its financial profile has deteriorated (credit risk) and it no longer has the means to make its payments

The investment committee of the board of directors monitors the investment risk management process primarily through its executive oversight of our investment activities. We take an active approach to managing market and other investment risks, including the accountabilities and controls over these activities. Actively managing these market risks is integral to our operations and could require us to change the character of future investments purchased or sold or require us to shift the existing asset portfolios to manage exposure to market risk within acceptable ranges.

Sector risk is the potential for a negative impact on a particular industry due to its sensitivity to factors that make up market risk. Market risk affects general supply/demand factors for an industry and will affect companies within that industry to varying degrees.

Risks associated with the five asset classes described in Item 1, Investments Segment, Page 17, can be summarized as follows (H – high, A – average, L – low):

	Taxable fixed maturities	Tax-exempt fixed maturities	Common equities	Preferred equities	Short-term investments
Political	A	H	A	A	L
Regulatory	A	A	A	A	L
Economic	A	A	H	A	L
Revaluation	A	A	H	A	L
Interest rate	H	H	A	H	L
Fraud	A	L	A	A	L
Credit	A	L	A	A	L
Default	A	L	A	A	L

FIXED-MATURITY INVESTMENTS

For investment-grade corporate bonds, the inverse relationship between interest rates and bond prices leads to falling bond values during periods of increasing interest rates. Although the potential for a worsening financial condition, and ultimately default, does exist with investment-grade corporate bonds, their higher-quality financial profiles make credit risk less of a concern than for lower-quality investments. We address this risk by consistently investing within a particular maturity range. Over the years, this approach has provided the portfolio with a ladder maturity schedule, which we believe is less subject to large swings in

value due to interest rate changes. While a single maturity range may see values drop due to general interest rate levels, other maturity ranges would typically be less affected by those changes. Additionally, purchases are spread across a wide spectrum of industries and companies, diversifying our holdings and minimizing the impact of specific industries or companies with greater sensitivities to interest rate fluctuations.

The primary risk related to high-yield corporate bonds is credit risk or the potential for a deteriorating financial structure. A weak financial profile can lead to rating downgrades from the credit rating agencies, which can put further downward pressure on bond prices. Interest rate risk, while significant, is less of a factor with high-yield corporate bonds, as valuation is related more directly to underlying operating performance than to general interest rates. This puts more emphasis on the financial results achieved by the issuer rather than on general economic trends or statistics within the marketplace. We address this concern by analyzing issuer- and industry-specific financial results and by closely monitoring holdings within this asset class.

The primary risks related to tax-exempt bonds are interest rate risk and political risk associated with the specific economic environment within the political boundaries of the issuing municipal entity. We address these concerns by focusing on municipalities' general-obligation debt and on essential-service bonds. Essential-service bonds derive a revenue stream from municipal services that are vital to the people living in the area (water service, sewer service, etc.). Another risk related to tax-exempt bonds is regulatory risk or the potential for legislative changes that would negate the benefit of owning tax-exempt bonds. We monitor regulatory activity for situations that may negatively affect current holdings and our ongoing strategy for investing in these securities.

The final, less significant risk is our exposure to credit risk for a portion of the tax-exempt portfolio that has support from corporate entities. Examples are bonds insured by corporate bond insurers or bonds with interest payments made by a corporate entity through a municipal conduit/authority. Our decisions regarding these investments primarily consider the underlying municipal situation. The existence of third-party insurance is intended to reduce risk in the event of default. In circumstances in which the municipality is unable to meet its obligations, risk would be increased if the insuring entity were experiencing financial duress. Because of our diverse exposure and selection of higher-rated entities with strong financial profiles, we do not believe this is a material concern as we discuss in Item 1, Investments Segment, Page 17.

Interest Rate Sensitivity Analysis

Because of our strong surplus, long-term investment horizon and ability to hold most fixed-maturity investments to maturity, we believe the company is well positioned if interest rates were to rise. A higher rate environment would provide the opportunity to invest cash flow in higher-yielding securities, while reducing the likelihood of untimely redemptions of currently callable securities. While higher interest rates would be expected to continue to increase the number of fixed-maturity holdings trading below 100 percent of book value, we believe lower fixed-maturity security values due solely to interest rate changes would not signal a decline in credit quality.

Our dynamic financial planning model uses analytical tools to assess market risks. As part of this model, the effective duration of the fixed-maturity portfolio is continually monitored by our investment department to evaluate the theoretical impact of interest rate movements.

The table below summarizes the effect of hypothetical changes in interest rates on the fixed-maturity portfolio:

(In millions)	Fair value of fixed maturity portfolio	Effective duration	
		100 basis point spread decrease	100 basis point spread increase
At December 31, 2008	\$ 5,827	\$ 6,141	\$ 5,514
At December 31, 2007	5,848	6,131	5,565

The effective duration of the fixed maturity portfolio was 5.4 years at year-end 2008, compared with 4.8 years at year-end 2007. A 100 basis point movement in interest rates would result in an approximately 5.4 percent change in the fair value of the fixed maturity portfolio. Generally speaking, the higher a bond is rated, the more directly correlated movements in its market value are to changes in the general level of interest rates, exclusive of call features. The market values of average- to lower-rated corporate bonds are additionally influenced by the expansion or contraction of credit spreads.

In the dynamic financial planning model, the selected interest rate change of 100 basis points represents our views of a shift in rates that is quite possible over a one-year period. The rates modeled should not be considered a prediction of future events as interest rates may be much more volatile in the future. The analysis is not intended to provide a precise forecast of the effect of changes in rates on our results or financial condition, nor does it take into account any actions that we might take to reduce exposure to such risks.

SHORT-TERM INVESTMENTS

Our short-term investments consist primarily of commercial paper, demand notes or bonds purchased within one year of maturity. We make short-term investments primarily with funds to be used to make upcoming cash payments, such as taxes. At year-end 2008, short-term investments included \$16 million that were frozen in The Reserve's Primary Fund. Between mid-September and year-end 2008, the fund had returned approximately \$71 million to us in its liquidation process. In February 2009, the fund returned \$6 million of the year-end balance and we expect to receive the remainder during 2009.

EQUITY INVESTMENTS

Common stocks are subject to a variety of risk factors encompassed under the umbrella of market risk. General economic swings influence the performance of the underlying industries and companies within those industries. As we saw in 2008, a downturn in the economy can have a negative effect on an equity portfolio. Industry- and company-specific risks also have the potential to substantially affect the value of our portfolio. We implemented new investment guidelines in 2008 to help address these risks by diversifying the portfolio and establishing parameters to help manage exposures.

Our equity holdings represented \$2.896 billion in fair value and contributed all of the unrealized appreciation of the portfolio at year-end 2008. See Item 1, Investments Segment, Page 17, for additional details on our holdings.

The primary risks related to preferred stocks are similar to those related to investment grade corporate bonds. Falling interest rates adversely affect market values due to the normal inverse relationship between rates and yields. Credit risk exists due to the subordinate position of preferred stocks in the capital structure. We minimize this risk by primarily purchasing investment grade preferred stocks of issuers with a strong history of paying a common stock dividend. Events of 2008 indicated that the risk related to preferred stocks is greater because they would not receive preferential treatment in a government-sponsored restructuring.

APPLICATION OF ASSET IMPAIRMENT POLICY

As discussed in Item 7, Critical Accounting Estimates, Asset Impairment, Page 45, our fixed-maturity and equity investment portfolios are our largest assets. The company's asset impairment committee monitors a number of significant factors for indications that the value of investments trading below the carrying amount may not be recoverable. The application of our impairment policy resulted in other-than-temporary impairment charges that reduced our income before income taxes by \$510 million in 2008, \$16 million in 2007 and \$1 million in 2006. Impairments are discussed in Item 7, Investment Results of Operations, Page 66.

We expect the number of securities trading below 100 percent of book value to fluctuate as interest rates rise or fall and credit spreads expand or contract due to prevailing economic conditions. Further, book values for some securities have been revised due to impairment charges recognized in prior periods. At year-end 2008, 944 of the 2,233 securities we owned were trading below 100 percent of book value compared with 373 of the 2,053 securities we owned at year-end 2007 and 679 of the 1,973 securities we owned at year-end 2006.

When evaluating the potential for future other-than-temporary impairments, we consider our intent and ability to retain a security for a period adequate to recover its cost. Because of our investment philosophy and strong capitalization, we can hold securities that might otherwise be deemed impaired until their scheduled redemption as we evaluate their potential for recovery based on economic, industry or company factors.

The 944 holdings trading below book value at year-end 2008 represented 40.3 percent of invested assets and \$596 million in unrealized losses. We deem the risk related to securities trading between 70 percent and 100 percent of book value to be relatively minor and at least partially offset by the earned income potential of these investments.

- 585 of these holdings were trading between 90 percent and 100 percent of book value. The value of these securities fluctuates primarily because of changes in interest rates. The fair value of these 585 securities was \$2.081 billion at year-end 2008, and they accounted for \$88 million in unrealized losses.
- 276 of these holdings were trading between 70 percent and 90 percent of book value. The fair value of these holdings was \$1.177 billion, and they accounted for \$302 million in unrealized losses. These securities, which are being closely monitored, have been affected by a combination of factors including wider credit spreads driven primarily by the distress in the mortgage market, slumping real estate valuations, the effects of a slowing economy and the effects of higher interest rates on longer duration instruments. The majority of these securities are in the financial-related sectors.

- 83 securities were trading below 70 percent of book value at year-end 2008. The fair value of these holdings was \$322 million, and they accounted for \$206 million in unrealized losses. The real estate sector accounted for \$53 million of the unrealized losses, industrials accounted for \$48 million, health care for \$27 million, technology-related for \$23 million, and the financial sector for \$20 million.. No other sector accounted for more than 10 percent of the unrealized losses. We believe that normalization of macro economic conditions has the potential to result in fair value recoveries within the individual recovery periods identified for each security.

The following table summarizes the length of time securities in the investment portfolio have been in a continuous unrealized gain or loss position.

(Dollars in millions)	6 Months or less		> 6 - 12 Months		> 12 - 24 Months		> 24 - 36 Months	
	Number of issues	Gross unrealized gain/loss	Number of issues	Gross unrealized gain/loss	Number of issues	Gross unrealized gain/loss	Number of issues	Gross unrealized gain/loss
At December 31, 2008								
Taxable fixed maturities:								
Trading below 70% of book value	73	\$ (102)	0	\$ 0	0	\$ 0	0	\$ 0
Trading at 70% to less than 100% of book value	244	(75)	164	(95)	35	(17)	41	(16)
Trading at 100% and above of book value	171	34	3	1	31	1	77	9
Total	<u>488</u>	<u>(143)</u>	<u>167</u>	<u>(94)</u>	<u>66</u>	<u>(16)</u>	<u>118</u>	<u>(7)</u>
Tax-exempt fixed maturities:								
Trading below 70% of book value	4	(4)	0	0	0	0	0	0
Trading at 70% to less than 100% of book value	56	(7)	239	(16)	18	(2)	24	(2)
Trading at 100% and above of book value	591	29	0	0	123	10	238	21
Total	<u>651</u>	<u>18</u>	<u>239</u>	<u>(16)</u>	<u>141</u>	<u>8</u>	<u>262</u>	<u>19</u>
Common equities:								
Trading below 70% of book value	5	(99)	0	0	0	0	0	0
Trading at 70% to less than 100% of book value	19	(135)	2	(11)	0	0	0	0
Trading at 100% and above of book value	7	8	2	3	1	5	15	1,061
Total	<u>31</u>	<u>(226)</u>	<u>4</u>	<u>(8)</u>	<u>1</u>	<u>5</u>	<u>15</u>	<u>1,061</u>
Preferred equities:								
Trading below 70% of book value	1	(1)	0	0	0	0	0	0
Trading at 70% to less than 100% of book value	8	(5)	3	(3)	4	(6)	0	0
Trading at 100% and above of book value	16	1	3	1	0	0	0	0
Total	<u>25</u>	<u>(5)</u>	<u>6</u>	<u>(2)</u>	<u>4</u>	<u>(6)</u>	<u>0</u>	<u>0</u>
Short-term investments:								
Trading below 70% of book value	0	0	0	0	0	0	0	0
Trading at 70% to less than 100% of book value	0	0	4	0	0	0	0	0
Trading at 100% and above of book value	1	0	0	0	0	0	0	0
Total	<u>1</u>	<u>0</u>	<u>4</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Summary:								
Trading below 70% of book value	83	(206)	0	0	0	0	0	0
Trading at 70% to less than 100% of book value	327	(222)	412	(125)	57	(25)	65	(18)
Trading at 100% and above of book value	786	72	8	5	155	16	330	1,091
Total	<u>1,196</u>	<u>\$ (356)</u>	<u>420</u>	<u>\$ (120)</u>	<u>212</u>	<u>\$ (9)</u>	<u>395</u>	<u>\$ 1,073</u>

The following table summarizes the investment portfolio:

(Dollars in millions)	Number of issues	Book value	Fair value	Gross unrealized gain/loss	Gross investment income
At December 31, 2008					
Taxable fixed maturities:					
Trading below 70% of book value	73	\$ 272	\$ 170	\$ (102)	\$ 16
Trading at 70% to less than 100% of book value	484	1,974	1,771	(203)	113
Trading at 100% and above of book value	282	1,108	1,153	45	68
Securities sold in current year	-	-	-	-	22
Total	<u>839</u>	<u>3,354</u>	<u>3,094</u>	<u>(260)</u>	<u>219</u>
Tax-exempt fixed maturities:					
Trading below 70% of book value	4	9	5	(4)	1
Trading at 70% to less than 100% of book value	337	708	681	(27)	29
Trading at 100% and above of book value	952	1,987	2,047	60	82
Securities sold in current year	-	-	-	-	2
Total	<u>1,293</u>	<u>2,704</u>	<u>2,733</u>	<u>29</u>	<u>114</u>
Common equities:					
Trading below 70% of book value	5	242	143	(99)	8
Trading at 70% to less than 100% of book value	21	814	668	(146)	27
Trading at 100% and above of book value	25	833	1,910	1,077	131
Securities sold in current year	-	-	-	-	9
Total	<u>51</u>	<u>1,889</u>	<u>2,721</u>	<u>832</u>	<u>175</u>
Preferred equities:					
Trading below 70% of book value	1	5	4	(1)	0
Trading at 70% to less than 100% of book value	15	98	84	(14)	7
Trading at 100% and above of book value	19	85	87	2	9
Securities sold in current year	-	-	-	-	4
Total	<u>35</u>	<u>188</u>	<u>175</u>	<u>(13)</u>	<u>20</u>
Short-term investments:					
Trading below 70% of book value	0	0	0	0	0
Trading at 70% to less than 100% of book value	4	54	54	0	0
Trading at 100% and above of book value	1	30	30	0	0
Securities sold in current year	-	-	-	-	2
Total	<u>5</u>	<u>84</u>	<u>84</u>	<u>0</u>	<u>2</u>
Portfolio summary:					
Trading below 70% of book value	83	528	322	(206)	25
Trading at 70% to less than 100% of book value	861	3,648	3,258	(390)	176
Trading at 100% and above of book value	1,279	4,043	5,227	1,184	290
Investment income on securities sold in current year	-	-	-	-	39
Total	<u>2,223</u>	<u>\$ 8,219</u>	<u>\$ 8,807</u>	<u>\$ 588</u>	<u>\$ 530</u>
At December 31, 2007					
Portfolio summary:					
Trading below 70% of book value	3	\$ 18	\$ 12	\$ (6)	\$ 0
Trading at 70% to less than 100% of book value	370	2,064	1,882	(182)	92
Trading at 100% and above of book value	1,680	6,777	10,304	3,527	473
Investment income on securities sold in current year	-	-	-	-	36
Total	<u>2,053</u>	<u>\$ 8,859</u>	<u>\$ 12,198</u>	<u>\$ 3,339</u>	<u>\$ 601</u>

Item 8. Financial Statements and Supplementary Data

RESPONSIBILITY FOR FINANCIAL STATEMENTS

We have prepared the consolidated financial statements of Cincinnati Financial Corporation and our subsidiaries for the year ended December 31, 2008, in accordance with accounting principles generally accepted in the United States of America (GAAP).

We are responsible for the integrity and objectivity of these financial statements. The amounts, presented on an accrual basis, reflect our best estimates and judgment. These statements are consistent in all material aspects with other financial information in the Annual Report on Form 10-K. Our accounting system and related internal controls are designed to assure that our books and records accurately reflect the company's transactions in accordance with established policies and procedures as implemented by qualified personnel.

Our board of directors has established an audit committee of independent outside directors. We believe these directors are free from any relationships that could interfere with their independent judgment as audit committee members.

The audit committee meets periodically with management, our independent registered public accounting firm and our internal auditors to discuss how each is handling responsibilities. The audit committee reports their findings to the board of directors. The audit committee recommends to the board the annual appointment of the independent registered public accounting firm. The audit committee reviews with this firm the scope of the audit assignment and the adequacy of internal controls and procedures.

Deloitte & Touche LLP, our independent registered public accounting firm, audited the consolidated financial statements of Cincinnati Financial Corporation and subsidiaries for the year ended December 31, 2008. Their report is on Page 93. Deloitte's auditors met with our audit committee to discuss the results of their examination. They have the opportunity to discuss the adequacy of internal controls and the quality of financial reporting without management present.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Cincinnati Financial Corporation and its subsidiaries is responsible for establishing and maintaining adequate internal controls, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). The company's internal control over financial reporting includes those policies and procedures that:

1. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the company are being made only in accordance with authorizations of management and the directors of the company; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

The company's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2008, as required by Section 404 of the Sarbanes Oxley Act of 2002. Management's assessment is based on the criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and was designed to provide reasonable assurance that the company maintained effective internal control over financial reporting as of December 31, 2008. The assessment led management to conclude that, as of December 31, 2008, the company's internal control over financial reporting was effective based on those criteria.

The company's independent registered public accounting firm has issued an audit report on our internal control over financial reporting as of December 31, 2008. This report appears on Page 93.

/S/ Kenneth W. Stecher

Kenneth W. Stecher

Director, President and Chief Executive Officer

/S/ Steven J. Johnston

Steven J. Johnston, FCAS, MAAA, CFA

Chief Financial Officer, Senior Vice President, Secretary and Treasurer

February 27, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Cincinnati Financial Corporation

Fairfield, Ohio

We have audited the accompanying consolidated balance sheets of Cincinnati Financial Corporation and subsidiaries (the company) as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedules listed in the Index at Item 15(c). We also have audited the company's internal control over financial reporting as of December 31, 2008, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The company's management is responsible for these financial statements and financial schedules, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting report. Our responsibility is to express an opinion on these financial statements and financial statement schedules and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. Also, in our opinion, the company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/S/ Deloitte & Touche LLP

Cincinnati, Ohio

February 27, 2009

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in millions except per share data)

	December 31, 2008	December 31, 2007
ASSETS		
Investments		
Fixed maturities, at fair value (amortized cost: 2008—\$6,058; 2007—\$5,783) (includes securities pledged to creditors: 2008—\$0; 2007—\$745)	\$ 5,827	\$ 5,848
Equity securities, at fair value (cost: 2008—\$2,077; 2007—\$2,975)	2,896	6,249
Short-term investments, at fair value (amortized cost: 2008—\$84; 2007—\$101)	84	101
Other invested assets	83	63
Total investments	<u>8,890</u>	<u>12,261</u>
Cash and cash equivalents	1,009	226
Securities lending collateral invested	0	760
Investment income receivable	98	124
Finance receivable	71	92
Premiums receivable	1,059	1,107
Reinsurance receivable	759	754
Prepaid reinsurance premiums	15	13
Deferred policy acquisition costs	509	461
Deferred income tax	126	0
Land, building and equipment, net, for company use (accumulated depreciation: 2008—\$297; 2007—\$276)	236	239
Other assets	49	72
Separate accounts	548	528
Total assets	<u>\$ 13,369</u>	<u>\$ 16,637</u>
LIABILITIES		
Insurance reserves		
Loss and loss expense reserves	\$ 4,086	\$ 3,967
Life policy reserves	1,551	1,478
Unearned premiums	1,544	1,564
Securities lending payable	0	760
Other liabilities	618	574
Deferred income tax	0	977
Note payable	49	69
6.125% senior notes due 2034	371	371
6.9% senior debentures due 2028	28	28
6.92% senior debentures due 2028	392	392
Separate accounts	548	528
Total liabilities	<u>9,187</u>	<u>10,708</u>
Commitments and contingent liabilities (Note 16)	—	—
SHAREHOLDERS' EQUITY		
Common stock, par value—\$2 per share; (authorized: 2008—500 million shares, 2007—500 million shares; issued: 2008—196 million shares, 2007—196 million shares)	393	393
Paid-in capital	1,069	1,049
Retained earnings	3,579	3,404
Accumulated other comprehensive income	347	2,151
Treasury stock at cost (2008—34 million shares, 2007—30 million shares)	(1,206)	(1,068)
Total shareholders' equity	<u>4,182</u>	<u>5,929</u>
Total liabilities and shareholders' equity	<u>\$ 13,369</u>	<u>\$ 16,637</u>

Accompanying notes are an integral part of these statements.

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In millions except per share data)

	Years ended December 31,		
	2008	2007	2006
REVENUES			
Earned premiums			
Property casualty	\$ 3,010	\$ 3,125	\$ 3,163
Life	126	125	115
Investment income, net of expenses	537	608	570
Realized investment gains and losses	138	382	684
Other income	13	19	18
Total revenues	3,824	4,259	4,550
BENEFITS AND EXPENSES			
Insurance losses and policyholder benefits	2,193	1,963	2,128
Commissions	576	624	630
Other operating expenses	411	362	354
Taxes, licenses and fees	68	75	77
Increase in deferred policy acquisition costs	(17)	(9)	(21)
Interest expense	53	52	53
Total benefits and expenses	3,284	3,067	3,221
INCOME BEFORE INCOME TAXES	540	1,192	1,329
PROVISION (BENEFIT) FOR INCOME TAXES			
Current	238	325	404
Deferred	(127)	12	(5)
Total provision for income taxes	111	337	399
NET INCOME	\$ 429	\$ 855	\$ 930
PER COMMON SHARE			
Net income—basic	\$ 2.63	\$ 5.01	\$ 5.36
Net income—diluted	2.62	4.97	5.30

Accompanying notes are an integral part of these statements.

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions)	Years ended December 31,		
	2008	2007	2006
COMMON STOCK			
Beginning of year	\$ 393	\$ 391	\$ 389
Stock options exercised	<u>0</u>	<u>2</u>	<u>2</u>
End of year	<u>393</u>	<u>393</u>	<u>391</u>
PAID-IN CAPITAL			
Beginning of year	1,049	1,015	969
Stock options exercised	4	19	28
Share-based compensation	15	14	17
Other	<u>1</u>	<u>1</u>	<u>1</u>
End of year	<u>1,069</u>	<u>1,049</u>	<u>1,015</u>
RETAINED EARNINGS			
Beginning of year	3,404	2,786	2,088
Cumulative effect of change in accounting for hybrid financial securities	0	5	0
Cumulative effect of change in accounting for uncertain tax positions	<u>0</u>	<u>(1)</u>	<u>0</u>
Adjusted beginning of year	3,404	2,790	2,088
Net income	429	855	930
Dividends declared	<u>(254)</u>	<u>(241)</u>	<u>(232)</u>
End of year	<u>3,579</u>	<u>3,404</u>	<u>2,786</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Beginning of year	2,151	3,379	3,284
Cumulative effect of change in accounting for hybrid financial securities	<u>0</u>	<u>(5)</u>	<u>0</u>
Adjusted beginning of year	2,151	3,374	3,284
Other comprehensive income (loss), net	(1,804)	(1,223)	127
Cumulative effect of change in accounting for pension obligations	<u>0</u>	<u>0</u>	<u>(32)</u>
End of year	<u>347</u>	<u>2,151</u>	<u>3,379</u>
TREASURY STOCK			
Beginning of year	(1,068)	(763)	(644)
Purchase	(139)	(306)	(120)
Reissued	<u>1</u>	<u>1</u>	<u>1</u>
End of year	<u>(1,206)</u>	<u>(1,068)</u>	<u>(763)</u>
Total shareholders' equity	<u>\$ 4,182</u>	<u>\$ 5,929</u>	<u>\$ 6,808</u>
COMMON STOCK - NUMBER OF SHARES OUTSTANDING			
Beginning of year	166	173	174
Shares issued	0	0	1
Purchase of treasury shares	<u>(4)</u>	<u>(7)</u>	<u>(2)</u>
End of year	<u>162</u>	<u>166</u>	<u>173</u>
COMPREHENSIVE INCOME			
Net income	\$ 429	\$ 855	\$ 930
Net unrealized investment gains and losses, net of deferred income tax of 2008 — \$(972); 2007—\$(667); 2006—\$54	(1,794)	(1,231)	127
Pension obligations	<u>(10)</u>	<u>8</u>	<u>0</u>
Total comprehensive income (loss)	<u>\$ (1,375)</u>	<u>\$ (368)</u>	<u>\$ 1,057</u>

Accompanying notes are an integral part of these statements.

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Years ended December 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 429	\$ 855	\$ 930
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and other non-cash items	32	36	38
Realized gains on investments	(138)	(382)	(684)
Share-based compensation	15	14	17
Interest credited to contract holders	34	36	31
Changes in:			
Investment income receivable	26	(3)	(3)
Premiums and reinsurance receivable	43	(50)	(13)
Deferred policy acquisition costs	(17)	(8)	(21)
Other assets	5	(4)	17
Loss and loss expense reserves	119	71	235
Life policy reserves	67	101	81
Unearned premiums	(20)	(15)	20
Other liabilities	(25)	64	(5)
Deferred income tax	(127)	12	(5)
Current income tax	41	(22)	(23)
Net cash provided by operating activities	<u>484</u>	<u>705</u>	<u>615</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of fixed maturities	167	321	110
Call or maturity of fixed maturities	1,029	520	343
Sale of equity securities	2,052	812	859
Collection of finance receivables	36	37	35
Purchase of fixed maturities	(1,695)	(924)	(753)
Purchase of equity securities	(771)	(769)	(689)
Change in short-term investments, net	20	(5)	(15)
Investment in buildings and equipment, net	(36)	(70)	(52)
Investment in finance receivables	(17)	(23)	(41)
Change in other invested assets, net	(17)	(1)	(11)
Change in securities lending collateral invested	741	(760)	0
Net cash provided by (used in) investing activities	<u>1,509</u>	<u>(862)</u>	<u>(214)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of cash dividends to shareholders	(250)	(240)	(228)
Purchase of treasury shares	(139)	(307)	(120)
Change in notes payable	(20)	20	49
Proceeds from stock options exercised	4	19	27
Contract holder funds deposited	25	12	32
Contract holder funds withdrawn	(66)	(79)	(78)
Change in securities lending payable	(760)	760	0
Excess tax benefits on share-based compensation	0	2	2
Other	(4)	(6)	(2)
Net cash provided by (used in) financing activities	<u>(1,210)</u>	<u>181</u>	<u>(318)</u>
Net increase in cash and cash equivalents	783	24	83
Cash and cash equivalents at beginning of year	226	202	119
Cash and cash equivalents at end of period	<u>\$ 1,009</u>	<u>\$ 226</u>	<u>\$ 202</u>
Supplemental disclosures of cash flow information:			
Interest paid (net of capitalized interest: 2008—\$3; 2007—\$4; 2006—\$2)	\$ 53	\$ 51	\$ 53
Income taxes paid	197	346	429
Non-cash activities:			
Conversion of securities	\$ 25	\$ 20	\$ 50
Equipment acquired under capital lease obligations	2	12	12

Accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Cincinnati Financial operates through our insurance group and three complementary subsidiary companies:

The Cincinnati Insurance Company leads our standard market property casualty insurance group that also includes two subsidiaries: The Cincinnati Casualty Company and The Cincinnati Indemnity Company. This group markets a broad range of standard market business, homeowner and auto policies in 35 states. The group provides quality customer service to our select group of 1,113 local insurance agencies with 1,387 reporting locations. Other subsidiaries of The Cincinnati Insurance Company include The Cincinnati Life Insurance Company, which markets life insurance policies, disability income policies and annuities, and The Cincinnati Specialty Underwriters Insurance Company, which began offering excess and surplus lines insurance products in 2008.

The three complementary subsidiaries are CSU Producer Resources Inc., which offers insurance brokerage services to our independent agencies so their clients can access our excess and surplus lines insurance products; CFC Investment Company, which offers commercial leasing and financing services to our agents, their clients and other customers; and CinFin Capital Management Company, which provides asset management services to institutions, corporations and individuals. CinFin Capital Management will cease operations effective February 28, 2009.

Basis of Presentation

Our consolidated financial statements include the accounts of the parent company and our wholly owned subsidiaries. We present our statements in accordance with accounting principles generally accepted in the United States of America (GAAP). In consolidating our accounts, we have eliminated intercompany balances and transactions.

In accordance with GAAP, we have made estimates and assumptions that affect the amounts we report and discuss in the consolidated financial statements and accompanying notes. Actual results could differ from our estimates.

Earnings per Share

Net income per common share is based on the weighted average number of common shares outstanding during each of the respective years. We calculate net income per common share (diluted) assuming the exercise of stock-based awards. We have adjusted shares and earnings per share to reflect all stock splits and dividends prior to December 31, 2008.

Share-based Compensation

We grant qualified and non-qualified share-based compensation under authorized plans. Until 2007, all stock-based awards were in the form of stock options that had an exercise price equal to the market value of the underlying common stock on the date of grant. The options vest ratably over three years following the date of grant and are exercisable over 10 year periods.

The 2006 Stock Compensation Plan provides the compensation committee of the board of directors flexibility in the types of available stock-based awards including stock options, restricted stock, restricted stock units, stock appreciation rights and other stock-based awards. The 2006 Stock Compensation Plan also provides for the grant of performance-based awards.

In 2008, the committee approved a mix of stock options and restricted stock units for stock-based awards. Stock options granted had similar terms but generally were awarded for fewer shares compared with previous years to accommodate new awards of service based and performance-based restricted stock units, while keeping the overall estimated cost of stock-based compensation in line with previous years.

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment," using the modified prospective transition method. We elected to use the alternative method for determining the beginning balance of the additional paid-in capital pool, as described in the Financial Accounting Standards Board (FASB) Staff Position 123(R)-3. Refer to Note 17, Stock-based Associate Compensation Plans, Page 117 for more information regarding our share-based compensation.

Employee Benefit Pension Plan

We sponsor a defined benefit pension plan that was modified during 2008. We froze entry into the pension plan and only participants 40 years of age or older could elect to remain in the plan. Our pension expense is based on certain actuarial assumptions and also is composed of several components that are determined using the projected unit credit actuarial cost method. Refer to Note 13, Employee Retirement Benefits, Page 113 for more information regarding our defined benefit pension plan.

Property Casualty Insurance

Property casualty policy written premiums are deferred and recorded as earned premiums on a pro rata basis over the terms of the policies. We record as unearned premium the portion of written premiums that apply to unexpired policy terms. The expenses associated with issuing insurance policies – primarily commissions, premium taxes and underwriting costs – are deferred and amortized over the terms of the policies. We update our acquisition cost assumptions periodically to reflect actual experience, and we evaluate our deferred acquisition cost for recoverability.

Certain property casualty policies are not booked before the effective date. An actuarial estimate is made to determine the amount of unbooked written premiums. The majority of the estimate is unearned and does not have a material impact on earned premium.

We establish reserves to cover the expected cost of claims – or losses – and our expenses related to investigating, processing and resolving claims. Although determining the appropriate amount of reserves is inherently uncertain, we base our decisions on past experience and current facts. Reserves are based on claims reported prior to the end of the year and estimates of unreported claims. We take into account the fact that we may recover some of our costs through salvage and subrogation. We regularly review and update reserves using the most current information available. Any resulting adjustments are reflected in current year insurance losses and policyholder benefits.

The Cincinnati Insurance Companies actively write standard market property casualty insurance policies in 35 states. Our 10 largest states generated 68.7 percent and 69.1 percent of total property casualty premiums in 2008 and 2007. Ohio, our largest state, accounted for 20.9 percent and 21.2 percent of total earned premiums in 2008 and 2007. Agencies in Georgia, Illinois, Indiana, Michigan, North Carolina, Pennsylvania and Virginia each contributed between 4 percent and 9 percent of premium volume in 2008. The largest single agency relationship accounted for approximately 1.3 percent of the company's total agency direct earned premiums in 2008.

Policyholder Dividends

Certain workers' compensation policies include the possibility of an insured earning a return of a portion of their premium in the form of a policyholder dividend. The dividend generally is calculated by determining the profitability of a policy year along with the associated premium. We reserve for all probable future policyholder dividend payments.

Life and Health Insurance

We offer several types of life and health insurance and we account for each according to the duration of the contract. Short-duration contracts are written to cover claims that arise during a short, fixed term of coverage. We generally have the right to change the amount of premium charged or cancel the coverage at the end of each contract term. Group life insurance is an example. We record premiums for short-duration contracts similarly to property casualty contracts.

Long-duration contracts are written to provide coverage for an extended period of time. Traditional long-duration contracts require policyholders to pay scheduled gross premiums, generally not less frequently than annually, over the term of the coverage. Premiums for these contracts are recognized as revenue when due. Whole life insurance and disability income insurance are examples. Some traditional long-duration contracts have premium payment periods shorter than the period over which coverage is provided. For these contracts, the excess of premium over the amount required to pay expenses and benefits is recognized over the term of the coverage rather than over the premium payment period. Ten-pay whole life insurance is an example.

We establish a liability for traditional long-duration contracts as we receive premiums. The amount of this liability is the present value of future expenses and benefits less the present value of future net premiums. Net premium is the portion of gross premium required to provide for all expenses and benefits. We estimate future expenses and benefits and net premium using assumptions for expected expenses, mortality, morbidity, withdrawal rates and investment income. We include a provision for adverse deviation, meaning we allow for some uncertainty in making our assumptions. We establish our assumptions when the contract is issued and we generally maintain those assumptions for the life of the contract. We use both our own experience and industry experience, adjusted for historical trends, in arriving at our assumptions for expected mortality, morbidity and withdrawal rates. We use our own experience and historical trends for setting our assumption for expected expenses. We base our assumption for expected investment income on our own experience, adjusted for current economic conditions.

When we issue a traditional long-duration contract, we capitalize acquisition costs. Acquisition costs are costs which vary with, and are primarily related to, the production of new business. We then charge these deferred policy acquisition costs to expenses over the premium paying period of the contract and we use the same assumptions that we use when we establish the liability for the contract. We update our acquisition cost assumptions periodically to reflect actual experience and we evaluate our deferred acquisition cost for recoverability.

Universal life contracts are long-duration contracts for which contractual provisions are not fixed, unlike whole life insurance. Universal life contracts allow policyholders to vary the amount of premium, within limits, without our consent. However we may vary the mortality and expense charges, within limits, and the interest crediting rate used to accumulate policy values. We do not record universal life premiums as revenue. Instead we recognize as revenue the mortality charges, administration charges and surrender charges when received. Some of our universal life contracts assess administration charges in the early years of the contract that are compensation for services we will provide in the later years of the contract. These administration charges are deferred and are recognized over the period when we provide those future services.

For universal life long-duration contracts we maintain a liability equal to the policyholder account value. There is no provision for adverse deviation. Some of our universal life policies contain no-lapse guarantee provisions. For these policies, we establish a reserve in addition to the account balance, based on expected no-lapse guarantee benefits and expected policy assessments.

When we issue a universal life long-duration contract we capitalize acquisition costs. We then charge these capitalized costs to expenses over the term of coverage of the contract. When we charge deferred policy acquisition costs to expenses, we use assumptions based on our best estimates of long-term experience. We review and modify these assumptions on a regular basis.

Separate Accounts

We issue life contracts with guaranteed minimum returns, referred to as bank-owned life insurance contracts (BOLIs). We legally segregate and record as separate accounts the assets and liabilities for some of our BOLIs, based on the specific contract provisions. We guarantee minimum investment returns, account values and death benefits for our separate account BOLIs. Our other BOLIs are general account products.

We carry the assets of separate account BOLIs at fair value. The liabilities on separate account BOLIs primarily are the contract holders' claims to the related assets and are carried at an amount equal to the contract holders account value. At December 31, 2008, the contract holders account value exceeded the current fair value of the BOLI invested assets and cash by approximately \$40 million. If the BOLI projected fair value is below the value we guaranteed, a liability would be established by a charge to the company's earnings.

Generally, investment income and realized investment gains and losses of the separate accounts accrue directly to the contract holder and we do not include them in the Consolidated Statements of Income. Revenues and expenses related to separate accounts consist of contractual fees and mortality, surrender and expense risk charges. Also, each separate account BOLI includes a negotiated gain and loss sharing arrangement with the company. A percentage of each separate account's realized gain and loss representing contract fees and assessments accrues to us and is transferred from the separate account to our general account and is recognized as revenue or expense.

Reinsurance

We reduce risk and uncertainty by buying property casualty and life reinsurance. Reinsurance contracts do not relieve us from our duty to policyholders, but rather help protect our financial strength to perform that duty. All of our reinsurance contracts transfer the economic risk of loss.

We also serve in a limited way as a reinsurer for other insurance companies, reinsurers and involuntary state pools. We record our transactions for such assumed reinsurance based on reports provided to us by the ceding reinsurer.

Reinsurance assumed and ceded premiums are deferred and recorded as earned premiums on a pro rata basis over the terms of the contract. We estimate loss amounts recoverable from our reinsurers based on the reinsurance policy terms. Historically, our claims with reinsurers have been paid. We do not have an allowance for uncollectible reinsurance.

Cash and Cash Equivalents

Cash and cash equivalents include commercial paper, money market funds, invested cash and other overnight investments purchased with original maturities of less than three months, which are carried at fair value.

Investments

Our portfolio investments are primarily in publicly traded fixed-maturity, equity and short-term investments, classified as available for sale at fair value in the consolidated financial statements. Fixed-maturity investments (taxable bonds, tax-exempt bonds, redeemable preferred stocks and collateralized mortgage obligations) and equity investments (common and non-redeemable preferred stocks) are classified as available for sale and recorded at fair value in the consolidated financial statements. The number of fixed-maturity securities trading below 100 percent of book value can be expected to fluctuate as interest rates rise or fall. Because of our strong surplus and long-term investment horizon, our intent is to hold fixed-maturity investments until maturity, regardless of short-term fluctuations in fair values.

Included within our other invested assets are life policy loans, venture capital fund investments, private equity investments and investment in real estate. Life policy loans are carried at the receivable value which approximates fair value. We use the equity method of accounting for venture capital fund investments. The venture capital funds provide their financial statements to us and generally report investments on their balance sheets at fair value. Our private equity investments within our invested assets are accounted for under the cost method. Investment real estate consists of one office building that is carried at cost less accumulated depreciation.

We include unrealized gains and losses on investments, net of taxes, in shareholders' equity as accumulated other comprehensive income. Realized gains and losses on investments are recognized in net income on a specific identification basis.

Investment income consists mainly of interest and dividends. We record interest on an accrual basis and record dividends at the ex-dividend date. We amortize premiums and discounts on fixed-maturity securities using the effective interest method over the expected life of the security.

Facts and circumstances sometimes warrant investment write-downs. We record such other-than-temporary declines as realized investment losses. When evaluating for other-than-temporary impairments, the asset impairment committee considers the company's intent and ability to retain a security for a period adequate to recover its cost.

Fair Value Disclosures

We account for our investment portfolio at fair value and apply fair value measurements as defined by SFAS No. 157, "Fair Value Measurements," to financial instruments. Fair value is applicable to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," and SFAS No. 107, "Disclosures about Fair Value of Financial Instruments."

We adopted the provisions of SFAS No. 157 on January 1, 2008. SFAS No. 157 defines fair value as the exit price or the amount that would be 1) received to sell an asset or 2) paid to transfer a liability in an orderly transaction between marketplace participants at the measurement date. When determining an exit price we must, whenever possible, rely upon observable market data. Prior to the adoption of SFAS No. 157, we considered various factors such as liquidity and volatility but primarily obtained pricing from various external services, including broker quotes. We primarily base fair value for investments in equity and fixed-maturity securities (including redeemable preferred stock and assets held in separate accounts) on quoted market prices or on prices from FT Interactive Data, an outside resource that supplies global securities pricing, dividend, corporate action and descriptive information to support fund pricing, securities operations, research and portfolio management. When a price is not available from these sources, as in the case of securities that are not publicly traded, we determine the fair value using various inputs including quotes from independent brokers. The fair value of investments not priced by FT Interactive Data is less than 1 percent of the fair value of our total investment portfolio.

For the purpose of SFAS No. 107 disclosure, we estimate the fair value for liabilities of investment contracts and annuities. We also estimate the fair value for assets arising from policyholder loans on insurance contracts. These estimates are developed using discounted cash flow calculations across a wide range of economic interest rate scenarios with a provision for our own credit risk. We base fair value for long-term senior notes and notes payable on the quoted market prices for such notes.

Derivative Financial Instruments and Hedging Activities

We account for derivative financial instruments as defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Deferral of the Effective Date of FASB Statement No. 133" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively referred to as SFAS No. 133).

The hedging definitions included in SFAS No. 133 guide our recognition of the changes in the fair value of derivative financial instruments as realized gains or losses in the consolidated statements of income or as a component of accumulated other comprehensive income in shareholder's equity in the period for which they occur.

In 2006, CFC Investment Company (CFC-I) replaced \$49 million of intercompany debt owed to CFC with a short-term line of credit issued by PNC Bank. CFC-I entered into an interest-rate swap contract to hedge against fluctuations of interest payments for certain variable-rate debt obligations (\$49 million notional amount) that expires August 29, 2009. In October 2006, we completed necessary requirements for the interest-rate swap to qualify for hedge accounting treatment under the provisions of SFAS No. 133. At December 31, 2008 and 2007, the fair value of the interest rate swap was \$1.3 million and \$1.2 million, respectively. We do not expect any significant reclassification into consolidated net income for the year ending December 31, 2009.

Securities Lending Program

In 2007, we participated in a securities lending program under which certain fixed-maturity securities from our investment portfolio were loaned to other institutions for short periods of time. We required cash collateral in excess of the market value of the loaned securities. During the third quarter of 2008, we terminated the program.

Lease/Finance

Our CFC Investment Company subsidiary provides auto and equipment direct financing (leases and loans) to commercial and individual clients. We generally transfer ownership of the property to the client as the terms of the leases expire. Our lease contracts contain bargain purchase options. We record income over the financing term using the effective interest method.

We capitalize and amortize lease or loan origination costs over the life of the financing using the effective interest method. These costs may include, but are not limited to: finder fees, broker fees, filing fees and the cost of credit reports. We account for these leases and loans as direct financing-type leases.

Asset Management

Our CinFin Capital Management subsidiary generated revenue from management fees. We set those fees based on the market value of assets under management, and we recorded our revenue as it was earned. CinFin Capital Management will cease operations effective February 28, 2009.

Land, Building and Equipment

We record building and equipment at cost less accumulated depreciation. Certain equipment held under capital leases also is classified as property and equipment with the related lease obligations recorded as liabilities. Our depreciation is based on estimated useful lives (ranging from three years to 39½ years) using straight-line and accelerated methods. Depreciation expense was \$35 million in 2008 and \$38 million in both 2007 and 2006. We monitor land, building and equipment for potential impairments. Potential impairments may include a significant decrease in the market values of the assets, considerable cost overruns on projects or a change in legal factors or business climate, or other factors that indicate that the carrying amount may not be recoverable. There were no recorded land, building and equipment impairments for 2006 through 2008.

We capitalize and amortize costs for internally developed computer software during the application development stage. These costs generally consist of external consulting, payroll and payroll-related costs.

Income Taxes

We calculate deferred income tax liabilities and assets using tax rates in effect for the time when temporary differences in book and taxable income are estimated to reverse. We recognize deferred income taxes for numerous temporary differences between our taxable income and book-basis income and other changes in shareholders' equity. Such temporary differences relate primarily to unrealized gains and losses on investments and differences in the recognition of deferred acquisition costs and insurance reserves. We charge deferred income taxes associated with unrealized appreciation and depreciation (except the amounts related to the effect of income tax rate changes) to shareholders' equity in accumulated other comprehensive income. We charge deferred taxes associated with other differences to income.

There are no amounts in our FIN 48 liability that would change the effective tax rate if recognized. Although no penalties currently are accrued, if incurred, they would be recognized as a component of income tax expense. Accrued interest expense is recognized as other operating expense in the consolidated statements of income.

Pending Accounting Standards

- SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin (ARB) No. 51," was issued in December 2007. SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The provisions of SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Management does not expect adoption of this statement to have a material impact on our results of operations and financial position.
- SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS No. 133," was issued in March 2008. SFAS No. 161 requires that disclosure of objectives for using derivative instruments include discussion of underlying risk and accounting designation. SFAS No. 161 also requires cross-referencing within the footnotes to assist the users of financial statements in identifying significant information about derivative instruments. The effective date of SFAS No. 161 is the company's fiscal year beginning January 1, 2009. We do not expect adoption of this statement to have any impact on our results of operations and financial position.

- SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60," was issued in May 2008. SFAS No. 163 applies to financial guarantee insurance and reinsurance contracts issued by enterprises that are similar to financial guarantee insurance such as mortgage guaranty insurance and credit insurance on trade receivables. The effective date is for financial statements issued for fiscal years beginning after December 15, 2008. The company does not have financial guarantee insurance products and we do not expect adoption of this statement to have any impact on our results of operations and financial position.

Adopted Accounting Standards

- In October 2008, FASB issued FASB Staff Position (FSP) 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." FSP No. 157-3 provides key considerations when determining fair value for financial assets that are not active. In February 2008, the FASB issued FSP No. 157-2, "Fair Value Measurement." FSP No. 157-2 and FSP No. 157-3 are amendments of SFAS No. 157, issued in September 2006. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure about fair value measurements. SFAS No. 157 was effective for fiscal years beginning after November 15, 2007. We partially adopted SFAS No. 157 in the first quarter of 2008. We elected to defer SFAS No. 157 for nonfinancial assets and nonfinancial liabilities until January 1, 2009, as permitted under FSP No. 157-2. We did not have a cumulative-effect adjustment to beginning retained earnings as a result of the adoption of SFAS No. 157.
- In February 2007, the FASB issued SFAS No. 159, "Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of SFAS No. 115." SFAS No. 159 permits an entity to choose to measure many financial instruments and certain other items at fair value (on an instrument-by-instrument basis) at specified election dates. The objective is to improve financial reporting by providing an entity with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We have not elected to value any assets or liabilities not otherwise measured at fair value under SFAS No. 159. We continue to evaluate the impact of making that election in the future.
- In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies sources of GAAP and provides a framework, or hierarchy, for principles to be used for non-governmental entities. This statement was effective on November 15, 2008, and did not have an impact on our results of operations and financial position.
- In January 2009, the FASB issued FSP No. EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20." The FSP removes the exclusive reliance upon market participant assumptions about future cash flows when evaluating impairment of securities within its scope. The FSP requires companies to follow impairment guidance in SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." FSP No. EITF 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008. The adoption of the FSP did not have a material impact on our results of operations and financial position.

2. INVESTMENTS

The following table analyzes investment income, realized investment gains and losses and the change in unrealized investment gains and losses:

(In millions)	Years ended December 31,		
	2008	2007	2006
Investment income summarized by investment category:			
Interest on fixed maturities	\$ 326	\$ 308	\$ 300
Dividends on equity securities	204	294	262
Other investment income	14	15	15
Total	<u>544</u>	<u>617</u>	<u>577</u>
Less investment expenses	7	9	7
Total	<u>\$ 537</u>	<u>\$ 608</u>	<u>\$ 570</u>
Realized investment gains and losses summary:			
Fixed maturities:			
Gross realized gains	\$ 4	\$ 8	\$ 27
Gross realized losses	(36)	(18)	(2)
Other-than-temporary impairments	(163)	(14)	(1)
Equity securities:			
Gross realized gains	1,020	438	656
Gross realized losses	(280)	(24)	(5)
Other-than-temporary impairments	(347)	(2)	0
Securities with embedded derivatives	(38)	(11)	7
Other	(22)	5	2
Total	<u>\$ 138</u>	<u>\$ 382</u>	<u>\$ 684</u>
Change in unrealized investment gains and losses and other summary:			
Fixed maturities	\$ (296)	\$ 7	\$ (23)
Equity securities	(2,455)	(1,904)	200
Adjustment to deferred acquisition costs and life policy reserves	19	(1)	2
Pension obligations	(15)	12	0
Other	(34)	0	2
Income taxes on above	977	663	(54)
Total	<u>\$ (1,804)</u>	<u>\$ (1,223)</u>	<u>\$ 127</u>

At December 31, 2008, contractual maturity dates for fixed-maturity and short-term investments were:

(In millions)	Amortized cost	Fair value	% of Fair value
Maturity dates occurring:			
Less than 1 year	\$ 170	\$ 168	2.8 %
Years 1 - 5	1,257	1,217	20.6
Years 6 - 10	2,780	2,619	44.3
Years 11 - 20	1,770	1,753	29.7
Over 20 years	165	154	2.6
Total	<u>\$ 6,142</u>	<u>\$ 5,911</u>	<u>100.0 %</u>

Actual maturities may differ from contractual maturities when there is a right to call or prepay obligations with or without call or prepayment penalties.

At December 31, 2008, investments with book value of \$80 million and fair value of \$81 million were on deposit with various states in compliance with regulatory requirements.

The following table analyzes cost or amortized cost, gross unrealized gains, gross unrealized losses and fair value for our investments:

(In millions)	Cost or		Gross unrealized		Fair
	amortized		gains	losses	value
	cost				
At December 31,					
2008					
Fixed maturities:					
States, municipalities and political subdivisions	\$ 2,704	\$ 60	\$ 31	\$ 2,733	
Convertibles and bonds with warrants attached	102	0	0	102	
Public utilities	341	5	19	327	
United States government	4	1	0	5	
Government-sponsored enterprises	391	0	2	389	
Foreign government	3	0	0	3	
All other corporate bonds and short-term investments	2,597	39	284	2,352	
Total	\$ 6,142	\$ 105	\$ 336	\$ 5,911	
Equity securities	\$ 2,077	\$ 1,079	\$ 260	\$ 2,896	
2007					
Fixed maturities:					
States, municipalities and political subdivisions	\$ 2,518	\$ 48	\$ 2	\$ 2,564	
Convertibles and bonds with warrants attached	238	2	14	226	
Public utilities	163	5	1	167	
United States government	4	0	0	4	
Government-sponsored enterprises	894	2	0	896	
Foreign government	3	0	0	3	
All other corporate bonds and short-term investments	2,064	56	31	2,089	
Total	\$ 5,884	\$ 113	\$ 48	\$ 5,949	
Equity securities	\$ 2,975	\$ 3,414	\$ 140	\$ 6,249	

At year-end 2008, no investment accounted for more than 10 percent of shareholders' equity. At year-end 2007, our Fifth Third Bancorp common stock holding, with fair value of \$1.691 billion and a cost of \$185 million, was our only investment for which the fair value exceeded 10 percent of shareholders' equity. We sold 55.4 million shares of our holdings of Fifth Third common stock in 2008, 5.5 million shares in 2007, and the remaining 12 million shares sold in January 2009.

This table reviews unrealized losses and fair values by investment category and by the duration of the securities' continuous unrealized loss position:

(In millions)	Less than 12 months		12 months or more		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	value	losses	value	losses	value	losses
At December 31,						
2008						
Fixed maturities:						
States, municipalities and political subdivisions	\$ 592	\$ 26	\$ 94	\$ 5	\$ 686	\$ 31
Public utilities	195	15	38	5	233	20
Government-sponsored enterprises	141	2	0	0	141	2
All other corporate bonds and short-term investments	1,367	215	254	68	1,621	283
Total	2,295	258	386	78	2,681	336
Equity securities	820	219	79	41	899	260
Total	\$ 3,115	\$ 477	\$ 465	\$ 119	\$ 3,580	\$ 596
2007						
Fixed maturities:						
States, municipalities and political subdivisions	\$ 39	\$ 1	\$ 205	\$ 1	\$ 244	\$ 2
Convertibles and bonds with warrants attached	70	14	0	0	70	14
Public utilities	13	0	41	1	54	1
Government-sponsored enterprises	0	0	20	0	20	0
All other corporate bonds and short-term investments	384	13	393	18	777	31
Total	506	28	659	20	1,165	48
Equity securities	729	140	0	0	729	140
Total	\$ 1,235	\$ 168	\$ 659	\$ 20	\$ 1,894	\$ 188

When evaluating for other-than-temporary impairments, our asset impairment committee considers the company's intent and ability to retain a security for a period adequate to recover its cost.

During 2008, we impaired 126 securities. As a result, at December 31, 2008, 142 fixed-maturity investments with a total unrealized loss of \$78 million had been in an unrealized loss position for 12 months or more. Of that total, there were no fixed maturity investments trading below 70 percent of book value.

At December 31, 2007, 184 fixed-maturity investments with a total unrealized loss of \$20 million had been in an unrealized loss position for 12 months or more. Of that total, three securities were trading below 70 percent of book value with a total unrealized loss of \$6 million. The remainder were trading between 70 percent to less than 100 percent of book value.

Securities Lending Program

During the third quarter of 2008, we terminated a securities lending program that we initiated in 2006. As a result, no securities were on loan at year-end 2008 compared with \$745 million at year-end 2007. In conjunction with the program termination, we chose to retain a small portfolio of collateralized mortgage obligations rather than sell them at what we felt were distressed prices in an illiquid market. The CMOs were an investment made by one of the short-duration funds, which subsequently dissolved and distributed the assets to its investors.

All \$30 million of the CMOs in the portfolio are collateralized by Alt-A mortgages that originated between 2004 and 2006. As of December 31, 2008, we owned investment grade CMOs with a fair value and book value of \$27 million and \$39 million, respectively. Of this \$27 million investment-grade fair value, \$21 million were rated AAA by Standard & Poor's. Our non-investment grade CMOs had a fair value and book value of \$3 million and \$4 million, respectively. We do not intend to make additional investments in this asset category.

3. FAIR VALUE MEASUREMENTS

We adopted SFAS No. 157 in the first quarter of 2008. Our investment portfolio is subject to SFAS No. 157 disclosure requirements for interim and year-end reporting.

Fair Value Hierarchy

In accordance with SFAS No. 157, we categorized our financial instruments, based on the priority of the observable and market-based data for each valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices with readily available independent data in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable market inputs (Level 3).

When various inputs for measurement fall within different levels of the fair value hierarchy, the lowest observable input that has a significant impact on fair value measurement is used.

Financial instruments are categorized based upon the following characteristics or inputs to the valuation techniques:

- Level 1 – Financial assets and liabilities for which inputs are observable and are obtained from reliable quoted prices for identical assets or liabilities in actively traded markets. This is the most reliable fair value measurement and includes, for example, active exchange-traded equity securities.
- Level 2 – Financial assets and liabilities for which values are based on quoted prices in markets that are not active or for which values are based on similar assets and liabilities that are actively traded. Also includes pricing models for which the inputs are corroborated by market data.
- Level 3 – Financial assets and liabilities for which values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Level 3 inputs include the following:
 - Quotes from brokers or other external sources that are not considered binding;
 - Quotes from brokers or other external sources where it cannot be determined that market participants would in fact transact for the asset or liability at the quoted price;
 - Quotes from brokers or other external sources where the inputs are not deemed observable.

We conduct a thorough review of fair value hierarchy classifications on a quarterly basis. Reclassification of certain financial instruments may occur when input observability changes. As noted below in the Level 3 disclosure table, reclassifications are reported as transfers in/out of the Level 3 category as of the beginning of the quarter in which the reclassification occurred.

The following table illustrates the fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2008. We do not have any material liabilities carried at fair value.

(In millions)	Asset fair value measurements at reporting date using				Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
	Available for sale securities:				
Taxable fixed maturities	\$ 395	\$ 2,619	\$ 50	\$	3,064
Taxable fixed maturities separate accounts	65	422	6		493
Tax-exempt fixed maturities	0	2,728	5		2,733
Common equities	2,657	0	64		2,721
Preferred equities	0	153	22		175
Collateralized mortgage obligations	0	30	0		30
Short-term investments	0	84	0		84
Top Hat Savings Plan	4	1	0		5
Total	\$ 3,121	\$ 6,037	\$ 147	\$	9,305

Level 3 Assets

Each financial instrument deemed to have significant unobservable inputs when determining valuation is identified in the table below by security type with a summary of changes in fair value for the year ended December 31, 2008.

(In millions)	Asset fair value measurements using significant unobservable inputs (Level 3)					Total
	Taxable fixed maturities	Taxable fixed maturities- separate accounts	Tax-exempt fixed maturities	Common equities	Preferred equities	
Beginning balance, January 1, 2008	\$ 85	\$ 3	\$ 5	\$ 59	\$ 58	\$ 210
Total gains or losses (realized/unrealized):						
Included in earnings (or changes in net assets)	(4)	(1)	0	0	(16)	(21)
Included in other comprehensive income	(6)	1	0	5	(2)	(2)
Purchases, sales, issuances, and settlements	(18)	0	0	0	(9)	(27)
Transfers in and/or out of Level 3	(7)	3	0	0	(9)	(13)
Ending balance, December 31, 2008	\$ 50	\$ 6	\$ 5	\$ 64	\$ 22	\$ 147

Included within earnings for the Level 3 securities for the year ended December 31, 2008, was approximately \$19 million of impairment charges. Of the \$19 million, approximately \$16 million was for impairment of preferred equities.

Unrealized gains or losses on Level 3 securities were included in accumulated other comprehensive income and were not included in net realized investment gains or losses for the year ended December 31, 2008. We transferred approximately \$26 million out of Level 3 taxable fixed maturity securities and \$19 million into Level 3 taxable fixed maturity securities throughout the year. We also transferred approximately \$16 million out of Level 3 preferred equity securities and \$7 million into Level 3 taxable preferred equity securities throughout the year.

4. DEFERRED ACQUISITION COSTS

This table summarizes components of our deferred policy acquisition costs asset:

(In millions)	Years ended December 31,		
	2008	2007	2006
Deferred policy acquisition costs asset at beginning of year	\$ 461	\$ 453	\$ 429
Capitalized deferred policy acquisition costs	649	666	706
Amortized deferred policy acquisition costs	(632)	(657)	(685)
Amortized shadow deferred policy acquisition costs	31	(1)	3
Deferred policy acquisition costs asset at end of year	\$ 509	\$ 461	\$ 453

5. PROPERTY CASUALTY LOSS AND LOSS EXPENSES

This table summarizes activity loss and loss expense reserves:

(In millions)	Years ended December 31,		
	2008	2007	2006
Gross loss and loss expense reserves, January 1,	\$ 3,925	\$ 3,860	\$ 3,629
Less reinsurance receivable	528	504	518
Net loss and loss expense reserves, January 1,	<u>3,397</u>	<u>3,356</u>	<u>3,111</u>
Net incurred loss and loss expenses related to:			
Current accident year	2,379	2,076	2,124
Prior accident years	(323)	(244)	(116)
Total incurred	<u>2,056</u>	<u>1,832</u>	<u>2,008</u>
Net paid loss and loss expenses related to:			
Current accident year	976	785	819
Prior accident years	979	1,006	944
Total paid	<u>1,955</u>	<u>1,791</u>	<u>1,763</u>
Net loss and loss expense reserves, December 31,	3,498	3,397	3,356
Plus reinsurance receivable	542	528	504
Gross loss and loss expense reserves, December 31,	<u>\$ 4,040</u>	<u>\$ 3,925</u>	<u>\$ 3,860</u>

We use actuarial methods, models, and judgment to estimate, as of a financial statement date, the property casualty loss and loss expense reserves required to pay for and settle all outstanding insured claims, including incurred but not reported (IBNR) claims, as of that date. The actuarial estimate is subject to review and adjustment by an inter-departmental committee that includes actuarial management and is familiar with relevant company and industry business, claims, and underwriting trends, as well as general economic and legal trends, that could affect future loss and loss expense payments.

Because of changes in estimates of insured events in prior years, we reduced loss and loss expenses by \$323 million, \$244 million and \$116 million in calendar years 2008, 2007 and 2006. These decreases are partly due to the effects of settling reported (case) and unreported (IBNR) reserves established in prior years for amounts less than expected. The reserve for loss and loss expenses in the consolidated balance sheets also includes \$46 million, \$42 million and \$36 million at December 31, 2008, 2007 and 2006, respectively, for certain life and health losses.

6. LIFE POLICY RESERVES

We establish the reserves for traditional life insurance policies based on expected expenses, mortality, morbidity, withdrawal rates and investment yields, including a provision for uncertainty. Once these assumptions are established, they generally are maintained throughout the lives of the contracts. We use both our own experience and industry experience, adjusted for historical trends, in arriving at our assumptions for expected mortality, morbidity and withdrawal rates as well as for expected expenses. We base our assumptions for expected investment income on our own experience adjusted for current economic conditions.

We establish reserves for the company's universal life, deferred annuity and investment contracts equal to the cumulative account balances, which include premium deposits plus credited interest less charges and withdrawals. Some of our universal life policies contain no-lapse guarantee provisions. For these policies, we establish a reserve in addition to the account balance, based on expected no-lapse guarantee benefits and expected policy assessments.

Here is a summary of our life policy reserves:

(In millions)	At December 31,	
	2008	2007
Ordinary/traditional life	\$ 528	\$ 505
Universal life	442	410
Deferred annuities	374	359
Investment contracts	195	192
Other	12	12
Total	<u>\$ 1,551</u>	<u>\$ 1,478</u>

We provide an updated definition of fair value under SFAS No. 157 in Note 1, Summary of Significant Accounting Policies, Page 98. At December 31, 2008, fair value for annuities and investment contracts was approximately \$460 million, using the updated definition. At December 31, 2007, fair value for annuities and investment contracts was approximately \$564 million.

7. NOTES PAYABLE

At December 31, 2008 and 2007, we had two lines of credit with commercial banks with an aggregate borrowing capacity of \$225 million. Our note payable balance was \$49 million at year-end 2008, down from \$69 million at year-end 2007. We had no compensating balance requirements on short-term debt for either 2008 or 2007. Interest rates charged on borrowings ranged from 2.99 percent to 6.11 percent during 2008.

In 2006, our subsidiary, CFC Investment Company, entered into an interest-rate swap agreement that expires August 29, 2009. The purpose of the interest-rate swap contract was to hedge against fluctuations of interest payments for certain variable-rate debt obligations (\$49 million notional amount). This swap is reflected at fair value in the consolidated balance sheets as a component of shareholders' equity in accumulated other comprehensive income. The unrealized loss, net of tax, was \$640,000 at year-end 2008 compared with \$594,000 at year-end 2007. Management does not expect any significant amounts to be reclassified into earnings as a result of interest rate changes in the next 12 months.

8. SENIOR DEBT

This table summarizes the principal amounts of our long-term debt excluding unamortized discounts:

(In millions)			At December 31,	
Interest rate	Year of issue		2008	2007
6.900%	1998	Senior debentures, due 2028	\$ 28	\$ 28
6.920%	2005	Senior debentures, due 2028	392	392
6.125%	2004	Senior notes, due 2034	375	375
		Total	<u>\$ 795</u>	<u>\$ 795</u>

The fair value of our senior debt approximated \$595 million at year-end 2008 compared with \$802 million at year-end 2007. Fair value for 2008 was determined under SFAS No. 157 based on market pricing of these or similar debt instruments that are actively trading. Fair value can vary with macro economic concerns. Regardless of the fluctuations in fair value, the outstanding principal amount of our long-term debt remained unchanged from year-end 2007. None of the notes are encumbered by rating triggers.

9. SHAREHOLDERS' EQUITY AND DIVIDEND RESTRICTIONS

Our insurance subsidiary declared dividends to the parent company of \$160 million in 2008, \$420 million in 2007 and \$275 million in 2006. State regulatory requirements restrict the dividends insurance subsidiaries can pay. Generally, the most our insurance subsidiaries can pay without prior regulatory approval is the greater of 10 percent of policyholder surplus or 100 percent of statutory net income for the prior calendar year. Dividends exceeding these limitations may be paid only with approval of the insurance department of the domiciliary state. During 2009, the total dividends that our lead insurance subsidiary may pay to our parent company without regulatory approval will be approximately \$336 million.

As of December 31, 2008, 7.3 million shares of common stock were available for future equity award grants.

Declared cash dividends per share were \$1.56, \$1.42 and \$1.34 for the years ended December 31, 2008, 2007 and 2006, respectively.

Accumulated Other Comprehensive Income

The change in unrealized gains and losses on investments, pension obligations and derivatives included:

	Years ended December 31,								
	2008			2007			2006		
(In millions)	Before tax	Income tax	Net	Before tax	Income tax	Net	Before tax	Income tax	Net
Accumulated unrealized gains on securities available for sale at January 1,	\$ 3,336	\$ 1,161	\$ 2,175	\$ 5,241	\$ 1,830	\$ 3,411	\$ 5,060	\$ 1,776	\$ 3,284
Cumulative effect of change in accounting for hybrid financial securities	0	0	0	(7)	(2)	(5)	0	0	0
Adjusted accumulated unrealized gains on securities available for sale at January 1,	<u>3,336</u>	<u>1,161</u>	<u>2,175</u>	<u>5,234</u>	<u>1,828</u>	<u>3,406</u>	<u>5,060</u>	<u>1,776</u>	<u>3,284</u>
(Decrease)/increase in unrealized gains	(2,618)	(915)	(1,703)	(1,515)	(530)	(985)	880	298	582
Reclassification adjustment for (gains) losses included in net income	(138)	(53)	(85)	(382)	(137)	(245)	(701)	(245)	(456)
Adjustment to deferred acquisition costs and life policy reserves	(10)	(4)	(6)	(1)	0	(1)	2	1	1
Effect on other comprehensive income	<u>(2,766)</u>	<u>(972)</u>	<u>(1,794)</u>	<u>(1,898)</u>	<u>(667)</u>	<u>(1,231)</u>	<u>181</u>	<u>54</u>	<u>127</u>
Accumulated unrealized gains on securities available for sale at December 31,	<u>\$ 570</u>	<u>\$ 189</u>	<u>\$ 381</u>	<u>\$ 3,336</u>	<u>\$ 1,161</u>	<u>\$ 2,175</u>	<u>\$ 5,241</u>	<u>\$ 1,830</u>	<u>\$ 3,411</u>
Accumulated unrealized losses for pension obligations at January 1,	\$ (37)	\$ (13)	\$ (24)	\$ (49)	\$ (17)	\$ (32)	\$ 0	\$ 0	\$ 0
Cumulative effect of change in accounting for pension obligations	0	0	0	0	0	0	(49)	(17)	(32)
Change in pension obligations	(15)	(5)	(10)	12	4	8	0	0	0
Accumulated unrealized losses for pension obligations at December 31,	<u>\$ (52)</u>	<u>\$ (18)</u>	<u>\$ (34)</u>	<u>\$ (37)</u>	<u>\$ (13)</u>	<u>\$ (24)</u>	<u>\$ (49)</u>	<u>\$ (17)</u>	<u>\$ (32)</u>
Accumulated other comprehensive income at January 1,	\$ 3,299	\$ 1,148	\$ 2,151	\$ 5,185	\$ 1,811	\$ 3,374	\$ 5,060	\$ 1,776	\$ 3,284
Other comprehensive income (loss)	(2,766)	(972)	(1,794)	(1,898)	(667)	(1,231)	181	54	127
Cumulative effect of change in accounting for pension obligations	0	0	0	0	0	0	(49)	(17)	(32)
Change in pension obligations	(15)	(5)	(10)	12	4	8	0	0	0
Accumulated other comprehensive income at December 31,	<u>\$ 518</u>	<u>\$ 171</u>	<u>\$ 347</u>	<u>\$ 3,299</u>	<u>\$ 1,148</u>	<u>\$ 2,151</u>	<u>\$ 5,192</u>	<u>\$ 1,813</u>	<u>\$ 3,379</u>

10. REINSURANCE

Our statements of income include earned consolidated property casualty insurance premiums on assumed and ceded business:

(In millions)	Years ended December 31,		
	2008	2007	2006
Direct earned premiums	\$ 3,175	\$ 3,278	\$ 3,295
Assumed earned premiums	13	22	26
Ceded earned premiums	(178)	(175)	(158)
Net earned premiums	<u>\$ 3,010</u>	<u>\$ 3,125</u>	<u>\$ 3,163</u>

Our statements of income include incurred consolidated property casualty insurance loss and loss expenses on assumed and ceded business:

(In millions)	Years ended December 31,		
	2008	2007	2006
Direct incurred loss and loss expenses	\$ 2,172	\$ 1,920	\$ 2,070
Assumed incurred loss and loss expenses	5	17	13
Ceded incurred loss and loss expenses	(126)	(107)	(77)
Net incurred loss and loss expenses	<u>\$ 2,051</u>	<u>\$ 1,830</u>	<u>\$ 2,006</u>

Our statements of income include earned life insurance premiums on assumed and ceded business:

(In millions)	Years ended December 31,		
	2008	2007	2006
Direct earned premiums	\$ 180	\$ 178	\$ 159
Assumed earned premiums	0	0	0
Ceded earned premiums	(54)	(53)	(44)
Net earned premiums	<u>\$ 126</u>	<u>\$ 125</u>	<u>\$ 115</u>

Our statements of income include life insurance contract holder benefits incurred on assumed and ceded business:

(In millions)	Years ended December 31,		
	2008	2007	2006
Direct contract holders benefits incurred	\$ 175	\$ 173	\$ 162
Assumed contract holders benefits incurred	0	0	0
Ceded contract holders benefits incurred	(33)	(40)	(40)
Net incurred loss and loss expenses	<u>\$ 142</u>	<u>\$ 133</u>	<u>\$ 122</u>

11. INCOME TAXES

Deferred tax assets and liabilities reflect temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount recognized for tax purposes. The significant components of deferred tax assets and liabilities included in the balance sheets at December 31 were as follows:

(In millions)	At December 31,	
	2008	2007
Deferred tax assets:		
Loss and loss expense reserves	\$ 196	\$ 200
Unearned premiums	107	108
Life policy reserves	0	13
Investments	121	0
Other	41	40
Total	<u>465</u>	<u>361</u>
Deferred tax liabilities:		
Unrealized gains on investments and derivatives	(182)	(1,158)
Deferred acquisition costs	(149)	(145)
Investments	0	(7)
Other	(8)	(28)
Total	<u>(339)</u>	<u>(1,338)</u>
Net deferred tax asset (liability)	<u>\$ 126</u>	<u>\$ (977)</u>

We believe it is more likely than not that our deferred tax assets will be realized. Significant factors we considered in determining the probability of realizing the deferred tax benefits include our historical operating results, the amount of our loss carryback potentials and the expectations of future earnings. The likelihood of realizing our deferred tax asset will be reviewed periodically; any adjustments required to the valuation allowance will be made in the period in which the developments they are based become known.

The provision for federal income taxes is based upon filing a consolidated income tax return for the company and subsidiaries. As of December 31, 2008, we had no operating or capital loss carry forwards.

The differences between the 35 percent statutory income tax rate and our effective income tax rate were as follows:

	Years ended December 31,		
	2008	2007	2006
Tax at statutory rate	35.0 %	35.0 %	35.0 %
Increase (decrease) resulting from:			
Tax-exempt municipal bonds	(6.2)	(2.7)	(2.2)
Dividend received exclusion	(8.9)	(4.7)	(3.9)
Other	0.8	0.7	1.1
Effective rate	<u>20.7 %</u>	<u>28.3 %</u>	<u>30.0 %</u>

Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109

On January 1, 2007, we adopted the provisions of FIN 48. As of December 31, 2008, we had gross unrecognized tax benefits (FIN 48 liability) of \$2.1 million.

Below is the unrecognized tax benefit for December 31, 2008, and December 31, 2007:

(In millions)	2008	2007
Gross unrecognized tax benefits at January 1,	\$ 14.2	\$ 24.8
Gross increase in prior year positions	2.9	0
Gross decrease in prior year positions	0	(12.0)
Gross increase in current year positions	1.8	1.4
Settlements with tax authorities	(16.6)	0
Decrease for lapse in applicable statute of limitations	(0.2)	0
Gross unrecognized tax benefits at December 31,	<u>\$ 2.1</u>	<u>\$ 14.2</u>

The FIN 48 liability is carried in other liabilities in the consolidated balance sheets as of December 31, 2008. There are no amounts in our FIN 48 liability that would change the effective tax rate if recognized. Although no penalties currently are accrued, if incurred, they would be recognized as a component of income tax expense. Accrued interest expense is recognized as other operating expense in the consolidated statements of income. The accrued interest liability was \$1.8 million as of December 31, 2007 with an accrued interest receivable of \$800,000 at December 31, 2008. The consolidated statements of income for the current year reflect an immaterial amount of net IRS interest expense compared to net interest income of \$1.5 million in 2007 from a reduction in the accrued interest liability and interest received on refund claims.

In May 2008, the IRS concluded the examination phase of its audit of our 2005 and 2006 tax years and presented us with adjustments primarily related to the valuation of our loss reserves. In October 2008, we reached agreement with the IRS settling all issues related to the 2005 and 2006 tax years. As a result of the IRS agreement for tax years 2005 and 2006, management refined certain assumptions used to calculate the unrecognized tax benefits associated with loss reserves, resulting in a revised measurement of the unrecognized tax benefits for both the current and prior year.

Although we have not been notified by the IRS of the date of our next audit, it is reasonable to expect that it will begin the audit of tax years 2007 and 2008 in the next 12 months. As a result, it is reasonably possible that a change in the unrecognized tax benefits may occur once the examination phase of this next audit has concluded. At this time, we can neither estimate the settlement date of, nor quantify an estimated range for any potential change to, the unrecognized tax benefits relating to these years.

In addition to our Internal Revenue Service filings, we file income tax returns in various state jurisdictions. Material amounts of income tax are paid to Ohio, Illinois and Florida. Although no state audits are currently under way nor are we aware of any pending audits, tax years 2005 and forward remain open for examination.

12. NET INCOME PER COMMON SHARE

Basic earnings per share are computed based on the weighted average number of shares outstanding. Diluted earnings per share are computed based on the weighted average number of common and dilutive potential common shares outstanding. We have adjusted shares and earnings per share to reflect all stock splits and dividends prior to December 31, 2008.

Here are calculations for basic and diluted earnings per share:

(In millions)	Years ended December 31,		
	2008	2007	2006
Numerator:			
Net income—basic and diluted	\$ <u>429</u>	\$ <u>855</u>	\$ <u>930</u>
Denominator:			
Weighted-average common shares outstanding	<u>163,150,329</u>	170,595,204	173,423,395
Effect of stock based awards	<u>212,080</u>	<u>1,572,248</u>	<u>2,027,946</u>
Adjusted diluted weighted-average shares	<u>163,362,409</u>	<u>172,167,452</u>	<u>175,451,341</u>
Earnings per share:			
Basic	\$ 2.63	\$ 5.01	\$ 5.36
Diluted	2.62	4.97	5.30
Number of anti-dilutive stock based awards	9,781,652	1,870,579	1,336,150
Exercise price of anti-dilutive stock based awards	\$ 25.08-45.26	\$ 44.79-45.26	\$ 45.26

The current sources of dilution of our common shares are certain equity-based awards as discussed in Note 17 Stock-Based Associated Compensation Plans, Page 117. The above table shows the number of anti-dilutive options shares at year-end 2008, 2007 and 2006. We did not include these options in the computation of net income per common share (diluted) because their exercise would have an anti-dilutive effect.

13. EMPLOYEE RETIREMENT BENEFITS

We sponsor a defined benefit pension plan and a defined contribution plan (401(k) savings plan). During 2008, we changed the form of retirement benefit we offer some associates to a company match on contribution to the 401(k) plan from the defined benefit pension plan. Effective June 30, 2008, we froze entry into the pension plan for new associates. Only participants 40 years of age or older could elect to continue to participate. For participants remaining in the pension plan, we will continue to contribute to fund future benefit obligations. Benefits for the defined benefit pension plan are based on years of credited service and compensation level. Contributions are based on the prescribed method defined in the Pension Protection Act. Our pension expense is based on certain actuarial assumptions and also is composed of several components that are determined using the projected unit credit actuarial cost method.

We also maintain a supplemental executive retirement plan (SERP) with liabilities of approximately \$6 million at both year-end 2008 and 2007. The SERP is included in the obligation and expense amounts in the tables below. The company also makes available to a select group of associates the Cincinnati Financial Corporation Top Hat Savings Plan, a non-qualified deferred compensation plan.

For any participant who left the pension plan, benefit accruals were frozen effective August 31, 2008. We transferred \$60 million of the pension plan's accumulated benefit obligation to an intermediary spin-off plan to facilitate the partial curtailment and settlement for these participants. For SERP participants who chose to leave the defined benefit pension plan, benefit accruals were frozen in the SERP as of December 31, 2008. During 2009, the frozen accrued benefit for those participants, collectively amounting to approximately \$1 million, will transfer to the Top Hat Savings Plan. Beginning in 2009, for these associates, the company has begun matching deferrals to the Top Hat Savings Plan up to the first 6 percent of an associate's compensation that exceeds the compensation limit specified by the Internal Revenue Code of 1986, as amended.

Pursuant to SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," we recognized expense of \$3 million in the consolidated statement of income associated with the partial termination of the qualified pension plan. In addition, we recognized \$27 million in the consolidated statement of income for a settlement loss associated with the payout to the participants who left the pension plan of the obligation held in their behalf. Included in the charge is the contribution of \$24 million to complete funding of benefits that were distributed in 2008 to participants leaving the pension plan.

We began making matching contributions to our sponsored 401(k) plan during 2008, contributing \$3 million during the year. Associates who are not accruing benefits under the pension plan are eligible to receive the company match of up to 6 percent of cash compensation. We also pay all operating expenses for the 401(k) plan. Participants vest in the company match for the 401(k) plan and Top Hat Savings plan after three years of eligible service.

Defined Benefit Pension Plan Assumptions

Key assumptions used in developing the 2008 net pension obligation were a 6.00 percent discount rate and rates of compensation increases ranging from 4 percent to 6 percent. To determine the discount rate, the plan's particular liability characteristics – the amounts, timing and interest sensitivity of expected benefit payments – were evaluated and then matched to a yield curve based on actual high-quality corporate bonds across a full maturity spectrum. Once the plan's projected cash flows matched the yield curve, a present value was developed, which was then calibrated to a single-equivalent discount rate. That discount rate, when applied to a single sum, would generate the necessary cash flows to pay benefits when due. We decreased the rate by 0.25 percentage points in 2008 due to market interest rate conditions. We based the rates of compensation increase on the company's historical data. Due to the curtailment, we re-measured the net pension obligation of our qualified plan on September 1, 2008, using a 6.75 percent discount rate.

Key assumptions used in developing the 2008 net pension expense were a 6.25 percent discount rate, an 8 percent expected return on plan assets and rates of compensation increases ranging from 4 percent to 6 percent. The 8 percent return on plan assets assumption was used for both the qualified plan and the intermediary spin-off plan that was created on September 1, 2008, and is based partially on the fact that substantially all of the investments held by the pension plan are common stocks that pay dividends. We believe this rate is representative of the expected long-term rate of return on these assets. These assumptions were consistent with the prior year, except that the discount rate was increased by 0.50 percentage points due to market interest rate conditions. Due to the plan changes described above, we re-measured the net pension expense at September 1, 2008, using a 6.75 percent discount rate.

Here is a summary of the weighted-average assumptions we use to determine our net expense for the plan:

	Qualified Pension Plan			SERP		
	2008	2007	2006	2008	2007	2006
Discount rate	6.25 %	5.75 %	5.50 %	6.25 %	5.75 %	5.50 %
Expected return on plan assets	8.00	8.00	8.00	n/a	n/a	n/a
Rate of compensation increase	4-6	4-6	5-7	4-6	4-6	5-7

Benefit obligation activity using an actuarial measurement date for our qualified and SERP plans at December 31 follows:

(In millions)	At December 31,	
	2008	2007
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 270	\$ 271
Service cost	14	17
Interest cost	17	16
Actuarial loss/(gain)	21	(29)
Benefits paid	(11)	(5)
Curtailment	(27)	0
Settlement	(78)	0
Projected benefit obligation at end of year	<u>\$ 206</u>	<u>\$ 270</u>
Accumulated benefit obligation	<u>\$ 170</u>	<u>\$ 206</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 210	\$ 208
Actual return on plan assets	(36)	(4)
Employer contributions	33	11
Benefits paid	(11)	(5)
Settlement	(78)	0
Fair value of plan assets at end of year	<u>\$ 118</u>	<u>\$ 210</u>
Unfunded status:		
Unfunded status at end of year	<u>\$ (88)</u>	<u>\$ (60)</u>

The accumulated benefit obligation was \$170 million and \$206 million at December 31, 2008 and 2007, respectively.

A reconciliation follows of the funded status for our qualified and SERP plans at the end of the measurement period to the amounts recognized in the balance sheet at December 31, 2008:

(In millions)	At December 31,	
	2008	2007
Amounts recognized in the balance sheet consists of:		
Pension liability	\$ (88)	\$ (60)
Total	\$ (88)	\$ (60)
Amounts recognized in accumulated other comprehensive income not yet recognized as a component of net periodic benefit costs consist of:		
Net actuarial loss	\$ 47	\$ 28
Prior service cost	5	9
Total	\$ 52	\$ 37

The weighted-average assumptions used to determine benefit obligations for our qualified and SERP plans at December 31 follows:

(In millions)	At December 31,	
	2008	2007
Discount rate	6.00 %	6.25 %
Rate of compensation increase	4-6	4-6

We evaluate our pension plan assumptions annually and update them as necessary. The discount rate assumptions for our benefit obligation track with high grade corporate bond yield and yearly adjustments reflect any changes to those bond yields. Compensation increase assumptions reflect historical calendar year compensation increases.

Here are the components of our net periodic benefit cost for our qualified and SERP pension plans at December 31:

(In millions)	Years ended December 31,		
	2008	2007	2006
Service cost	\$ 14	\$ 17	\$ 16
Interest cost	17	16	14
Expected return on plan assets	(16)	(15)	(14)
Amortization of actuarial loss, prior service cost and transition asset	2	3	3
Curtailment	3	0	0
Settlement	27	0	0
Net periodic benefit cost	\$ 47	\$ 21	\$ 19

Our pension plan asset allocations by category are:

Asset category:	At December 31,	
	2008	2007
Equity securities	83 %	94 %
Fixed maturities	4	3
Cash and cash equivalents	13	3
Total	100 %	100 %

The pension plan assets are managed to maximize total return over the long term while providing sufficient liquidity and current return to satisfy the cash flow requirements of the plan. Reflecting the long-term time horizon of pension obligations, we currently allocate 80 percent to 85 percent of the pension portfolio to equity investments, which are priced from highly observable and actively traded markets. The remainder of the portfolio is allocated to fixed-maturity investments and cash.

Our pension plan assets included 642,113 shares of the company's common stock, which had a fair value of \$19 million and \$25 million at December 31, 2008 and 2007, respectively. The defined benefit pension plan did not purchase or sell any shares of our common stock during 2008 and 2007. The company paid \$1 million in cash dividends on our common stock to the pension plan in both 2008 and 2007.

In 2009, we expect to contribute approximately \$33 million to our qualified plan. We expect to make the following benefit payments for our qualified and SERP plans, which reflect expected future service:

(In millions)	Years ended December 31,					
	2009	2010	2011	2012	2013	2014 - 2018
Expected future benefit payments	\$ 16	\$ 7	\$ 7	\$ 12	\$ 14	\$ 93

The estimated costs to be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year for our plans are a \$1 million actuarial gain and a \$1 million prior service cost.

14. STATUTORY ACCOUNTING INFORMATION (UNAUDITED)

Insurance companies use statutory accounting practices (SAP) as prescribed by regulatory authorities. The three primary differences between SAP and GAAP are:

- policy acquisition costs are expensed when incurred,
- life insurance reserves are based upon different actuarial assumptions and
- deferred income taxes are valued and established using a different basis.

Statutory net income and capital and surplus as determined in accordance with SAP prescribed or permitted by insurance regulatory authorities for four legal entities, our insurance subsidiary and its three insurance subsidiaries, are as follows:

(In millions)	SAP Net Income			Capital and Surplus	
	Years ended December 31,			At December 31,	
	2008	2007	2006	2008	2007
The Cincinnati Insurance Company	\$ 194	\$ 658	\$ 572	\$ 3,360	\$ 4,307
The Cincinnati Casualty Company	16	12	15	263	278
The Cincinnati Indemnity Company	2	1	2	66	66
The Cincinnati Specialty Underwriters Insurance Company	(38)	0	0	174	196
The Cincinnati Life Insurance Company	(70)	39	28	290	477

Statutory capital and surplus for our insurance subsidiary, The Cincinnati Insurance Company, includes capital and surplus of its four insurance subsidiaries.

15. TRANSACTIONS WITH AFFILIATED PARTIES

We paid certain officers and directors, or insurance agencies of which they are shareholders, commissions of approximately \$6 million, \$7 million and \$7 million on premium volume of approximately \$38 million, \$37 million and \$40 million for 2008, 2007 and 2006, respectively.

16. COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of conducting business, the company and its subsidiaries are named as defendants in various legal proceedings. Most of these proceedings are claims litigation involving the company's insurance subsidiaries in which the company is either defending or providing indemnity for third-party claims brought against insureds who are litigating first-party coverage claims. The company accounts for such activity through the establishment of unpaid loss and loss adjustment expense reserves. We believe that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, will be immaterial to our consolidated financial condition, results of operations and cash flows.

The company and its subsidiaries also are occasionally involved in other legal actions, some of which assert claims for substantial amounts. These actions include, among others, putative state class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, improper reimbursement of medical providers paid under workers' compensation insurance policies. The company's insurance subsidiaries also are occasionally parties to individual actions in which extra-contractual damages, punitive damage, or penalties are sought, such as claims alleging bad faith in the handling of insurance claims.

On a quarterly basis, we review the outstanding lawsuits seeking such recourse. Based on our year-end review, we believe we have valid defenses to each. As a result, we believe the ultimate liability, if any, with respect to these lawsuits, after consideration of provisions made for estimated losses, will be immaterial to our consolidated financial position.

Nonetheless, given the potential for large awards in certain of these actions and the inherent unpredictability of litigation, an adverse outcome could have a material adverse effect on the company's consolidated results of operations or cash flows in particular quarterly or annual periods.

17. STOCK-BASED ASSOCIATE COMPENSATION PLANS

We currently have four equity compensation plans that together permit us to grant various types of equity awards. The Cincinnati Financial Corporation 2006 Stock Compensation Plan gives us the flexibility to make grants to associates of any type of stock-based awards, subject to performance-based criteria, to directly link compensation to performance. We currently grant incentive stock options, non-qualified stock options, service-based restricted stock units and performance-based restricted stock units under our plans. We also have a Holiday Stock Plan that permits annual awards of one share of common stock to each full time associate for each year of service up to a maximum of 10 shares. One of our equity compensation plans permits us to grant common stock to our outside directors.

We use the modified-prospective-transition method under which we recognize:

- Compensation cost for all stock options granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R)
- Compensation cost for all non-vested stock options granted prior to January 1, 2006, that vested subsequent to that date, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and
- Compensation cost for all non-vested stock options and performance-based restricted stock units that have non-substantive vesting requirements, such as those to associates who are eligible for retirement.

Our pretax and after-tax share-based compensation costs are summarized below:

(In millions)	Years ended December 31,		
	2008	2007	2006
Share-based compensation cost	\$ 15	\$ 14	\$ 17
Income tax benefit	4	3	3
Share-based compensation cost after tax	<u>\$ 11</u>	<u>\$ 11</u>	<u>\$ 14</u>

The total intrinsic value of options exercised during the years ended December 31, 2008, 2007 and 2006, was \$1 million, \$8 million and \$22 million, respectively. (Intrinsic value is the market price less the exercise price.) Options vested during the years ended December 31, 2008 and 2007, had no intrinsic value. The intrinsic value of options vested during the year ended December 31, 2006 was \$10 million.

As of December 31, 2008, we had \$22 million of unrecognized total compensation cost related to non-vested stock options and restricted stock unit awards. That cost will be recognized over a weighted-average period of 2.2 years.

Stock options are granted to associates at an exercise price that is equal to the fair market value as reported on the NASDAQ Global Select Market for the grant date and are exercisable over 10 year periods. The stock options generally vest ratably over a three-year period. In determining the share-based compensation amounts for 2008, 2007 and 2006, the fair value of each option granted in those years was estimated on the date of grant using the binomial option-pricing model. We make assumptions in four areas to develop the binomial option-pricing model:

- Weighted-average expected term is based on historical experience of similar awards with consideration for current exercise trends.
- Expected volatility is based on our stock price over a historical period which approximates the expected term.
- Dividend yield is determined by dividing the per share dividend by the stock price on the date of grant.
- Risk-free rates are the implied yield currently available on U.S. Treasury issues with a remaining term approximating the expected term.

The following weighted average assumptions were used for grants in determining fair value of share-based compensation:

	Years ended December 31,		
	2008	2007	2006
Weighted - average expected term	7-9 years	5-7 years	5-7 years
Expected volatility	20.58-28.52%	18.29 - 24.14%	20.25 - 27.12%
Dividend yield	3.99-6.22%	3.33%	3.22%
Risk-free rates	3.29-3.84%	4.8-4.81%	4.5-4.61%
Weighted-average fair value of options granted during the period	\$ 6.50	\$ 9.43	\$ 10.09

Here is a summary of options information:

(Dollars in millions, shares in thousands)	Shares	Weighted- average exercise	Aggregate intrinsic value
2008			
Outstanding at beginning of year	10,480	\$ 36.86	
Granted	1,592	32.46	
Exercised	(120)	31.40	
Forfeited	(1,163)	36.52	
Outstanding at end of period	<u>10,789</u>	36.31	\$ 3
Options exercisable at end of period	8,431	\$ 36.23	\$ 1

Cash received from the exercise of options was \$4 million, \$19 million and \$27 million for the years ended December 31, 2008, 2007 and 2006, respectively. SFAS No. 123(R) also requires us to classify certain tax benefits related to share-based compensation deductions as cash from financing activities. We did not realize a tax benefit on options exercised for the year ended December 31, 2008. We realized a \$2 million tax benefit on options exercised for the year ended December 31, 2007, and a \$3 million benefit for the year ended December 31, 2006.

Options outstanding and exercisable consisted of the following at December 31, 2008:

(Shares in thousands)	Options outstanding				Options exercisable	
	Shares	Weighted-average remaining contractual life	Weighted- average exercise price	Weighted- average exercise price	Shares	Weighted- average exercise price
Range of exercise prices						
\$25.00 to \$29.99	1,640	5.50 yrs	\$ 26.77		816	\$ 26.97
\$30.00 to \$34.99	3,722	2.57 yrs	32.92		3,722	32.92
\$35.00 to \$39.99	2,242	5.93 yrs	38.53		1,493	38.40
\$40.00 to \$44.99	1,914	6.60 yrs	42.55		1,546	42.01
\$45.00 to \$49.99	1,271	7.03 yrs	45.26		854	45.26
Total	<u>10,789</u>	4.95 yrs	36.31		<u>8,431</u>	36.23

The weighted-average remaining contractual life for exercisable awards as of December 31, 2008, was 3.9 years. As of December 31, 2008, 7.3 million shares of common stock were available for future equity award grants. We currently issue new shares for option exercises.

Restricted Stock Units

Service-based and performance-based restricted stock units are granted to associates at fair market value on the date of grant. Service-based restricted stock units vest as a unit three years after the date of grant.

If certain performance targets are attained, performance-based restricted stock units vest on the first day of March after a three-calendar year performance period. Quarterly, management reviews and determines the likelihood that the company will achieve the performance targets for the outstanding groups of service-based restricted stock units.

As of December 31, 2008, management assumed that performance targets used for restricted stock unit awards granted during November 2008 would be met and we recognized related compensation cost. Management concluded that the company would not meet performance targets for all other restricted stock unit awards and did not recognize related compensation costs except for certain awards to retirement eligible associates. For the 2007 performance-based restricted stock awards, we recognize compensation cost during the performance period for retirement-eligible associates. We recognize that cost regardless of whether the performance criteria has been met. The fair value of the restricted stock unit awards was determined based on the fair value on the date of grant less the present value of the dividends that holders of restricted stock units will not receive on the shares underlying the restricted stock units during the vesting period.

Here is a summary of restricted stock unit information for 2008:

(Shares in thousands)	Service - based nonvested shares	Weighted - average grant- date fair value	Performance - based nonvested shares	Weighted - average grant- date fair value
Nonvested at January 1, 2008	162	\$ 40.74	35	\$ 40.74
Granted	459	28.52	102	27.09
Exercised	(2)	37.57	(1)	40.74
Forfeited	(9)	37.20	0	0.00
Nonvested at December 31, 2008	<u>610</u>	31.60	<u>136</u>	30.49

18. SEGMENT INFORMATION

We operate primarily in two industries, property casualty insurance and life insurance. We regularly review four different reporting segments to make decisions about allocating resources and assessing performance:

- Commercial lines property casualty insurance
- Personal lines property casualty insurance
- Life insurance
- Investment operations

We report as “Other” the non-investment operations of the parent company and its subsidiaries CFC Investment Company and CinFin Capital Management Company (excluding client investment activities), as well as other income of our standard market property casualty insurance operations and consolidated eliminations. Beginning in 2008, we also are including results of The Cincinnati Specialty Underwriters Insurance Company and CSU Producer Resources in Other. In 2007, an immaterial level of expenses from The Cincinnati Specialty Underwriters Insurance Company was included in the commercial lines property casualty insurance segment while an immaterial level of expenses for CSU Producer Resources was included in Other.

Revenues come primarily from unaffiliated customers:

- All three insurance segments record revenues from insurance premiums earned. Life insurance segment revenues also include separate account investment management fees.
- Our investment operations’ revenues are pretax net investment income plus realized investment gains and losses.
- Other revenues are primarily finance/lease income and, for 2008, earned premiums from The Cincinnati Specialty Underwriters Insurance Company.

Income or loss before income taxes for each segment is reported based on the nature of that business area’s operations:

- Income before income taxes for the insurance segments is defined as underwriting income or loss.
 - For commercial lines and personal lines insurance segments, we calculate underwriting income or loss by recording premiums earned minus loss and loss expenses and underwriting expenses incurred.
 - For the life insurance segment, we calculate underwriting income or loss by recording premiums earned and separate account investment management fees, minus contract holder benefits and expenses incurred, plus investment interest credited to contract holders.
- Income before income taxes for the investment operations segment is net investment income plus realized investment gains and losses for investments of the entire company, minus investment interest credited to contract holders of the life insurance segment.
- Loss before income taxes for the Other category is primarily due to interest expense from debt of the parent company, operating expenses of our headquarters and, for 2008, loss and loss expenses and underwriting expenses from The Cincinnati Specialty Underwriters Insurance Company.

Identifiable assets are used by each segment in its operations. We do not separately report the identifiable assets for the commercial or personal lines segments because we do not use that measure to analyze the segments. We include all investment assets, regardless of ownership, in the investment operations segment.

This table summarizes segment information:

(In millions)	Years ended December 31,		
	2008	2007	2006
Revenues:			
Commercial lines insurance			
Commercial casualty	\$ 763	\$ 827	\$ 831
Commercial property	487	497	491
Commercial auto	411	440	453
Workers' compensation	375	373	366
Specialty packages	144	146	141
Surety and executive risk	107	100	93
Machinery and equipment	29	28	27
Total commercial lines insurance	<u>2,316</u>	<u>2,411</u>	<u>2,402</u>
Personal lines insurance			
Personal auto	325	342	385
Homeowner	277	285	289
Other personal lines	87	87	88
Total personal lines insurance	<u>689</u>	<u>714</u>	<u>762</u>
Life insurance	128	129	118
Investment operations	675	990	1,254
Other	16	15	14
Total	<u>\$ 3,824</u>	<u>\$ 4,259</u>	<u>\$ 4,550</u>
Income (loss) before income taxes:			
Insurance underwriting results:			
Commercial lines insurance	\$ 70	\$ 261	\$ 208
Personal lines insurance	(82)	43	(27)
Life insurance	4	3	(1)
Investment operations	612	931	1,200
Other	(64)	(46)	(51)
Total	<u>\$ 540</u>	<u>\$ 1,192</u>	<u>\$ 1,329</u>
Identifiable assets:			
	December 31,	December 31,	
	2008	2007	
Property casualty insurance	\$ 2,676	\$ 2,281	
Life insurance	1,091	938	
Investment operations	8,907	12,322	
Other	695	1,096	
Total	<u>\$ 13,369</u>	<u>\$ 16,637</u>	

19. QUARTERLY SUPPLEMENTARY DATA (UNAUDITED)

This table includes unaudited quarterly financial information for the years ended December 31, 2008 and 2007:

	Quarter					Full year
	1 st	2 nd	3 rd	4 th		
2008						
Revenues *	\$ 704	\$ 917	\$ 1,186	\$ 1,017	\$ 3,824	
Income (loss) before income taxes	(100)	64	356	220	540	
Net income (loss)	(42)	63	247	161	429	
Net income (loss) per common share—basic	(0.26)	0.38	1.51	0.99	2.63	
Net income (loss) per common share—diluted	(0.26)	0.38	1.50	0.99	2.62	
2007						
Revenues *	\$ 1,029	\$ 1,267	\$ 980	\$ 983	\$ 4,259	
Income before income taxes	271	508	160	253	1,192	
Net income	194	351	124	186	855	
Net income per common share—basic	1.12	2.04	0.72	1.12	5.01	
Net income per common share—diluted	1.11	2.02	0.72	1.11	4.97	

Note: The sum of the quarterly reported per share amounts may not equal the full year as each is computed independently.

- * Revenues include realized investment gains and losses, which are integral to our financial results over the long term may cause this value to fluctuate substantially because we have substantial discretion in the timing of investment sales. Also, applicable accounting standards require us to recognize gains and losses from certain changes in fair values of securities and embedded derivatives without actual realization of those gains and losses. We discuss realized investment gains for the past three years in Item 7, Investments Results of Operations, Page 66.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

We had no disagreements with the independent registered public accounting firm on accounting and financial disclosure during the last two fiscal years.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures – The company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)).

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The company's management, with the participation of the company's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures as of December 31, 2008. Based upon that evaluation, the company's chief executive officer and chief financial officer concluded that the design and operation of the company's disclosure controls and procedures provided reasonable assurance that the disclosure controls and procedures are effective to ensure that:

- information required to be disclosed in the company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and
- such information is accumulated and communicated to the company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting – During the three months ended December 31, 2008, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Management's Annual Report on Internal Control Over Financial Reporting and the Audit Report of the Independent Registered Public Accounting Firm are set forth in Item 8, Pages 92 and 93.

Item 9B. Other Information

None

Part III

Our Proxy Statement will be filed with the SEC in preparation for the 2009 Annual Meeting of Shareholders no later than April 3, 2009. As permitted in Paragraph G(3) of the General Instructions for Form 10-K, we are incorporating by reference to that statement portions of the information required by Part III as noted in Item 10 through Item 14 below.

Item 10. Directors and Executive Officers of the Registrant

- a) Information about our directors and executive officers is in the Proxy Statement under “Security Ownership of Principal Shareholders and Management,” “Information About Nondirector Executive Officers” and “Information About the Board of Directors.”
- b) Information about Section 16(a) beneficial ownership reporting compliance appears in the Proxy Statement under “Section 16(a) Beneficial Ownership Reporting Compliance.”
- c) Information about the “Code of Ethics for Senior Financial Officers” appeared in the 2004 Proxy Statement as an appendix and is available in the Investors section of our Web site, www.cinfin.com. Our code of ethics applies to those who are responsible for preparing and disclosing our financial information. This includes our chief executive officer, chief financial officer and others performing similar functions or reporting directly to these officers.
- d) Information about our audit committee membership and our financial expert compliance appears in the Proxy Statement under “Corporate Governance” and “Report of the Audit Committee.”
- e) The procedures under which shareholders may recommend director nominees have not changed during the reporting period. Information on the nominating committee processes appears in the Proxy Statement under “Corporate Governance” and “Consideration of Director Nominees.”

Item 11. Executive Compensation

Information on executive compensation appears in the Proxy Statement under “Compensation of Named Executive Officers and Directors,” which includes the “Report of the Compensation Committee” and the “Compensation Discussion and Analysis.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

- a) Information on the security ownership of certain beneficial owners and management appears in the Proxy Statement under “Security Ownership of Principal Shareholders and Management.”
- b) Information on securities authorized for issuance under equity compensation plans appears in Part II, Item 5, Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, Page 32, as securities authorized for issuance under equity compensation plans. Additional information on share-based compensation under our equity compensation plans is available in Item 8, Note 17 of the Consolidated Financial Statements, Page 117.

Item 13. Certain Relationships and Related Transactions

Information about certain relationships and related transactions appears in the Proxy Statement under “Certain Relationships and Transactions” and “Compensation Committee Interlocks and Insider Participation.”

Item 14. Principal Accountant Fees and Services

Information about independent registered public accounting firm fees and services and audit committee pre-approval policies and procedures appears in the Proxy Statement under “Audit-related Matters,” which includes the “Report of the Audit Committee,” “Fees Billed by the Independent Registered Public Accounting Firm” and “Services Provided by the Independent Registered Public Accounting Firm.”

Part IV

Item 15. Exhibits and Financial Statement Schedules

- a) Financial Statements – information contained in Part II, Item 8, of this report, Page 94 to Page 97
- b) Exhibits – see Index of Exhibits, Page 136
- c) Financial Statement Schedules
 - Schedule I – Summary of Investments – Other than Investments in Related Parties, Page 125
 - Schedule II – Condensed Financial Statements of Registrant, Page 127
 - Schedule III – Supplementary Insurance Information, Page 130
 - Schedule IV – Reinsurance, Page 132
 - Schedule V – Valuation and Qualifying Accounts, Page 133
 - Schedule VI – Supplementary Information Concerning Property Casualty Insurance Operations, Page 134

SCHEDULE I

Cincinnati Financial Corporation and Subsidiaries Summary of Investments - Other than Investments in Related Parties

(In millions)	At December 31, 2008		
Type of investment	Cost or amortized cost	Fair value	Balance sheet
Fixed maturities:			
United States government:			
The Cincinnati Insurance Company	\$ 1	\$ 1	\$ 1
The Cincinnati Life Insurance Company	3	4	4
Total	<u>4</u>	<u>5</u>	<u>5</u>
Government-sponsored enterprises:			
The Cincinnati Insurance Company	192	192	192
The Cincinnati Life Insurance Company	199	197	197
Total	<u>391</u>	<u>389</u>	<u>389</u>
Foreign government:			
The Cincinnati Insurance Company	3	3	3
Total	<u>3</u>	<u>3</u>	<u>3</u>
States, municipalities and political subdivisions:			
The Cincinnati Insurance Company	2,433	2,460	2,460
The Cincinnati Casualty Company	153	155	155
The Cincinnati Indemnity Company	39	40	40
The Cincinnati Specialty Underwriters Insurance Company	74	72	72
The Cincinnati Life Insurance Company	5	6	6
Total	<u>2,704</u>	<u>2,733</u>	<u>2,733</u>
Public utilities:			
The Cincinnati Insurance Company	156	150	150
The Cincinnati Casualty Company	4	4	4
The Cincinnati Indemnity Company	1	1	1
The Cincinnati Specialty Underwriters Insurance Company	6	6	6
The Cincinnati Life Insurance Company	173	165	165
Cincinnati Financial Corporation	1	1	1
Total	<u>341</u>	<u>327</u>	<u>327</u>
Convertibles and bonds with warrants attached:			
The Cincinnati Insurance Company	91	91	91
The Cincinnati Life Insurance Company	3	3	3
Cincinnati Financial Corporation	8	8	8
Total	<u>102</u>	<u>102</u>	<u>102</u>
All other corporate bonds:			
The Cincinnati Insurance Company	1,179	1,053	1,053
The Cincinnati Casualty Company	20	19	19
The Cincinnati Indemnity Company	8	8	8
The Cincinnati Specialty Underwriters Insurance Company	56	53	53
The Cincinnati Life Insurance Company	1,199	1,092	1,092
Cincinnati Financial Corporation	51	43	43
Total	<u>2,513</u>	<u>2,268</u>	<u>2,268</u>
Total fixed maturities	<u>\$ 6,058</u>	<u>\$ 5,827</u>	<u>\$ 5,827</u>

SCHEDULE I (CONTINUED)

Cincinnati Financial Corporation and Subsidiaries Summary of Investments - Other than Investments in Related Parties

Type of investment	At December 31, 2008		
	Cost or amortized cost	Fair value	Balance sheet
Equity securities:			
Common stocks:			
Public utilities:			
The Cincinnati Insurance Company	\$ 75	\$ 114	\$ 114
The Cincinnati Casualty Company	2	4	4
The Cincinnati Life Insurance Company	10	19	19
CinFin Capital Management Company	1	1	1
Cincinnati Financial Corporation	52	110	110
Total	<u>140</u>	<u>248</u>	<u>248</u>
Banks, trust and insurance companies:			
The Cincinnati Insurance Company	27	95	95
The Cincinnati Life Insurance Company	6	12	12
Cincinnati Financial Corporation	20	136	136
Total	<u>53</u>	<u>243</u>	<u>243</u>
Industrial, miscellaneous and all other:			
The Cincinnati Insurance Company	1,013	1,493	1,493
The Cincinnati Casualty Company	17	59	59
The Cincinnati Indemnity Company	6	17	17
The Cincinnati Specialty Underwriters Insurance Company	12	11	11
The Cincinnati Life Insurance Company	105	83	83
CinFin Capital Management Company	4	4	4
Cincinnati Financial Corporation	539	563	563
Total	<u>1,696</u>	<u>2,230</u>	<u>2,230</u>
Nonredeemable preferred stocks:			
The Cincinnati Insurance Company	181	167	167
The Cincinnati Life Insurance Company	7	8	8
Total	<u>188</u>	<u>175</u>	<u>175</u>
Total equity securities	<u>\$ 2,077</u>	<u>\$ 2,896</u>	<u>\$ 2,896</u>
Short-term investments:			
The Cincinnati Insurance Company	\$ 19	\$ 19	\$ 19
Cincinnati Financial Corporation	65	65	65
Total short-term investments	<u>\$ 84</u>	<u>\$ 84</u>	<u>\$ 84</u>
Other invested assets:			
Real estate:			
Cincinnati Financial Corporation	\$ 6	—	\$ 6
Policy loans:			
The Cincinnati Life Insurance Company	37	—	37
Limited partnerships:			
Cincinnati Financial Corporation	32	—	32
Private equity held at cost:			
Cincinnati Financial Corporation	8	—	8
Total other invested assets	<u>\$ 83</u>	<u>—</u>	<u>\$ 83</u>
Total investments	<u>\$ 8,302</u>	<u>—</u>	<u>\$ 8,890</u>

SCHEDULE II

Cincinnati Financial Corporation (parent company only) Condensed Balance Sheets

(In millions)	At December 31,	
	2008	2007
ASSETS		
Investments		
Fixed maturities, at fair value	\$ 52	\$ 88
Equity securities, at fair value	809	1,961
Short-term investments, at fair value	65	0
Investment real estate, net	6	0
Other invested assets	40	31
Cash and cash equivalents	344	16
Securities lending collateral invested	0	9
Equity in net assets of subsidiaries	3,711	4,831
Investment income receivable	4	18
Land, building and equipment, net, for company use (accumulated depreciation: 2008—\$64; 2007—\$67)	171	169
Prepaid federal income tax	0	5
Other assets	12	14
Due from subsidiaries	33	66
Total assets	<u>\$ 5,247</u>	<u>\$ 7,208</u>
LIABILITIES		
Dividends declared but unpaid	\$ 63	\$ 59
Securities lending payable	0	9
Deferred federal income tax	21	296
6.92% senior debentures due 2028	392	392
6.9% senior debentures due 2028	28	28
6.125% senior notes due 2034	372	371
Other liabilities	189	124
Total liabilities	<u>1,065</u>	<u>1,279</u>
SHAREHOLDERS' EQUITY		
Common stock	393	393
Paid-in capital	1,069	1,049
Retained earnings	3,579	3,404
Accumulated other comprehensive income	347	2,151
Treasury stock at cost	(1,206)	(1,068)
Total shareholders' equity	<u>4,182</u>	<u>5,929</u>
Total liabilities and shareholders' equity	<u>\$ 5,247</u>	<u>\$ 7,208</u>

This condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes included in Part II, Item 8, Page 91.

SCHEDULE II (CONTINUED)

Cincinnati Financial Corporation (parent company only) Condensed Statements of Income

(In millions)	Years ended December 31,		
	2008	2007	2006
REVENUES			
Dividends from subsidiaries	\$ 170	\$ 420	\$ 275
Investment income, net of expenses	67	100	98
Realized gains on investments	54	97	410
Other revenue	14	10	10
Total revenues	<u>305</u>	<u>627</u>	<u>793</u>
EXPENSES			
Interest expense	51	49	51
Depreciation expense	6	3	3
Other expenses	19	15	18
Total expenses	<u>76</u>	<u>67</u>	<u>72</u>
INCOME BEFORE INCOME TAXES AND EARNINGS OF SUBSIDIARIES	<u>229</u>	<u>560</u>	<u>721</u>
PROVISION (BENEFIT) FOR INCOME TAXES			
Current	23	34	153
Deferred	(20)	(2)	(11)
Total provision for income taxes	<u>3</u>	<u>32</u>	<u>142</u>
NET INCOME BEFORE EARNINGS OF SUBSIDIARIES	<u>226</u>	<u>528</u>	<u>579</u>
Increase in undistributed earnings of subsidiaries	<u>203</u>	<u>327</u>	<u>351</u>
NET INCOME	<u>\$ 429</u>	<u>\$ 855</u>	<u>\$ 930</u>

This condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes included in Part II, Item 8, Page 91.

SCHEDULE II (CONTINUED)

Cincinnati Financial Corporation (parent company only) Condensed Statements of Cash Flows

(In millions)	Years ended December 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 429	\$ 855	\$ 930
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6	2	1
Realized (gains) on investments	(54)	(97)	(410)
Changes in:			
Investment income receivable	14	(2)	1
Current federal income taxes	92	(21)	48
Deferred income taxes	(20)	(2)	(11)
Other assets	4	0	2
Other liabilities	8	12	16
Undistributed earnings of subsidiaries	(203)	(327)	(351)
Net cash provided by operating activities	<u>276</u>	<u>420</u>	<u>226</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of fixed-maturities	0	9	4
Call or maturity of fixed-maturities	24	37	36
Sale of equity securities	629	186	511
Purchase of fixed-maturities	0	(1)	(42)
Purchase of equity securities	(125)	(231)	(351)
Change in short-term investments, net	(64)	0	3
Investment in buildings and equipment, net	(14)	(49)	(26)
Change in other invested assets, net	(9)	(6)	(8)
Change in securities lending collateral, net	9	(9)	0
Net cash (used in) provided by investing activities	<u>450</u>	<u>(64)</u>	<u>127</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in notes payable	(20)	20	0
Payment of cash dividends to shareholders	(250)	(240)	(228)
Purchase/issuance of treasury shares	(138)	(307)	(119)
Proceeds from stock options exercised	4	20	30
Net transfers to subsidiaries	15	120	(5)
Change in securities lending payable, net	(9)	9	0
Net cash used in financing activities	<u>(398)</u>	<u>(378)</u>	<u>(322)</u>
Net increase (decrease) in cash and cash equivalents	328	(22)	31
Cash and cash equivalents at beginning of year	16	38	7
Cash and cash equivalents at end of year	<u>\$ 344</u>	<u>\$ 16</u>	<u>\$ 38</u>

This condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes included in Part II, Item 8, Page 91.

SCHEDULE III

Cincinnati Financial Corporation and Subsidiaries Supplementary Insurance Information

(In millions)

Years ended December 31,

2008 2007 2006

Deferred policy acquisition costs:

Commercial lines insurance	\$ 229	\$ 234	\$ 235
Personal lines insurance	77	78	80
Surplus lines insurance	6	0	0
Total property casualty insurance	<u>312</u>	<u>312</u>	<u>315</u>
Life insurance	197	149	138
Total	<u>\$ 509</u>	<u>\$ 461</u>	<u>\$ 453</u>

Future policy benefits, losses, claims and expense losses:

Commercial lines insurance	\$ 3,654	\$ 3,533	\$ 3,414
Personal lines insurance	381	392	446
Surplus lines insurance	5	0	0
Total property casualty insurance	<u>4,040</u>	<u>3,925</u>	<u>3,860</u>
Life insurance	1,580	1,505	1,430
Total (1)	<u>\$ 5,620</u>	<u>\$ 5,430</u>	<u>\$ 5,290</u>

Unearned premiums:

Commercial lines insurance	\$ 1,166	\$ 1,191	\$ 1,195
Personal lines insurance	367	371	382
Surplus lines insurance	9	0	0
Total property casualty insurance	<u>1,542</u>	<u>1,562</u>	<u>1,577</u>
Life insurance	2	2	2
Total (1)	<u>\$ 1,544</u>	<u>\$ 1,564</u>	<u>\$ 1,579</u>

Other policy claims and benefits payable:

Commercial lines insurance	\$ 0	\$ 0	\$ 0
Personal lines insurance	0	0	0
Surplus lines insurance	0	0	0
Total property casualty insurance	<u>0</u>	<u>0</u>	<u>0</u>
Life insurance	17	15	15
Total (1)	<u>\$ 17</u>	<u>\$ 15</u>	<u>\$ 15</u>

Premium revenues:

Commercial lines insurance	\$ 2,316	\$ 2,411	\$ 2,402
Personal lines insurance	689	714	762
Surplus lines insurance	5	0	0
Total property casualty insurance	<u>3,010</u>	<u>3,125</u>	<u>3,164</u>
Life insurance	126	125	115
Consolidated eliminations	0	0	(1)
Total	<u>\$ 3,136</u>	<u>\$ 3,250</u>	<u>\$ 3,278</u>

SCHEDULE III (CONTINUED)

Cincinnati Financial Corporation and Subsidiaries Supplementary Insurance Information

(In millions)	Years ended December 31,		
	2008	2007	2006
Investment income, net of expenses:			
Commercial lines insurance	\$ 0	\$ 0	\$ 0
Personal lines insurance	0	0	0
Surplus lines insurance	0	0	0
Total property casualty insurance (3)	<u>350</u>	<u>393</u>	<u>367</u>
Life insurance	119	114	108
Total	<u>\$ 469</u>	<u>\$ 507</u>	<u>\$ 475</u>
Benefits, claims losses and settlement expenses:			
Commercial lines insurance	\$ 1,504	\$ 1,395	\$ 1,466
Personal lines insurance	547	437	542
Surplus lines insurance	5	0	0
Total property casualty insurance	<u>2,056</u>	<u>1,832</u>	<u>2,008</u>
Life insurance	142	133	122
Consolidated eliminations	(5)	(2)	(2)
Total	<u>\$ 2,193</u>	<u>\$ 1,963</u>	<u>\$ 2,128</u>
Amortization of deferred policy acquisition costs:			
Commercial lines insurance	\$ 462	\$ 477	\$ 504
Personal lines insurance	145	150	160
Surplus lines insurance	3	0	0
Total property casualty insurance	<u>610</u>	<u>627</u>	<u>664</u>
Life insurance	22	30	21
Total (2)	<u>\$ 632</u>	<u>\$ 657</u>	<u>\$ 685</u>
Other operating expenses:			
Commercial lines insurance	\$ 280	\$ 248	\$ 224
Personal lines insurance	79	83	87
Surplus lines insurance	2	0	0
Total property casualty insurance	<u>361</u>	<u>331</u>	<u>311</u>
Life insurance	23	22	30
Total (2)	<u>\$ 384</u>	<u>\$ 353</u>	<u>\$ 341</u>
Written premiums:			
Commercial lines insurance	\$ 2,311	\$ 2,413	\$ 2,442
Personal lines insurance	685	704	736
Surplus lines insurance	14	0	0
Total property casualty insurance	<u>3,010</u>	<u>3,117</u>	<u>3,178</u>
Accident health insurance	3	3	3
Consolidated eliminations	0	0	(1)
Total	<u>\$ 3,013</u>	<u>\$ 3,120</u>	<u>\$ 3,180</u>

Notes to Schedule III:

(1) The sum of future policy benefits, losses, claims and expense losses, unearned premium and other policy claims and benefits payable is equal to the sum of Loss and loss expense reserves, Life policy reserves and Unearned premiums reported in the company's consolidated balance sheets.

(2) The sum of amortization of deferred policy acquisition costs and other operating expenses is equal to the sum of Commissions; Other operating expenses; Taxes, licenses and fees; and Increase in deferred acquisition costs expenses shown in the consolidated statements of income, less other expenses not applicable to the above insurance segments.

(3) This segment information is not regularly allocated to segments and reviewed by company management in making decisions about resources to be allocated to the segments or to assess their performance.

SCHEDULE IV

Cincinnati Financial Corporation and Subsidiaries Reinsurance

(Dollars in millions)	Years ended December 31,		
	2008	2007	2006
Gross amounts:			
Life insurance in force	\$ <u>65,887</u>	\$ <u>61,873</u>	\$ <u>56,968</u>
Earned premiums			
Commercial lines insurance	\$ 2,449	\$ 2,536	\$ 2,513
Personal lines insurance	721	742	783
Surplus lines insurance	<u>5</u>	<u>0</u>	<u>0</u>
Total property casualty insurance	<u>3,175</u>	<u>3,278</u>	<u>3,296</u>
Life insurance	180	178	159
Consolidated eliminations	<u>0</u>	<u>0</u>	<u>(1)</u>
Total	\$ <u>3,355</u>	\$ <u>3,456</u>	\$ <u>3,454</u>
Ceded amounts to other companies:			
Life insurance in force	\$ <u>33,710</u>	\$ <u>32,959</u>	\$ <u>31,744</u>
Earned premiums			
Commercial lines insurance	\$ 144	\$ 144	\$ 134
Personal lines insurance	34	31	24
Surplus lines insurance	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>178</u>	<u>175</u>	<u>158</u>
Life insurance	<u>54</u>	<u>53</u>	<u>44</u>
Total	\$ <u>232</u>	\$ <u>228</u>	\$ <u>202</u>
Assumed amounts from other companies:			
Life insurance in force	\$ <u>1</u>	\$ <u>2</u>	\$ <u>3</u>
Earned premiums			
Commercial lines insurance	\$ 11	\$ 20	\$ 24
Personal lines insurance	2	2	2
Surplus lines insurance	<u>0</u>	<u>0</u>	<u>0</u>
Total property casualty insurance	<u>13</u>	<u>22</u>	<u>26</u>
Life insurance	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$ <u>13</u>	\$ <u>22</u>	\$ <u>26</u>
Net amounts:			
Life insurance in force	\$ <u>32,178</u>	\$ <u>28,916</u>	\$ <u>25,227</u>
Earned premiums			
Commercial lines insurance	\$ 2,316	\$ 2,411	\$ 2,402
Personal lines insurance	689	714	762
Surplus lines insurance	<u>5</u>	<u>0</u>	<u>0</u>
Total property casualty insurance	<u>3,010</u>	<u>3,125</u>	<u>3,164</u>
Life insurance	126	125	115
Consolidated eliminations	<u>0</u>	<u>0</u>	<u>(1)</u>
Total	\$ <u>3,136</u>	\$ <u>3,250</u>	\$ <u>3,278</u>
Percentage of amounts assumed to net:			
Life insurance in force	0.0 %	0.0 %	0.0 %
Earned premiums			
Commercial lines insurance	0.5 %	0.8 %	1.1 %
Personal lines insurance	0.3	0.3	0.4
Surplus lines insurance	0.0	0.0	0.0
Total property casualty insurance	0.4	0.7	0.9
Life insurance	0.0	0.0	0.0
Total	0.4	0.7	0.9

SCHEDULE V

Cincinnati Financial Corporation and Subsidiaries Valuation and Qualifying Accounts

(In millions)	At December 31,		
	2008	2007	2006
Allowance for doubtful receivables:			
Balance at beginning of period	\$ 4	\$ 3	\$ 3
Additions charged to costs and expenses	3	3	3
Deductions	(3)	(2)	(3)
Balance at end of period	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ 3</u>

SCHEDULE VI

Cincinnati Financial Corporation and Subsidiaries Supplementary Information Concerning Property Casualty Insurance Operations

(In millions)	Years ended December 31,		
	2008	2007	2006
Deferred policy acquisition costs:			
Commercial lines insurance	\$ 229	\$ 234	\$ 235
Personal lines insurance	77	78	80
Surplus lines insurance	6	0	0
Total	<u>\$ 312</u>	<u>\$ 312</u>	<u>\$ 315</u>
Reserves for unpaid claims and claim adjustment expenses:			
Commercial lines insurance	\$ 3,654	\$ 3,533	\$ 3,414
Personal lines insurance	381	392	446
Surplus lines insurance	5	0	0
Total	<u>\$ 4,040</u>	<u>\$ 3,925</u>	<u>\$ 3,860</u>
Reserve discount deducted	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Unearned premiums:			
Commercial lines insurance	\$ 1,166	\$ 1,191	\$ 1,195
Personal lines insurance	367	371	382
Surplus lines insurance	9	0	0
Total	<u>\$ 1,542</u>	<u>\$ 1,562</u>	<u>\$ 1,577</u>
Earned premiums:			
Commercial lines insurance	\$ 2,316	\$ 2,411	\$ 2,402
Personal lines insurance	689	714	762
Surplus lines insurance	5	0	0
Total	<u>\$ 3,010</u>	<u>\$ 3,125</u>	<u>\$ 3,164</u>
Investment income:			
Commercial lines insurance	\$ 0	\$ 0	\$ 0
Personal lines insurance	0	0	0
Surplus lines insurance	0	0	0
Total (1)	<u>\$ 350</u>	<u>\$ 393</u>	<u>\$ 367</u>
Loss and loss expenses incurred related to current accident year:			
Commercial lines insurance	\$ 1,777	\$ 1,598	\$ 1,564
Personal lines insurance	597	478	560
Surplus lines insurance	5	0	0
Total	<u>\$ 2,379</u>	<u>\$ 2,076</u>	<u>\$ 2,124</u>
Loss and loss expenses incurred related to prior accident years:			
Commercial lines insurance	\$ (273)	\$ (204)	\$ (98)
Personal lines insurance	(50)	(40)	(18)
Surplus lines insurance	0	0	0
Total	<u>\$ (323)</u>	<u>\$ (244)</u>	<u>\$ (116)</u>
Amortization of deferred policy acquisition costs:			
Commercial lines insurance	\$ 462	\$ 477	\$ 504
Personal lines insurance	145	150	160
Surplus lines insurance	3	0	0
Total	<u>\$ 610</u>	<u>\$ 627</u>	<u>\$ 664</u>
Paid loss and loss expenses:			
Commercial lines insurance	\$ 1,387	\$ 1,299	\$ 1,218
Personal lines insurance	568	492	545
Surplus lines insurance	0	0	0
Total	<u>\$ 1,955</u>	<u>\$ 1,791</u>	<u>\$ 1,763</u>
Written premiums:			
Commercial lines insurance	\$ 2,311	\$ 2,413	\$ 2,442
Personal lines insurance	685	704	736
Surplus lines insurance	14	0	0
Total	<u>\$ 3,010</u>	<u>\$ 3,117</u>	<u>\$ 3,178</u>

Note to Schedule VI:

(1) This segment information is not regularly allocated to segments and not reviewed by company management in making decisions about resources to be allocated to the segments or to assess their performance.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Cincinnati Financial Corporation

/S/ Eric N. Mathews

By: Eric N. Mathews, CPCU, AIAF
 Title: Principal Accounting Officer, Vice President, Assistant Secretary and Assistant Treasurer
 Date: February 27, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been duly signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ John J. Schiff, Jr.	Chairman of the Board	February 27, 2009
John J. Schiff, Jr.		
/S/ Kenneth W. Stecher	President, Chief Executive Officer and Director	February 27, 2009
Kenneth W. Stecher		
/S/ Steven J. Johnston	Chief Financial Officer, Senior Vice President, Secretary and Treasurer	February 27, 2009
Steven J. Johnston		
/S/ William F. Bahl	Director	February 27, 2009
William F. Bahl		
/S/ James E. Benoski	Vice Chairman of the Board	February 27, 2009
James E. Benoski		
/S/ Gregory T. Bier	Director	February 27, 2009
Gregory T. Bier		
/S/ Kenneth C. Lichtendahl	Director	February 27, 2009
Kenneth C. Lichtendahl		
/S/ W. Rodney McMullen	Director	February 27, 2009
W. Rodney McMullen		
/S/ Gretchen W. Price	Director	February 27, 2009
Gretchen W. Price		
/S/ Thomas R. Schiff	Director	February 27, 2009
Thomas R. Schiff		
/S/ Douglas S. Skidmore	Director	February 27, 2009
Douglas S. Skidmore		
/S/ John F. Steele, Jr.	Director	February 27, 2009
John F. Steele, Jr.		
/S/ Larry R. Webb	Director	February 27, 2009
Larry R. Webb		
/S/ E. Anthony Woods	Director	February 27, 2009
E. Anthony Woods		

INDEX OF EXHIBITS

Exhibit No.	Exhibit Description
3.1A	Amended Articles of Incorporation of Cincinnati Financial Corporation (incorporated by reference to the company's 1999 Annual Report on Form 10-K dated March 23, 2000) (File No. 000-04604)
3.1B	Amendment to Article Fourth of Amended Articles of Incorporation of Cincinnati Financial Corporation (incorporated by reference to Exhibit 3(i) filed with the company's Current Report on Form 8-K dated July 15, 2005)
3.2	Regulations of Cincinnati Financial Corporation (incorporated by reference to the company's Definitive Proxy Statement dated March 2, 1992, Exhibit 2) (File No. 000-04604)
4.1	Indenture with The Bank of New York Trust Company (incorporated by reference to the company's Current Report on Form 8-K dated November 2, 2004, filed with respect to the issuance of the company's 6.125% Senior Notes due November 1, 2034)
4.2	Supplemental Indenture with The Bank of New York Trust Company (incorporated by reference to the company's Current Report on Form 8-K dated November 2, 2004, filed with respect to the issuance of the company's 6.125% Senior Notes due November 1, 2034)
4.3	Second Supplemental Indenture with The Bank of New York Trust Company (incorporated by reference to the company's Current Report on Form 8-K dated May 9, 2005, filed with respect to the completion of the company's exchange offer and rescission offer for its 6.90% senior debentures due 2028)
4.4	Form of 6.125% Exchange Note Due 2034 (included in Exhibit 4.2)
4.5	Form of 6.92% Debentures Due 2028 (included in Exhibit 4.3)
4.6	Indenture with the First National Bank of Chicago (subsequently assigned to The Bank of New York Trust Company) (incorporated by reference to the company's registration statement on Form S-3 effective May 22, 1998 (File No. 333-51677))
4.7	Form of 6.90% Debentures Due 2028 (included in Exhibit 4.6)
10.1	Agreement with Messer Construction (incorporated by reference to the company's 2004 Annual Report on Form 10-K dated March 11, 2005)
10.2	2003 Non-Employee Directors' Stock Plan (incorporated by reference to the company's Definitive Proxy Statement dated March 21, 2005)
10.3	Cincinnati Financial Corporation Stock Option Plan No. VI (incorporated by reference to the company's Definitive Proxy Statement dated March 1, 1999) (File No. 000-04604)
10.4	Cincinnati Financial Corporation Stock Option Plan No. VII (incorporated by reference to the company's Definitive Proxy Statement dated March 8, 2002) (File No. 000-04604)
10.5	Standard Form of Nonqualified and Incentive Option Agreements for Stock Option Plan No. VI (incorporated by reference to the company's 2004 Annual Report on Form 10-K dated March 11, 2005)
10.6	Cincinnati Financial Corporation 2006 Incentive Compensation Plan (incorporated by reference to the company's Definitive Proxy Statement dated March 30, 2007)
10.7	Cincinnati Financial Corporation 2006 Stock Compensation Plan (incorporated by reference to the company's Definitive Proxy Statement dated March 30, 2007)
10.8	Standard Form of Combined Incentive/Nonqualified Stock Option for Stock Option Plan VI (incorporated by reference to Exhibit 10.3 filed with the company's Current Report on Form 8-K dated July 15, 2005)
10.9	Director and Named Executive Officer Compensation Summary (incorporated by reference to the company's definitive Proxy Statement dated March 20, 2008) as amended by the summaries contained in Item 5.02(e) of the company's Current Reports on Form 8-K dated July 22, 2008 and November 14, 2008 which are also incorporated herein by reference
10.10	Cincinnati Financial Corporation Supplemental Retirement Plan (incorporated by reference to Exhibit 10.17 filed with the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006)
10.11	Standard Form of Incentive Stock Option Agreement for Stock Option Plan VII (incorporated by reference to Exhibit 10.1 filed with the company's Current Report on Form 8-K dated October 20, 2006)
10.12	Standard Form of Nonqualified Stock Option Agreement for Stock Option Plan VII (incorporated by reference to Exhibit 10.2 filed with the company's Current Report on Form 8-K dated October 20, 2006)

Exhibit No.	Exhibit Description
10.13	Standard Form of Incentive Stock Option Agreement for the 2006 Stock Compensation Plan (incorporated by reference to Exhibit 10.3 filed with the company's Current Report on Form 8-K dated October 20, 2006)
10.14	Standard Form of Nonqualified Stock Option Agreement for the 2006 Stock Compensation Plan (incorporated by reference to Exhibit 10.4 filed with the company's Current Report on Form 8-K dated October 20, 2006)
10.15	Restricted Stock Unit Agreement for John J. Schiff, Jr., dated January 31, 2007 (incorporated by reference to Exhibit 10.1 filed with the company's Current Report on Form 8-K dated January 31, 2007)
10.16	Restricted Stock Unit Agreement for James E. Benoski, dated January 31, 2007 (incorporated by reference to Exhibit 10.2 filed with the company's Current Report on Form 8-K dated January 31, 2007)
10.17	Restricted Stock Unit Agreement for Jacob F. Scherer, Jr., dated January 31, 2007 (incorporated by reference to Exhibit 10.3 filed with the company's Current Report on Form 8-K dated January 31, 2007)
10.18	Restricted Stock Unit Agreement for Kenneth W. Stecher, dated January 31, 2007 (incorporated by reference to Exhibit 10.4 filed with the company's Current Report on Form 8-K dated January 31, 2007)
10.19	Restricted Stock Unit Agreement for Thomas A. Joseph, dated January 31, 2007 (incorporated by reference to Exhibit 10.5 filed with the company's Current Report on Form 8-K dated January 31, 2007)
10.20	Form of Restricted Stock Unit Agreement for the Cincinnati Financial Corporation 2006 Stock Compensation Plan (service-based) (incorporated by reference to Exhibit 10.6 filed with the company's Current Report on Form 8-K dated January 31, 2007, as amended)
10.21	Form of Restricted Stock Unit Agreement for use under the Cincinnati Financial Corporation 2006 Stock Compensation Plan (performance-based) (incorporated by reference to Exhibit 10.1 filed with the company's Current Report on Form 8-K dated November 14, 2007)
10.22	Form of Incentive Compensation Agreement for the Cincinnati Financial Corporation 2006 Incentive Compensation Plan (performance-based) (incorporated by reference to Exhibit 10.1 filed with the company's Current Report on Form 8-K dated March 19, 2007)
10.23	Credit Agreement by and among Cincinnati Financial Corporation, CFC Investment Company, The Huntington National Bank and LaSalle Bank National Association, among others, dated July 2, 2007 (incorporated by reference to Exhibit 10.01 filed with the company's Current Report on Form 8-K dated June 30, 2007)
10.24	Second Amended and Restated Discretionary Line of Credit Note with PNC Bank, National Association dated July 12, 2007 (incorporated by reference to Exhibit 10.27 filed with the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007) as renewed pursuant to the Offer and Acceptance of terms to renew \$75 million unsecured line of credit with PNC Bank, N.A., effective June 30, 2008 (incorporated by reference to Exhibit 10.01 filed with the company's Current Report on Form 8-K dated July 9, 2008)
10.25	Secondary Block Trade Agreement between The Cincinnati Insurance Company and UBS Securities LLC, dated October 23, 2007 (incorporated by reference to Exhibit 10.29 filed with the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007)
10.26	Purchase Agreement (Tranche 1 of 4) between Cincinnati Financial Corporation and UBS AG, London Branch, acting through UBS Securities LLC as agent, dated October 24, 2007 (incorporated by reference to Exhibit 10.30 filed with the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007)
10.27	Purchase Agreement (Tranche 2 of 4) between Cincinnati Financial Corporation and UBS AG, London Branch, acting through UBS Securities LLC as agent, dated October 24, 2007 (incorporated by reference to Exhibit 10.31 filed with the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007)
10.28	Purchase Agreement (Tranche 3 of 4) between Cincinnati Financial Corporation and UBS AG, London Branch, acting through UBS Securities LLC as agent, dated October 24, 2007 (incorporated by reference to Exhibit 10.32 filed with the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007)
10.29	Purchase Agreement (Tranche 4 of 4) between Cincinnati Financial Corporation and UBS AG, London Branch, acting through UBS Securities LLC as agent, dated October 24, 2007 (incorporated by reference to Exhibit 10.33 filed with the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007)

Exhibit No.	Exhibit Description
10.30	Stock Purchase Agreement between Cincinnati Financial Corporation and the E. Perry Webb Marital Trust, dated September 5, 2007 (incorporated by reference to Exhibit 10.34 filed with the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007)
10.31	Restricted Stock Unit Agreement for John J. Schiff, Jr. dated February 18, 2008 (incorporated by reference to Exhibit 10.1 filed with the company's Current Report on Form 8-K dated February 20, 2008)
10.32	Restricted Stock Unit Agreement for James E. Benoski dated February 18, 2008 (incorporated by reference to Exhibit 10.2 filed with the company's Current Report on Form 8-K dated February 20, 2008)
10.33	Restricted Stock Unit Agreement for Jacob F. Scherer, Jr. dated February 18, 2008 (incorporated by reference to Exhibit 10.3 filed with the company's Current Report on Form 8-K dated February 20, 2008)
10.34	Restricted Stock Unit Agreement for Kenneth W. Stecher dated February 18, 2008 (incorporated by reference to Exhibit 10.4 filed with the company's Current Report on Form 8-K dated February 20, 2008)
10.35	Restricted Stock Unit Agreement for Thomas A. Joseph dated February 18, 2008 (incorporated by reference to Exhibit 10.5 filed with the company's Current Report on Form 8-K dated February 20, 2008)
10.36	Form of Performance based Restricted Stock Unit Agreement for the Cincinnati Financial Corporation 2006 Stock Compensation Plan (performance-based) (incorporated by reference to Exhibit 10.6 filed with the company's Current Report on Form 8-K dated February 20, 2008)
10.37	Unwritten arrangement with Lehman Brothers Inc. to sell 35,000,000 shares of Fifth Third stock held by the Cincinnati Financial Corporation (incorporated by reference to the further description of the arrangement set forth on the company's Current Report on Form 8-K dated July 25, 2008)
10.38	Amended and Restated Cincinnati Financial Corporation Top Hat Savings Plan dated November 14, 2008
11	Statement re: Computation of per share earnings for the year ended December 31, 2008, 2007 and 2006, contained in Part II, Item 8, Note 12 to the Consolidated Financial Statements
14	Cincinnati Financial Corporation Code of Ethics for Senior Financial Officers (incorporated by reference to the company's Definitive Proxy Statement data March 18, 2004 (File No. 000-04604))
21	Cincinnati Financial Corporation subsidiaries contained in Part I, Item 1 of this report
23	Consent of Independent Registered Public Accounting Firm
31A	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002 - Chief Executive Officer
31B	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002 - Chief Financial Officer
32	Certification pursuant to Section 906 of the Sarbanes Oxley Act of 2002

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-85953 (on Form S-8), No. 333-24815 (on Form S-8), No. 333-24817 (on Form S-8), No. 333-49981 (on Form S-8), No. 333-103509 (on Form S-8), No. 333-103511 (on Form S-8), No. 333-121429 (on Form S-4), No. 333-123471 (on Form S-4), No. 333-126714 (on Form S-8), as amended, and No. 333-155373 (on Form S-3), of Cincinnati Financial Corporation of our report dated February 27, 2009, relating to the consolidated financial statements and financial statement schedules of Cincinnati Financial Corporation and subsidiaries and the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Cincinnati Financial Corporation for the year ended December 31, 2008.

/S/ Deloitte & Touche LLP

Cincinnati, Ohio
February 27, 2009

EXHIBIT 31A

Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002

I, Kenneth W. Stecher, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cincinnati Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2009

/S/ Kenneth W. Stecher

Kenneth W. Stecher

Director, President and Chief Executive Officer

EXHIBIT 31B

Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002

I, Steven J. Johnston, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cincinnati Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2009

/S/ Steven J. Johnston

Steven J. Johnston, FCAS, MAAA, CFA

Chief Financial Officer, Senior Vice President, Secretary and Treasurer

EXHIBIT 32

Certification pursuant to Section 906 of the Sarbanes Oxley Act of 2002

The certification set forth below is being submitted in connection with this report on Form 10-K for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Kenneth W. Stecher, the chief executive officer, and Steven J. Johnston, the chief financial officer, of Cincinnati Financial Corporation each certifies that, to the best of his knowledge:

1. the report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Cincinnati Financial Corporation.

Date: February 27, 2009

/S/ Kenneth W. Stecher

Kenneth W. Stecher

Director, President and Chief Executive Officer

/S/ Steven J. Johnston

Steven J. Johnston, FCAS, MAAA, CFA

Chief Financial Officer, Senior Vice President, Secretary and Treasurer

Cincinnati Financial Corporation Officers and Directors

(as of February 27, 2009)

Directors

William F. Bahl, CFA, CIC

Chairman
Bahl & Gaynor Investment Counsel Inc.
Director since 1995 (1)(3)(4)(5*)

James E. Benoski

Vice Chairman of the Board
Cincinnati Financial Corporation
Director since 2000 (3)(4)

Gregory T. Bier, CPA (Ret.)

Managing Partner (Ret.), Cincinnati Office
Deloitte & Touche LLP
Director since 2006 (1)(4)

Kenneth C. Lichtendahl

President and Chief Executive Officer
Tradewinds Beverage Company
Director since 1988 (1*)(5)

W. Rodney McMullen

Vice Chairman
The Kroger Co.
Director since 2001 (2*)(3)(4)

Gretchen W. Price

Chief Financial Officer
philosophy inc.
(skin care and cosmetics)
Director since 2002 (1)(2)(5)

John J. Schiff, Jr., CPCU

Chairman of the Board
Cincinnati Financial Corporation
Director since 1968 (3*)(4*)

Thomas R. Schiff

Chairman and Chief Executive Officer
John J. & Thomas R. Schiff & Co. Inc.
(insurance agency)
Director since 1975 (4)

Douglas S. Skidmore

President and Chief Executive Officer
Skidmore Sales & Distributing Company Inc.
(food distribution)
Director since 2004 (1)(5)

Kenneth W. Stecher

President and Chief Executive Officer
Cincinnati Financial Corporation
Director since 2008 (3)(4)

John F. Steele, Jr.

Chairman and Chief Executive Officer
Hilltop Basic Resources Inc.
(aggregates/concrete supplier)
Director since 2005 (1)

Larry R. Webb, CPCU

President
Webb Insurance Agency Inc.
Director since 1979 (3)

E. Anthony Woods

Chairman and Chief Executive Officer
SupportSource LLC
(health care consulting)
Director since 1998 (2)(3)(4)

- (1) Audit Committee
 - (2) Compensation Committee
 - (3) Executive Committee
 - (4) Investment Committee; also
Richard M. Burridge, CFA, adviser
 - (5) Nominating Committee
- * Committee Chair



W.F. Bahl



J.E. Benoski



G.T. Bier



K.C. Lichtendahl



W.R. McMullen



G.W. Price



J.J. Schiff, Jr.



T.R. Schiff



D.S. Skidmore



K.W. Stecher



J.F. Steele, Jr.



L.R. Webb



E.A. Woods

Officers

John J. Schiff, Jr., CPCU

Chairman of the Board

Kenneth W. Stecher

President and Chief Executive Officer

Steven J. Johnston, FCAS, MAAA, CFA

Chief Financial Officer, Senior Vice President,
Secretary and Treasurer

Martin F. Hollenbeck, CFA, CPCU

Senior Vice President, Assistant Secretary and
Assistant Treasurer

Eric N. Mathews, CPCU, AIAF

Principal Accounting Officer, Vice President,
Assistant Secretary and Assistant Treasurer

Directors Emeriti

Vincent H. Beckman

Michael Brown

Robert J. Driehaus

John E. Field, CPCU

Jackson H. Randolph

Lawrence H. Rogers II

John Sawyer

Robert C. Schiff

Frank J. Schultheis

David B. Sharrock

John M. Shepherd

Thomas J. Smart

Alan R. Weiler, CPCU

William H. Zimmer

Shareholder Information

Cincinnati Financial Corporation had approximately 12,000 shareholders of record and approximately 37,000 beneficial shareholders as of December 31, 2008. Many of the company's independent agent representatives and most of the 4,179 associates of its subsidiaries own the company's common stock.

Common Stock Price and Dividend Data

Common shares are traded under the symbol CINF on the NASDAQ Global Select Market.

(Source: Nasdaq Global Select Market)

Quarter:	2008				2007			
	1 st	2 nd	3 rd	4 th	1 st	2 nd	3 rd	4 th
High close	\$ 39.71	\$ 39.97	\$ 33.60	\$ 31.71	\$ 45.92	\$ 47.62	\$ 44.79	\$ 44.84
Low close	35.10	25.40	21.83	18.80	42.24	42.57	36.91	38.37
Period-end close	38.04	25.40	28.44	29.07	42.40	43.40	43.31	39.54
Cash dividends declared	0.39	0.39	0.39	0.39	0.355	0.355	0.355	0.355

Annual Meeting

Shareholders are invited to attend the Annual Meeting of Shareholders of Cincinnati Financial Corporation at 9:30 a.m. on Saturday, May 2, 2009, at the Cincinnati Art Museum in Eden Park, Cincinnati, Ohio. You may listen to an audio webcast of the event by visiting www.cinfin.com/investors.

Independent Registered Public Accounting Firm

Deloitte & Touche LLP
250 East Fifth Street
Cincinnati, Ohio 45202-5109

Contact Information

Communications directed to Steven J. Johnston, FCAS, MAAA, CFA, senior vice president, chief financial officer and secretary, are shared with the appropriate individual(s). Or, you may directly access services:

Investors: Investor Relations responds to investor inquiries about Cincinnati Financial Corporation and its performance.

Heather J. Wietzel – Vice President, Investor Relations

513-870-2768 or investor_inquiries@cinfin.com

Shareholders: Shareholder Services provides stock transfer services, fulfills requests for shareholder materials and assists registered shareholders who wish to update account information or enroll in shareholder plans.

Jerry L. Litton – Assistant Vice President, Shareholder Services

513-870-2639 or shareholder_inquiries@cinfin.com

Media: Corporate Communications assists media representatives seeking information or comment from Cincinnati Financial Corporation or its subsidiaries.

Joan O. Shevchik, CPCU, CLU – Senior Vice President, Corporate Communications

513-603-5323 or media_inquiries@cinfin.com

CINCINNATI FINANCIAL CORPORATION

The Cincinnati Insurance Company
The Cincinnati Casualty Company
The Cincinnati Indemnity Company
The Cincinnati Specialty Underwriters Insurance Company

The Cincinnati Life Insurance Company
CSU Producer Resources Inc.
CFC Investment Company

Mailing Address:

P.O. Box 145496
Cincinnati, Ohio 45250-5496

Street Address:

6200 South Gilmore Road
Fairfield, Ohio 45014-5141

Phone: 513-870-2000

Fax: 513-870-2066

www.cinfin.com



Cincinnati Financial Corporation

2009 Shareholder Meeting Notice and Proxy Statement

March 20, 2009

To the Shareholders of Cincinnati Financial Corporation:

You are cordially invited to attend the Annual Meeting of Shareholders of Cincinnati Financial Corporation, which will take place at 9:30 a.m. on Saturday, May 2, 2009, at the Cincinnati Art Museum, located in Eden Park, Cincinnati, Ohio. The business to be conducted at the meeting includes:

1. Electing one director for a term of one year and five directors for terms of three years,
2. Ratifying the selection of Deloitte & Touche LLP as the company's independent registered public accounting firm for 2009,
3. Adopting the Cincinnati Financial Corporation Annual Incentive Compensation Plan of 2009,
4. Adopting the Cincinnati Financial Corporation Directors' Stock Plan of 2009,
5. Acting on a shareholder proposal, if introduced at the meeting, and
6. Transacting such other business as may properly come before the meeting.

Shareholders of record at the close of business on March 4, 2009, are entitled to vote at the meeting.

Whether or not you plan to attend the meeting, please cast your vote as promptly as possible. We encourage you to vote via the Internet. It is convenient and saves your company significant postage and processing costs. You also may submit your vote by telephone or by mail, if you prefer.

Your Internet or telephone vote must be received by 11:59 p.m. Eastern Daylight Time on May 1, 2009, to be counted in the final tabulation. Your interest and participation in the affairs of the company are appreciated.

/S/ Steven J. Johnston

Steven J. Johnston, FCAS, MAAA, CFA
Secretary

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FREQUENTLY ASKED QUESTIONS

Who is soliciting my vote? – The board of directors of Cincinnati Financial Corporation is soliciting your vote for the 2009 Annual Meeting of Shareholders.

Who is entitled to vote? – Shareholders of record at the close of business on March 4, 2009, may vote.

How many votes do I have? – You have one vote for each share of common stock you owned on March 4, 2009.

How many votes can be cast by all shareholders? – 162,504,107 outstanding shares of common stock can be voted as of the close of business on March 4, 2009.

How many shares must be represented to hold the meeting? – A majority of the outstanding shares, or 81,252,054 shares, must be represented to hold the meeting.

How many votes are needed to elect directors and to approve the proposals? – The nominees for director receiving the six highest vote totals will be elected as directors. Our independent registered public accounting firm is ratified and other proposals are approved if votes cast in favor of the proposal exceed votes cast against it.

What if I vote “withhold” or “abstain?” – “Withhold” or “abstain” votes have no effect on the votes required to elect directors, to ratify the independent registered public accounting firm or to approve or reject the other proposals.

Can my shares be voted if I don’t return my proxy and don’t attend the annual meeting? – If your shares are registered in your name, the answer is no. If your shares are registered in the name of a bank, broker or other nominee and you do not direct your nominee as to how to vote your shares, applicable rules provide that the nominee generally may vote your shares on any of the routine matters scheduled to come before the meeting. If a bank, broker or other nominee indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, these shares (called broker non-votes) will be counted as present in determining whether we have a quorum but will have no effect on the votes required to elect directors, to ratify the independent registered public accounting firm or to approve or reject the other proposals.

How do I vote? – You may vote by proxy, whether or not you attend the meeting, in one of three ways:

- Internet (www.proxyvote.com)
- Telephone (800-690-6903)
- Mail

Even if you plan to attend the annual meeting, we ask that you vote by Internet, telephone or mail. Attending the meeting does not constitute a revocation of a previously submitted vote.

Instructions for voting via the Internet or by telephone, along with the required Control Number (the Control Number is unique to each account), were provided to you by mail or by e-mail in late March or early April. If you receive information from us by mail, you also received a Notice or proxy card that can be returned in the postage-paid envelope that was included in the same envelope.

The deadline for Internet and telephone voting is 11:59 p.m., Eastern Daylight Time, May 1, 2009. If you choose to vote by mail, be sure to return your proxy card in time to be received and counted before the Annual Meeting.

Where do I locate my Control Number so I can vote? – If you receive our information in the mail, it will be on the card that also gives your name and the number of shares you hold. If you receive our information in e-mails, the Control Number is in the text of the e-mail.

What if I cannot locate my Control Number – If you hold shares directly in your name, you may obtain your Control Number by calling 800-579-1639. If your shares are registered in the name of a bank, broker or other nominee, that firm will be able to supply the Control Number.

Can I obtain another proxy card so I can vote by mail? – If you hold shares directly in your name, you may obtain another proxy card by calling 800-579-1639. If your shares are registered in the name of a bank, broker or other nominee, that firm will be able to supply another proxy card.

Can I change my vote or revoke my proxy? – Yes. Just cast a new vote by Internet or telephone or send in a new signed proxy card with a later date. If you hold shares directly in your name, you may send a written notice of revocation to the secretary of the company. If you hold shares directly in your name and attend the annual meeting, you also may choose to vote in person at the meeting. To do so, at the meeting you can request a ballot and direct that your previously submitted proxy not be used. Otherwise, your attendance itself does not constitute a revocation of your previously submitted proxy.

How are the votes counted? – Votes cast by proxy are tabulated prior to the meeting by the holders of the proxies. Inspectors of election appointed at the meeting count the votes and announce the results. The proxy agent reserves the right not to vote any proxies that are altered in a manner not intended by the instructions contained in the proxy.

Could other matters be decided at the meeting? – We do not know of any matters to be considered at the annual meeting other than the election of directors and the proposals described in this proxy statement. For any other matters that do properly come before the meeting, your shares will be voted at the discretion of the proxy holder.

Who can attend the meeting? – The meeting is open to all interested parties.

Can I listen to the meeting if I cannot attend in person? – If you have access to the Internet, you can listen to a live webcast of the meeting. Instructions will be available on the Investors page of www.cinfin.com approximately two weeks before the meeting. An audio replay will be available on the Web site within two hours after the close of the meeting.

Why did my materials arrive in different envelopes – Again this year, our paper mailings were timed to meet new regulatory standards that help us keep mailing and paper costs low. Most shareholders who have not elected to receive information using electronic delivery received three mailings:

- In late March: you received a card notifying you that you could cast your vote after reviewing your company's year-end 2008 financial materials and proxy statement online. You also could request paper materials.
- In early April: if you hadn't yet voted, you received a second notification that your company's information is available. This notice also serves as your paper proxy card.
- A few days later, you received this proxy statement along with management's annual letter on performance, issues, events and trends.

If you are enrolled in electronic delivery, you received an e-mail notifying you of the availability of the information on the Internet and providing electronic voting instructions.

How can I obtain a 2008 Annual Report – You can obtain our 2008 Annual Report on Form 10-K as filed with the Securities and Exchange Commission (SEC) at no cost in several different ways. You may view, search or print the document online from www.cinfin.com/Investors. You may ask that a copy be mailed to you by contacting the secretary of Cincinnati Financial Corporation. Or, you may request it directly from Shareholder Services. Please see the Investor Contact Page of our Web site for details.

SECURITY OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT

Under Section 13(d) of the Securities Exchange Act of 1934 (Exchange Act), a beneficial owner of a security is any person who directly or indirectly has or shares voting power or investment authority over such security. A beneficial owner under this definition need not enjoy the economic benefit of such securities. The following are the only shareholders known to the company who are deemed to be beneficial owners of at least 5 percent of our common stock as of March 1, 2009. John J. Schiff, Jr. and Thomas R. Schiff, directors of the company, are brothers.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Footnote Reference	Percent of Class
Common stock	John J. Schiff, Jr., CPCU Cincinnati Financial Corporation 6200 South Gilmore Fairfield, OH 45014	12,596,515	(1)(2)(3)(4)(5)	7.73
Common stock	Thomas R. Schiff Cincinnati Financial Corporation 6200 South Gilmore Fairfield, OH 45014	9,432,954	(1)(2)(5)	5.80

The outstanding common shares beneficially owned by each other director and nondirector executive officers as of March 1, 2009, are shown below:

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Footnote Reference	Percent of Class
Other Directors			
William F. Bahl, CFA, CIC	221,576	(6)	0.14
James E. Benoski	622,041	(3)	0.38
Gregory T. Bier, CPA (Ret.)	7,423		-
Kenneth C. Lichtendahl	19,781		0.01
W. Rodney McMullen	27,347		0.02
Gretchen W. Price	12,674		0.01
Douglas S. Skidmore	22,743	(7)	0.01
Kenneth W. Stecher	222,015	(3)(5)	0.14
John F. Steele, Jr.	8,162		0.01
Larry R. Webb, CPCU	479,541	(5)(8)	0.30
E. Anthony Woods	18,404		0.01
Nondirector Executive Officers			
Donald J. Doyle, Jr., CPCU, AIM	80,008	(3)(5)	0.05
Craig W. Forrester, CLU	81,884	(3)(4)(5)	0.05
Martin F. Hollenbeck, CFA, CPCU	36,982	(3)(4)(5)	0.02
Steven J. Johnston, FCAS, MAAA, CFA	22,000		0.01
Thomas A. Joseph, CPCU	170,918	(3)(5)(9)	0.11
Eric N. Mathews, CPCU, AIAF	90,572	(3)(5)	0.06
Martin J. Mullen, CPCU	49,469	(3)(5)	0.03
Larry R. Plum, CPCU, ARe	272,136	(3)(4)(5)	0.17
David H. Popplewell, FALU, LLIF	168,258	(3)(5)	0.10
Jacob F. Scherer, Jr.	257,894	(3)(5)	0.16
Joan O. Shevchik, CPCU, CLU	65,352	(3)	0.04
Charles P. Stoneburner II, CPCU, AIM	42,187	(3)(5)	0.03
Timothy L. Timmel	270,097	(3)(4)(5)	0.17
All directors and nondirector executive officers as a group (26 individuals)	17,907,980		10.88

Except as otherwise indicated in the notes below, each person has sole voting and investment power with respect to the common shares noted.

- (1) Includes 4,403,341 shares owned of record by the John J. and Mary R. Schiff Foundation and 2,756,177 shares owned of record by the John J. Schiff Charitable Lead Trust, the trustees of all of which are Mr. J. Schiff, Jr., Mr. T. Schiff and Ms. Suzanne S. Reid, who share voting and investment power equally.
- (2) Includes 107,186 shares owned of record by the John J. & Thomas R. Schiff & Co. Inc. pension plan, the trustees of which are Mr. J. Schiff, Jr., and Mr. T. Schiff, who share voting and investment power; and 124,249 shares

owned by John J. & Thomas R. Schiff & Co. Inc. of which Mr. J. Schiff, Jr., and Mr. T. Schiff are principal owners.

- (3) Includes shares available within 60 days from exercise of stock options in the amount of 501,055 shares for Mr. J. Schiff, Jr.; 465,170 shares for Mr. Benoski; 131,870 shares for Mr. Stecher; 64,560 shares for Mr. Doyle; 44,218 shares for Mr. Forrester; 29,526 shares for Mr. Hollenbeck; 131,870 shares for Mr. Joseph; 55,834 shares for Mr. Mathews; 32,335 shares for Mr. Mullen; 137,645 shares for Mr. Plum; 121,107 shares for Mr. Popplewell; 142,895 shares for Mr. Scherer; 42,551 shares for Ms. Shevchik; 25,886 shares for Mr. Stoneburner; and 119,632 shares for Mr. Timmel.
- (4) Includes shares held in the company's nonqualified savings plan for highly compensated associates in the amount of 12,800 shares for Mr. J. Schiff, Jr.; 956 shares for Mr. Forrester; 3,341 shares for Mr. Hollenbeck; 2,248 shares for Mr. Plum; 184 shares for Mr. Popplewell and 7,579 shares for Mr. Timmel. Individuals participating in this plan do not have the right to vote or direct the disposition of shares.
- (5) Includes shares pledged as collateral as of March 1, 2009 in the amount of 1,363,521 shares for Mr. J. Schiff; 1,009,270 shares for Mr. T. Schiff; 84,000 shares for Mr. Webb; 15,000 shares for Mr. Doyle; 27,427 shares for Mr. Forrester; 35,988 shares for Mr. Joseph; 3,010 shares for Mr. Hollenbeck; 31,212 shares for Mr. Mathews; 15,814 shares for Mr. Mullen; 119,212 shares for Mr. Plum; 45,143 shares for Mr. Popplewell; 96,331 shares for Mr. Scherer; 30,475 shares for Mr. Stecher; 15,301 shares for Mr. Stoneburner and 100,033 shares for Mr. Timmel.
- (6) Includes 8,821 shares held in the Bahl Family Foundation, of which Mr. Bahl is president; and 10,256 shares held in a trust for the benefit of a child, for which Mr. Bahl is not the trustee and has no investment or voting rights for the trust.
- (7) Includes 7,035 shares owned of record by Skidmore Sales Profit Sharing Plan, of which Mr. Skidmore is an administrator and shares investment authority.
- (8) Includes 186,257 shares owned of record by a limited partnership of which Mr. Webb is a general partner; 43,478 shares owned of record by an IRR marital trust for the benefit of his wife and children; 13,601 shares held in Mr. Webb's father's family trust and 60,411 shares held in his mother's IRR Living Trust.
- (9) Includes 3,000 shares held in the Estate of John J. Joseph for which Mr. Joseph is co-executor and shares voting and investment authority.

Section 16(a) Beneficial Ownership Reporting Compliance

Directors, executive officers and 10 percent shareholders are required to report their beneficial ownership of our stock according to Section 16 of the Exchange Act. Those individuals are required by SEC regulations to furnish the company with copies of all Section 16(a) forms they file.

SEC regulations require us to identify in this proxy statement anyone who filed a required report late during the most recent calendar year. Based on our review of forms we received, or written representations from reporting persons stating that they were not required to file these forms, we believe that, during the calendar year 2008, all Section 16(a) filing requirements were satisfied on a timely basis except the sale of 1,132 shares on May 7, 2008 by the Bahl & Gaynor Profit Sharing Plan, of which William F. Bahl is a trustee. The transaction was reported in a Form 5 filed by Mr. Bahl on February 12, 2009.

INFORMATION ABOUT THE BOARD OF DIRECTORS

The mission of the board is to encourage, facilitate and foster the long-term success of Cincinnati Financial Corporation. The board directs management in the performance of the company's obligations to our independent agents, policyholders, associates, communities and suppliers in a manner consistent with the company's mission and with the board's responsibility to shareholders to achieve the highest sustainable shareholder value over the long term.

Proposal 1 – Election of Directors

The board of directors currently consists of 13 directors divided into three classes, and each year the directors in one class are elected to serve terms of three years. This means that shareholders generally elect one-third of the members of the board of directors annually. The term of office of six directors expires as of the 2009 Annual Meeting of Shareholders.

According to the Sixth Article of the company's Articles of Incorporation, the three classes of the company's directors must be of nearly equal size, with no class having more than one more director than any other class. During 2008, the classes became unbalanced as one director resigned from the board when called to active military service and a new director was appointed by the board. The company's practice is to require any new director appointed by the board to stand for election at the next annual meeting of shareholders. To rebalance the classes, of the six directors with terms expiring in 2009, one director, James E. Benoski, is nominated for election to a term of one year expiring 2010 and five directors are nominated for election to terms of three years expiring 2012.

The board of directors recommends a vote FOR James E. Benoski as director to hold office until the 2010 Annual Meeting of Shareholders and FOR William F. Bahl, Gretchen W. Price, John J. Schiff, Jr., Kenneth W. Stecher and E. Anthony Woods as directors to hold office until the 2012 Annual Meeting of Shareholders and until their successors are elected.

We do not know of any reason that any of the nominees for director would not accept the nomination, and it is intended that votes will be cast to elect all six nominees as directors. In the event, however, that any nominee should refuse or be unable to accept the nomination, the people acting under the proxies intend to vote for the election of such person or people as the board of directors may recommend.

For each nominee for election to the office of director and each current director whose term does not expire at this time, listed below are principal business positions held currently and over the past five years. Some directors also serve on various subsidiary boards.

Nominee for Director for Term Expiring 2010

(age as of March 1, 2009)	Principal Business Positions Since March 2004
James E. Benoski (70)	Director since 2000. Vice chairman and, from 2006 to 2008, president and, from 2004 to 2008, chief insurance officer of Cincinnati Financial Corporation and The Cincinnati Insurance Company, a subsidiary of the company. Chief operating officer from 2006 to 2008 of Cincinnati Financial Corporation. Chief executive officer from 2006 to 2008 of The Cincinnati Insurance Company; senior vice president – headquarters claims until 2006.

Nominees for Directors for Terms Expiring 2012

(age as of March 1, 2009)	Principal Business Positions Since March 2004
William F. Bahl, CFA, CIC (57)	Director since 1995. Chairman of Bahl & Gaynor Investment Counsel Inc., based in Cincinnati. Trustee until 2006 of The Preferred Group of Funds. Director since 2005 of LCA-Vision Inc.
Gretchen W. Price (54)	Director since 2002. Chief financial officer since 2008 of philosophy inc., an international skin care and cosmetics company, based in Phoenix, Arizona. Vice president until 2008 of go-to-market reinvention for global operations of Procter & Gamble, based in Cincinnati. Vice president until 2007 of finance and accounting for global operations.

John J. Schiff, Jr., CPCU (65)	Director since 1968. Chairman and, until 2008, chief executive officer and, until 2006, president of Cincinnati Financial Corporation. Chairman until 2006 and since 2008 of The Cincinnati Insurance Company; president and chief executive officer until 2006. Director of John J. & Thomas R. Schiff & Co. Inc., a privately owned independent insurance agency; Fifth Third Bancorp; and The Standard Register Company; all Cincinnati-area companies.
Kenneth W. Stecher (62)	Director since 2008. President and chief executive officer since 2008 of Cincinnati Financial Corporation and The Cincinnati Insurance Company. Executive vice president from 2006 to 2008 and, until 2008, chief financial officer, principal accounting officer and secretary of Cincinnati Financial and Cincinnati Insurance; senior vice president until 2006. Treasurer until 2008 of Cincinnati Financial. Chairman from 2006 to 2008 of Cincinnati Insurance.
E. Anthony Woods (68)	Director since 1998. Chairman and chief executive officer of SupportSource LLC, a healthcare consulting firm. Chairman of Deaconess Associations Inc., a healthcare holding company, based in Cincinnati. Chairman since 2006 and director since 2004 of LCA-Vision Inc.

Continuing Directors for Terms Expiring 2010

(age as of March 1, 2009)	Principal Business Positions Since March 2004
Gregory T. Bier, CPA (Ret.) (62)	Director since 2006. Retired managing partner, Cincinnati office of Deloitte & Touche LLP. Director since 2008 of LifePoint Hospitals Inc.
Douglas S. Skidmore (46)	Director since 2004. Chief executive officer, president and director of Skidmore Sales & Distributing Company Inc., a family-owned, full-service distributor and broker of quality industrial food ingredients, based in the Cincinnati area. Chief executive officer since 2006 of Essex Grain Products Inc., a subsidiary of Skidmore Sales & Distributing Company Inc. Managing partner since 2004, Mustang Real Estate Holdings LLC.
Larry R. Webb, CPCU (53)	Director since 1979. President, director, a principal owner and agent of Webb Insurance Agency Inc., a privately owned independent insurance agency, based in Lima, Ohio.

Continuing Directors for Terms Expiring 2011

(age as of March 1, 2009)	Principal Business Positions Since March 2004
Kenneth C. Lichtendahl (60)	Director since 1988. President, chief executive officer and director of Tradewinds Beverage Company, based in Cincinnati.
W. Rodney McMullen (48)	Director since 2001. Vice chairman of The Kroger Co., based in Cincinnati.
Thomas R. Schiff (61)	Director since 1975. Chairman, chief executive officer and agent of John J. & Thomas R. Schiff & Co. Inc., a privately owned independent insurance agency, based in the Cincinnati area. Chief executive officer of Lightborne Properties, Lightborne Communications and Lightborne Publications, media companies based in the Cincinnati area.
John F. Steele, Jr. (55)	Director since 2005. Chairman since 2004 and chief executive officer of Hilltop Basic Resources Inc., a family owned aggregates and ready-mixed concrete supplier to the construction industry, based in the Cincinnati area. President until 2004. Director since 2006 of Smook Bros. (Thompson) Inc. and since 2004 of William A. Powell Company.

INFORMATION ABOUT NONDIRECTOR EXECUTIVE OFFICERS

Executive officers are elected to one-year terms at the annual meetings of the boards of directors of the company and its subsidiaries. Unless otherwise indicated, each executive officer has served continuously since first elected to that position. For each nondirector executive officer, we list below principal positions held currently and over the past five years in the company, in our lead property casualty insurance subsidiary, and in other subsidiaries when the officer serves as president. When a nondirector executive officer's service with the company is less than five years, we also include principal occupations with other firms.

Cincinnati Financial owns 100 percent of its three subsidiaries: The Cincinnati Insurance Company, CFC Investment Company and CSU Producer Resources Inc. The Cincinnati Insurance Company leads the property casualty group and owns 100 percent of its four subsidiaries: The Cincinnati Casualty Company, The Cincinnati Indemnity Company, The Cincinnati Specialty Underwriters Insurance Company and The Cincinnati Life Insurance Company. Some executive officers also serve on various subsidiary boards.

Nondirector Executive Officers

(ages as of March 1, 2009)	Primary Title(s) and Business Responsibilities Since March 2004	Executive Officer Since
Donald J. Doyle, Jr., CPCU, AIM (42)	Senior vice president of The Cincinnati Insurance Company. Responsible since 2007 for excess and surplus lines operations; responsible from 2004 to 2007 for internal audit and until 2004 for strategic planning and enterprise risk management.	2008
Craig W. Forrester, CLU (50)	Senior vice president of The Cincinnati Insurance Company. Responsible for information technology systems.	2003
Martin F. Hollenbeck, CFA, CPCU (49)	President and chief operating officer since 2008 of CFC Investment Company. President from 2008 to 2009 of CinFin Capital Management Company, a former subsidiary of Cincinnati Financial. Senior vice president since 2008 of Cincinnati Financial Corporation. Senior vice president since 2009 of The Cincinnati Insurance Company; vice president from 2005 to 2009; assistant vice president until 2005. Responsible for investment operations and leasing and financing services; responsible until 2009 for asset management services operations.	2008
Steven J. Johnston, FCAS, MAAA, CFA (49)	Senior vice president, chief financial officer and secretary since 2008 of Cincinnati Financial Corporation and The Cincinnati Insurance Company. Treasurer since 2008 of Cincinnati Financial. From 2006 to 2008, consulted on risk management, economic capital and executive compensation modeling, agency valuation. Until 2006, chief financial officer, senior vice president and treasurer of State Auto Financial Corporation.	2008
Thomas A. Joseph, CPCU (53)	President since 2008 of The Cincinnati Casualty Company. Senior vice president of The Cincinnati Insurance Company. Responsible for personal lines underwriting operations and reinsurance; responsible until	2003

(ages as of March 1, 2009)	Primary Title(s) and Business Responsibilities Since March 2004	Executive Officer Since
Eric N. Mathews, CPCU, AIAF (53)	2008 for commercial lines underwriting operations except machinery and equipment. Principal accounting officer since 2008 and vice president, assistant secretary and assistant treasurer of Cincinnati Financial Corporation. Senior vice president of The Cincinnati Insurance Company.	2001
Martin J. Mullen, CPCU (53)	Senior vice president and chief claims officer since 2008 of The Cincinnati Insurance Company; vice president until 2008. Responsible for headquarters and field claims operations, special investigations unit and claims administration; responsible until 2008 for casualty claims.	2008
Larry R. Plum, CPCU, ARe (62)	Senior vice president of The Cincinnati Insurance Company. Responsible for government relations; responsible until 2008 for personal lines underwriting operations, meetings and travel. Transitioning to retirement in 2009.	1988
David H. Popplewell, FALU, LLIF (65)	President and chief operating officer of The Cincinnati Life Insurance Company. Responsible for life insurance operations.	1997
Jacob F. Scherer, Jr. (56)	Executive vice president since 2008 of The Cincinnati Insurance Company; senior vice president until 2008. Responsible for sales and marketing, including new commercial lines business, relationships with independent agencies and, since 2008, research and development and meetings and travel.	1995
Joan O. Shevchik, CPCU, CLU (58)	Senior vice president of The Cincinnati Insurance Company. Responsible for corporate communications.	2003
Charles P. Stoneburner II, CPCU, AIM (56)	Senior vice president since 2008 of The Cincinnati Insurance Company; vice president from 2005 to 2008 and assistant vice president until 2005. Responsible for commercial lines underwriting, loss control, premium audit and staff underwriting; responsible until 2008 for field claims operations.	2008
Timothy L. Timmel (60)	Senior vice president of The Cincinnati Insurance Company. Responsible for operations including corporate communications, learning and development, legal, personnel and, since 2008, administrative services, data entry, maintenance, printing, regulatory and consumer relations, security and information security; also responsible until 2008 for field claims operations.	1997

INFORMATION ABOUT CORPORATE GOVERNANCE

Meetings of the Board of Directors

Board members are encouraged to attend the Annual Meeting of Shareholders, all meetings of the board and the meetings of committees of which they are a member. The annual meeting of directors is held immediately following the annual shareholders' meeting at the same location. In May 2008, all of the company's then 13 directors attended the Annual Meeting of Shareholders. The board of directors of the company met six times and the executive committee of the board met five times during 2008. The directors met in executive session four times during 2008. All directors attended at least 85 percent of the board and committee meetings of which they were members.

Codes of Conduct and Committee Charters

On January 30, 2009, the board of directors re-adopted the Corporate Governance Guidelines, the Code of Ethics for Senior Financial Officers and the Code of Conduct. Charters for the all of the board committees were reviewed and re-approved at the same time. The guidelines, codes and charters are available on our Web site at www.cinfin.com.

Communicating with the Board

Shareholders may direct a communication to board members by sending it to the attention of the secretary of the company, Cincinnati Financial Corporation, P.O. Box 145496, Cincinnati, Ohio, 45250-5496. The company and board of directors have not established a formal process for determining whether all shareholder communication received by the secretary will be forwarded to directors. Nonetheless, the board welcomes shareholder communication and has instructed the secretary of the company to use reasonable criteria to determine whether correspondence should be forwarded. The board believes that correspondence has been and will continue to be forwarded appropriately. However, exceptions may occur, and the board does not intend to provide management with instructions that limit its ability to make reasonable business decisions. Examples of exceptions would be routine items such as requests for publicly available information that can be provided by company associates; vendor solicitations that appear to be mass-directed to board members of a number of companies; or correspondence that raises issues related to specific company transactions (insurance policies or claims) where there may be privacy concerns or other issues.

In some circumstances, the board anticipates that management would provide the board or board member with summary information regarding correspondence.

Board Composition and Director Independence

Each year, based on all relevant facts and circumstances, the board determines which directors satisfy the criteria for independence. To be found independent, a director must not have a material relationship with the company, either directly or indirectly as a partner, other than a limited partner, controlling shareholder or executive officer of another organization that has a relationship with the company that could affect the director's ability to exercise independent judgment.

Directors deemed independent are believed to satisfy the definitions of independence required by the rules and regulations of the SEC and the listing standards of NASDAQ. The board has determined that these directors and nominees meet the applicable criteria for independence as of January 30, 2009: William F. Bahl, Gregory T. Bier, Kenneth C. Lichtendahl, W. Rodney McMullen, Gretchen W. Price, Douglas S. Skidmore, John F. Steele, Jr. and E. Anthony Woods. When making its determination as to Mr. Bier, the board considered the fact that in 2008 an insurance subsidiary of the company employed two of his adult children and a daughter-in-law in nonofficer positions. When making its determination as to Mr. Lichtendahl, the board considered the fact that in 2009 the company's leasing subsidiary leased equipment valued at \$273,900 to Tradewinds Beverage Company, of which Mr. Lichtendahl is the president and chief executive officer. The board determined that these relationships presented no material conflict of interest and would not affect the ability of either director to exercise his independent judgment in his role as a director. Following the re-election of the directors included in this proxy, a majority (eight) of the 13 directors would meet the applicable criteria for independence under the listing standards of NASDAQ.

Standing Committees of the Board of Directors

The board of directors has five standing committees. Current committee assignments are noted below. The board of directors will review committee assignments at its meeting on May 2, 2009.

Audit Committee – The purpose of the audit committee is to oversee the process of accounting and financial reporting, audits and financial statements of the company. The committee met four times during the last year. The report of the audit committee begins on Page 13.

Six independent directors serve on the audit committee: William F. Bahl, Gregory T. Bier, Kenneth C. Lichtendahl (chair), Gretchen W. Price, Douglas S. Skidmore and John F. Steele, Jr. Each of these individuals meets the NASDAQ standards for audit committee member independence and also is independent for purposes of Section 10A-3 of the Exchange Act. Further, Mr. Bahl, Mr. Bier and Ms. Price qualify as financial experts according to the SEC definition and meet the standards established by NASDAQ for financial expertise.

Compensation Committee – The compensation committee discharges the responsibility of the board of directors relating to compensation of the company’s directors and officers, including its principal executive officers and its internal audit officer. The committee also administers the company’s stock- and performance-based compensation plans. The committee met eight times during the last year. The report of the compensation committee begins on Page 15.

Three independent directors serve on the compensation committee: W. Rodney McMullen (chair), Gretchen W. Price and E. Anthony Woods.

Executive Committee – The purpose of the executive committee is to exercise the powers of the board of directors in the management of the business and affairs of the company between meetings of the board of directors. The committee met five times during the last year.

Six directors serve on the executive committee: William F. Bahl, James E. Benoski, W. Rodney McMullen, John J. Schiff, Jr. (chair), Larry R. Webb and E. Anthony Woods. Independence requirements do not apply to the executive committee.

Investment Committee – The investment committee provides oversight of the policies and procedures of the investment department of the company and its subsidiaries and reviews the invested assets of the company. The objective of the committee is to oversee the management of the portfolio to ensure the long-term security of the company. The committee met 11 times during the last year.

Seven directors serve on the investment committee: William F. Bahl, Gregory T. Bier, James E. Benoski, W. Rodney McMullen, John J. Schiff, Jr. (chair), Thomas R. Schiff and E. Anthony Woods. Richard M. Burrige, CFA, a former director, serves as an adviser to the committee. Independence requirements do not apply to the investment committee.

Nominating Committee – The nominating committee identifies, recruits and recommends qualified candidates for election as directors and officers of the company and as directors of its subsidiaries. The committee also nominates directors for committee membership. Further, the committee oversees compliance with the corporate governance policies for the company. The committee met four times during the last year.

Four independent directors serve on the nominating committee: William F. Bahl (chair), Kenneth C. Lichtendahl, Gretchen W. Price and Douglas S. Skidmore.

Consideration of Director Nominees

The nominating committee considers many factors when determining the eligibility of candidates for nomination as director. The committee’s goal is to nominate candidates who contribute to the board’s overall effectiveness in meeting its mission. The committee is charged with identifying nominees with certain characteristics:

- Demonstrated character and integrity
- An ability to work with others
- Sufficient time to devote to the affairs of the company
- Willingness to enter into a long-term association with the company, in keeping with the company’s overall business strategy

The nominating committee also considers the needs of the board in accounting and finance, business judgment, management, industry knowledge, leadership and such other areas as the board deems appropriate. The committee further considers factors included in the Corporate Governance Guidelines that might preclude nomination or re-nomination.

In particular, the nominating committee seeks to support our unique, agent-centered business model. The committee believes that the board should include a variety of individuals, serving alongside independent insurance agents who bring a special knowledge of policyholders and agents in the communities where we do business.

Potential board nominees generally are identified by referral. The nominating committee follows a five-part process to evaluate nominees for director. The committee first performs initial screening that includes reviewing background information on the candidates, evaluating their qualifications against the criteria set forth in the company's Corporate Governance Guidelines and, as the committee believes is appropriate, discussing the potential candidates with the individual or individuals making the referrals. Second, for candidates who qualify for additional consideration, the committee interviews the potential nominees as to their background, interests and potential commitment to the company and its operating philosophy. Third, the committee may seek references from sources identified by the candidates as well as sources known to the committee members. Fourth, the committee may ask other members of the board for their input. Finally, the committee develops a list of nominees who exhibit the characteristics desired of directors and satisfy the needs of the board. In 2008, the committee recommended that Kenneth W. Stecher be appointed a director as he was promoted to president and chief executive officer of the company. Using these factors, the committee also recommended that all of the directors with terms expiring in 2009 stand for re-election to the board, including Mr. Benoski. Although the age guideline might suggest that Mr. Benoski would not stand for re-election, the committee determined that re-election for a one-year term would be beneficial because of his deep knowledge of the company and attendant ability to assist the new management team.

The nominating committee considers qualified candidates referred by shareholders for nomination as director. Information about such a candidate should be provided in writing to the secretary of the company, giving the candidate's name, biographical data and qualifications, and emphasizing the characteristics set forth in our Corporate Governance Guidelines available on our Web site at www.cinfin.com. Preferably, any such referral would contain sufficient information to enable the committee to preliminarily screen the referred candidate for the needs of the board, if any, in accounting and finance, business judgment, management, industry knowledge, leadership, and the board's independence requirements. Such information should be provided by August 1 to receive appropriate consideration for the annual meeting held in the following year. The nominating committee does not differentiate among candidates based on the source of the nomination. Since the 2008 annual shareholders' meeting, no fees were paid to any third party to identify, evaluate, or assist in identifying and evaluating potential nominees.

Certain Relationships and Transactions

The audit committee follows a written policy for review and approval of transactions involving the company and related persons, defined as directors and executive officers or their immediate family members, or shareholders owning 5 percent or greater of our outstanding stock. The policy covers any related transaction that meets the minimum threshold for disclosure in the proxy statement under the relevant SEC rules, generally transactions involving amounts exceeding \$120,000 in which a related person has a direct or indirect material interest.

As it examines individual transactions for approval, the committee considers:

- Whether the transaction creates a conflict of interest or would violate the company's Code of Conduct
- Whether the transaction would impair the independence of a director
- Whether the transaction would be fair
- Any other factor the committee deems appropriate

Consideration of transactions with related parties is a regular item on the audit committee's agenda. Most of the transactions fall into the categories of standard agency contracts with directors who are principals of independent insurance agencies that sell our insurance products or with directors and executive officers who purchase the company's insurance products on the same terms as such products are offered to the public. Because the committee does not believe these classes of transactions create conflicts of interest or otherwise violate our Code of Conduct, the committee deems such transactions pre-approved.

The following transactions in 2008 with related persons were determined to pose no actual conflict of interest and were approved by the committee pursuant to its policy:

John J. Schiff, Jr. is chairman of the board of Cincinnati Financial Corporation, and all its subsidiaries in 2008 except CinFin Capital Management Company. He and Thomas R. Schiff, also a director of Cincinnati Financial Corporation, are principal owners and directors of John J. & Thomas R. Schiff & Co. Inc., a privately owned insurance agency that represents a number of insurance companies, including our insurance subsidiaries. Our insurance subsidiaries paid John J. & Thomas R. Schiff & Co. Inc. commissions of \$4,990,821. The company purchased various insurance policies through John J. & Thomas R. Schiff & Co. Inc. for premiums totaling \$1,480,524. John J. & Thomas R. Schiff & Co. Inc. purchased group health coverage from our life insurance subsidiary for a premium of \$123,361 and paid rent to the company in the amount of \$122,445 for office space located in the headquarters building.

Douglas S. Skidmore is a director of Cincinnati Financial Corporation and principal owner, director, chief executive officer and president of Skidmore Sales & Distributing Company Inc., which purchased property, casualty and life insurance from our insurance subsidiaries for premiums totaling \$313,899.

John F. Steele, Jr. is a director of Cincinnati Financial Corporation and chairman and chief executive officer of Hilltop Basic Resources Inc., which purchased property casualty insurance from our insurance subsidiaries for premiums totaling \$358,974.

Larry R. Webb is a director of Cincinnati Financial Corporation and president, director and a principal owner of Webb Insurance Agency Inc., a privately owned insurance agency that represents a number of insurance companies, including our insurance subsidiaries. The company's insurance subsidiaries paid Webb Insurance Agency Inc. commissions of \$700,302.

A brother of Timothy L. Timmel, senior vice president of operations of the company's insurance subsidiaries, is a secretary of the company's property casualty insurance subsidiary and manager of workers' compensation claims in the Headquarters Claims department with 31 years of experience in both the Field Claims and Headquarters Claims departments. In 2008, Mr. Timmel's brother earned compensation consisting of salary, cash bonus, stock-based compensation and perquisites totaling \$165,287. The amount of compensation was established by the company in accordance with our employment and compensation practices applicable to associates with equivalent qualifications and responsibilities and holding similar positions.

AUDIT-RELATED MATTERS

Proposal 2– Management's Proposal to Ratify Appointment of the Independent Registered Public Accounting Firm

The audit committee has appointed the firm of Deloitte & Touche LLP as the company's independent registered public accounting firm for 2009. Although action by shareholders in this matter is not required, the audit committee believes that it is appropriate to seek shareholder ratification of this appointment and to seriously consider shareholder opinion on this issue.

Representatives from Deloitte & Touche LLP, which also served as the company's independent registered public accounting firm for the last calendar year, will be present at the 2009 Annual Meeting of Shareholders and will be afforded the opportunity to make any statements they wish and to answer appropriate questions.

To ratify the appointment of Deloitte & Touche LLP, a majority of votes cast at the meeting must be voted for the proposal.

The board of directors recommends a vote FOR the proposal to ratify appointment of the independent registered public accounting firm.

Report of the Audit Committee

The audit committee is responsible for monitoring the integrity of the company's consolidated financial statements, the company's system of internal controls, the qualifications and independence of the company's independent registered accounting firm, the performance of the company's internal audit department and independent registered accounting firm and the company's compliance with certain legal and regulatory requirements. The committee has sole authority and responsibility to select, determine the compensation of, and evaluate the company's independent registered accounting firm. The committee has six independent directors and operates under a written charter. The board has determined that each committee member is independent under the standards of director independence established by the NASDAQ listing requirements and is also "independent" for purposes of Section 10A(m)(3) of the Exchange Act.

Management is responsible for the financial reporting process, including the system of internal controls, for the preparation of consolidated financial statements in accordance with generally accepted accounting principles and for the report on the company's internal control over financial reporting. The company's independent registered public accounting firm is responsible for auditing those financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States of America. The committee's responsibility is to oversee and review the financial reporting process and to review and discuss management's report on the company's internal control over financial reporting. However, the committee is not professionally engaged in the practice of accounting or auditing and does not provide any expert or special assurance as to such financial statements concerning compliance with laws, regulations or generally accepted accounting principles or as to auditor independence. The committee relies, without independent verification, on the information provided to it and on the representations made by management and the independent registered accounting firm.

The committee reviewed and discussed the audited consolidated financial statements for the fiscal year ended December 31, 2008, with management, the internal auditors and Deloitte & Touche LLP. The committee also discussed with management, the internal auditors and Deloitte & Touche LLP the process used to support certifications by the company's chief executive officer and chief financial officer that are required by the SEC and the Sarbanes Oxley Act of 2002 to accompany the company's periodic filings with the SEC and the processes used to support management's annual report on the company's internal controls over financial reporting.

The committee also discussed with Deloitte & Touche LLP matters that independent registered public accounting firms must discuss with audit committees under generally accepted auditing standards and standards of the Public Company Accounting Oversight Board (PCAOB), including, among other things, matters related to the conduct of the audit of the company's consolidated financial statements and the matters required to be discussed by Auditing Standards No. 61, as modified or supplemented (AICPA, Professional Standards, Vol. 1. AU Section 380), as adopted by the PCAOB in Rule 3200T. The committee has received the written disclosures and the letter from Deloitte & Touche LLP required by applicable requirements of the PCAOB regarding its communications with the committee concerning independence, and has discussed with Deloitte & Touche, their independence from the company. When considering Deloitte & Touche LLP's independence, the committee considered whether services it provided to the company beyond those rendered in connection with its audit of the company's consolidated financial statements, and its reviews of the company's interim condensed consolidated financial statements included in its Quarterly Reports on Form 10-Q compatible with maintaining its independence. The committee also reviewed, among other things, the audit, audit-related and tax services performed by, and the amount of fees paid for such services to Deloitte & Touche LLP. The committee received regular updates on the amount of fees and scope of audit, audit-related and tax services provided.

Based on the above-mentioned review and these meetings, discussions and reports, and subject to the limitations on the committee's role and responsibilities referred to above and in the committee's charter, the committee recommended to the board that the company's audited consolidated financial statements for the fiscal year ended December 31, 2008, be included in the company's Annual Report on Form 10-K. The committee also selected Deloitte & Touche LLP as the company's independent

registered accounting firm for the fiscal year ending December 31, 2009, and is presenting the selection to the shareholders for ratification.

Submitted by the audit committee:

William F. Bahl, Gregory T. Bier, Kenneth C. Lichtendahl (chair), Gretchen W. Price,
Douglas S. Skidmore and John F. Steele, Jr.

Fees Billed by the Independent Registered Public Accounting Firm

The audit committee engaged Deloitte & Touche LLP to perform an annual audit of the company's financial statements for the year ended December 31, 2008.

	Year Ended December 31,	
	2008	2007
Audit Fees	\$2,249,500	\$2,145,000
Audit-related Fees	255,844	212,027
Tax Fees	189,812	329,777
Deloitte & Touche LLP Total Fees	<u>\$2,695,156</u>	<u>\$2,686,804</u>

Services Provided by the Independent Registered Public Accounting Firm

All services rendered by the independent registered public accounting firm are permissible under applicable laws and regulations. In 2008 and 2007, all services rendered by the independent registered accounting firm were pre-approved by the audit committee, and no fees were charged pursuant to the de minimis safe harbor exception to the pre-approval requirement described in the audit committee charter.

Under the pre-approval policy, the audit committee pre-approves specific services related to the primary service categories of audit services, audit-related services, tax services, and other services. A "one-time" pre-approval dollar limit for specified services related to a specific primary category is established for the audit period. Examples of non-audit services specified under the policy requiring pre-approval may include: financial and tax due diligence, benefit plan audits, American Institute of Certified Public Accountants (AICPA) agreed upon procedures, security and privacy control-related assessments, technology control assessments, technology quality assurance, financial reporting control assessments, enterprise security architecture assessment, tax controversy assistance (IRS examinations), sales tax and lease compliance, employee benefit tax, tax compliance and support, tax research, corporate finance modeling assistance, and allowable actuarial reviews and assistance.

Engagements for services falling below the dollar threshold approved for specified services may be entered into with the consent of the chief financial officer. The committee must individually approve engagements for permissible services not included in the pre-approval list or that exceed the dollar threshold established for such services. All engagements are periodically reported to the audit committee. Pursuant to the rules of the SEC, the fees billed by the independent registered public accounting firm for services are disclosed in the table above.

Audit Fees – These are fees for professional services performed by the independent registered public accounting firm for the audit of the company's annual financial statements; audit of internal control over financial reporting; review of financial statements included in our Form 10-K and Form 10-Q filings; and services that are normally provided in connection with statutory and regulatory filings or engagements.

Audit-related Fees – These are fees for assurance and related services performed by the independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements. These services include employee benefit plan audits; and information systems expense reviews.

Tax Fees – These are fees for professional services performed by the independent registered public accounting firm with respect to tax compliance and preparation including review of our tax returns and related research as well as IRS audit assistance. In addition to these items, \$4,064 of the tax fees in 2008 were related to tax advice, planning or consulting for retired executives. Our independent registered public accounting firm does not perform any tax shelter work on our behalf.

COMPENSATION OF NAMED EXECUTIVE OFFICERS AND DIRECTORS

Report of the Compensation Committee

The compensation committee reviewed and discussed the Compensation Discussion and Analysis with management. Based on the review and discussions, the compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in the company's 2009 proxy statement.

Submitted by the compensation committee:

W. Rodney McMullen (chair), Gretchen W. Price and E. Anthony Woods

Compensation Committee Interlocks and Insider Participation

In 2008, Kenneth C. Lichtendahl, W. Rodney McMullen, Gretchen W. Price and E. Anthony Woods served on the compensation committee. During the 2008 fiscal year, none of the compensation committee members was an officer, employee or former officer of Cincinnati Financial Corporation.

Compensation Discussion and Analysis

The following discussion and analysis contains statements about individual and company performance targets and goals. These targets and goals are disclosed in the limited context of Cincinnati Financial Corporation's compensation programs and should not be understood to be statements of management's expectations, outlook, estimates of results or other guidance. We encourage investors to read our 2008 Annual Report on Form 10-K for more comprehensive discussion of our expectations for company performance, as well as factors we have identified as risks to our ability to achieve our overall targets.

Introduction

The compensation committee of the board of directors (committee) is responsible for determining compensation for the executive officers named in the Summary Compensation Table, Page 29 (named executive officers).

In 2008, two events occurred that affected the executive officers we are required to include in our compensation disclosure: first, a management transition that included naming a new chief executive officer; second, a redesign of our retirement benefits program that permitted associates age 40 and over to leave our defined benefit plan.

Two executive officers elected to leave the defined benefit plan, receiving a distribution of their accumulated pension benefit that made them two of our most highly compensated executives for 2008. The distribution adds to the required calculation of compensation for Summary Compensation Table, while the corresponding change in actuarial accumulated pension benefits that offset that distribution is not included in that calculation. Because this one-time event would cause a change in the reported executive officers for one year, we expanded our disclosure to also include all six executive officers that would have been disclosed absent this one-time pension plan event.

Executive Compensation Philosophy and Objectives

The U.S. property casualty insurance industry is a highly competitive marketplace with over 2,000 stock and mutual companies operating independently or in groups. We compete with these companies, as well as companies offering surplus lines and life insurance, seeking to increase our share of these multibillion-dollar markets. We market our products exclusively through independent insurance agents. We set ourselves apart from other insurance companies by maintaining an agent-centered focus and strategies that over the long term can lead to a property casualty written premium growth rate that exceeds the industry average and generate consistent underwriting profit, and by maintaining an investment philosophy that can drive investment income growth and lead to a total return on our equity investment portfolio that exceeds the Standard & Poor's 500's five-year return.

Critical to our long-term success are highly experienced, dedicated and capable executives who can manage our business day to day and who possess the vision to plan for and adjust to changes in the market. It is also important that we nurture the capabilities of our emerging leaders to ensure that we have an appropriate depth of executive talent.

The committee endeavors to ensure that overall compensation paid to our executive officers is appropriate and in line with our overall compensation objective to attract, motivate, reward and retain the executive talent required to achieve the corporate objectives described above, with the ultimate goal of increasing shareholder value. At the same time, the committee is careful to ensure that compensation paid to executives is comparable with peers, that its decisions are transparent and easily understood by all stakeholders, and that the elements of compensation employed are in keeping with compensation paid to associates at all levels of the company, allowing for differences due to level of responsibility and individual performance.

With this philosophy in mind, the committee applies certain fundamentals that are key characteristics of our overall compensation program, including:

- We employ our executive officers “at will,” without severance agreements or employment contracts;
- We use non-incentive cash compensation (salary and variable compensation, also called bonus) to provide adequate and stable compensation that can increase incrementally over time, for all of our full-time associates, including the named executive officers. We retain the flexibility to control expenses through the variable compensation component;
- We use incentive cash compensation (annual incentive bonus) sparingly and at reasonable levels to reward superior short-term performance of certain named executive officers. It also can provide the company an opportunity to increase the tax deductibility of named executive officer compensation;
- We use grants of stock options and performance-based restricted stock units to align executive officer and shareholder financial interests and focus on the long term. We structure overall compensation so that a significant portion of the named executive officer’s compensation is realized only when we achieve certain performance measures and when our stock price increases. Similarly, we use grants of stock options and service-based restricted stock units for all of our other full-time salaried associates, giving associates an opportunity to build wealth and encouraging them to make decisions in the best interest of the company as a whole by linking their personal financial success with the company’s success. We do not pay dividends or dividend equivalents on unvested stock-based awards;
- We do not reprice options, exchange options or reset performance targets for incentive compensation awards granted to any of our associates, including the named executive officers;
- We rely on long-standing, consistently and appropriately applied practices with respect to the timing and pricing of grants of stock-based compensation. When circumstances arise, such as the employment of a new executive officer, we are careful to appropriately time and price grants, if any, to such individuals;
- We consider changes in levels of compensation when responsibilities change;
- We consider competitive compensation practices and relevant factors without establishing targets for total compensation at specific benchmark percentiles;
- We use processes that include committee review of peer group and internal performance data, compensation practices and plans, and management recommendations based on evaluations of individual and company performance; and
- We do not pay tax gross-ups.

Overview of 2008 Compensation

Events and Decisions Affecting 2008 Compensation. The compensation disclosed for the named executive officers for 2008 was affected by the following events and decisions:

- Determination of base salary for 2008 made in November 2007 based on results and performance through nine months of 2007 and determinations for base salary for 2009 and variable compensation for 2008 based on results and performance through nine months of 2008. (See Base Salary and Variable Compensation, Page 21);
- Decision made in March 2008 not to pay annual incentive compensation awards earned upon achievement of performance targets set for 2007 (See Annual Incentive Bonus, Page 22);
- Grant of stock options and performance-based restricted stock units in February 2008 and November 2008 (See Long-Term Stock Based Compensation, Page 23);
- Mid-year management changes resulting in:
 - Adjustments to salaries in mid-year for certain named executive officers with increased responsibilities and
 - Adjustments to the level of variable compensation awarded to Mr. Stecher and to the base salary of Mr. Schiff in November 2008 (See Base Salary and Variable Compensation, Page 21); and
- Mid-year changes to the company's retirement benefits under which some named executive officers elected to leave the company's defined benefit plan (See Retirement Benefits, Page 26);

Changes to Compensation Performance Objectives, Plans and Practices in 2008. In 2008, the committee determined that certain changes to compensation for named executive officers and directors were appropriate. Some of these changes require shareholder approval of compensation plans and are the subject of proposals for shareholder votes at the 2009 Annual Meeting of Shareholders. Others were implemented with a view to more closely align performance objectives with company long-term goals. Key among these changes are:

- Updating objectives for performance-based restricted stock units for awards made in November 2008 and going forward to total shareholder return compared to peers from internal operating income target (See Long-Term Stock Based Compensation, Page 23);
- Elimination of stock-based compensation grants for 2009 due to grants made in November 2008 (See Long-Term Stock Based Compensation, Page 23);

We have also proposed:

- Changes for 2009 and beyond to the Annual Incentive Compensation Plan to include more flexibility in selecting performance objectives to incent particular short-term performance and introduce forfeiture and recoupment provisions (See Annual Incentive Bonus, Page 22);
- Changes for 2009 and beyond to director compensation to include reduction of cash retainer to \$25,000 from \$50,000, and restrictions on an increased level of stock issued to directors (See Director Compensation, Page 39).

Compensation Practices and Policies

Role of executive officers. Our chief executive officer makes recommendations to the committee for base salary, variable compensation and stock-based compensation. Supporting these recommendations are his assessment of each individual's performance and current compensation compared with changes in responsibilities during the year, if any, and his assessment of what the company can afford to pay based on the performance of the company in the current year. Additionally, our chief executive officer provides the committee with historical compensation data sheets for each executive officer containing all elements of compensation paid to each executive officer, and pro forma compensation disclosure tables for all executive officers, similar to those included in this proxy statement, as well as comparative performance and compensation data compiled by Equilar Inc., an independent subscription service that automates the collection of such information.

Role of committee. The committee makes the final determination of base salary, variable compensation and awards of incentive and stock-based compensation for the chief executive officer and for each of the other named executive officers. The committee takes into account the recommendations of the chief executive officer regarding the other named executive officers, compensation history data sheets for each named executive officer and peer group performance and compensation data accumulated through Equilar.

The committee meets in the fourth quarter of each calendar year to set variable compensation awards for the current year and salaries for the upcoming year. It generally meets in the first quarter of the calendar year to grant stock-based and incentive compensation awards and consider the payment of any incentive compensation earned upon satisfaction of performance goals established in the prior year's incentive compensation award grant. The committee also may meet during the year to set or adjust compensation appropriately if management changes or new officers join the company.

The committee considers its own experience with and information received from and about the named executive officers, including:

- Interactions of the board and its committees with the named executive officers. The chief executive officer and chief financial officer regularly attend board meetings and provide commentary on activities of the company as well as their areas of responsibility. Other named executive officers in operating positions make presentations to the board and otherwise have contact with board members from time to time.
- The chief executive officer's ongoing reports to the board and its committees about individual named executive officer activities and performance.
- Business results and business unit results, including reports:
 - filed with the SEC,
 - provided regularly to the board by management, including non-public financial, insurance and investment performance summaries, and
 - provided to the board on an as-needed or as-requested basis.

The committee also informally considers specific financial and operational metrics for business segments, business units and other subsets of the organization. Management monitors and provides these reports to the directors, including committee members, on an ongoing basis. This information is shared with the board and the committee through a variety of channels. For example:

- Comparisons of growth, profitability and selected other trends to averages for the entire property casualty industry or major subsets, such as our peer group or the average for the commercial or personal lines insurance segments presented in our public filings. For statutory data, we most frequently rely on data prepared by A.M. Best Co., a worldwide insurance-rating and information agency. For data based on GAAP, in 2006 we began to use information provided by SNL Financial LLC, a sector-specific information and research firm in the financial information marketplace.
- Reports from and board discussions with our planning and risk management officer regarding progress toward achievement of our corporate strategic goals.
- Reports and board discussions with executive officers responsible for broad areas of our insurance, investment and operational activities, including our named executive officers, about management's assessment of business unit and overall industry trends based on a variety of data monitored by the business units.

The committee does not have a pre-defined formula that determines which of these factors may be more or less important, and the emphasis placed on specific factors may vary among the named executive officers. Ultimately, it is the committee's judgment of these factors, in its normal deliberations and in executive session, along with competitive data and discussions with and recommendations from the chief executive officer, that form the basis for determining the compensation for the named executive officers.

Benchmarking, compensation consultants and peer groups. We believe our business philosophies and strategies differentiate our company in many positive ways, while diminishing comparability to industry peer groups. Except for establishing targets for performance-based compensation under certain incentive plans, we do not tie compensation at any level to specific benchmarks or formulas.

We believe the levels of compensation we provide should be competitively reasonable and appropriate for our business needs and circumstances. Our approach is to consider competitive compensation practices and relevant factors rather than establishing total compensation at specific benchmark percentiles. This provides us with flexibility in maintaining and enhancing our executive officers' focus, motivation and enthusiasm for our future.

While we do not compare compensation of individual named executive officers with executives carrying similar titles across a peer group, the committee informally reviews peer group performance and compensation data to gain a sense of whether we are providing generally competitive compensation for our named executive officers individually and as a group. Until 2008, the committee monitored corporate performance and compensation levels for the named executive officers of certain property casualty companies that were part of the Standard & Poor's Composite 1500 Property & Casualty Insurance Index.

Over the last several years, the number of companies in the selected peer group decreased due to merger and acquisition activity.

In November 2008, the committee expanded its peer group to include eight companies: The Chubb Corporation, The Hanover Insurance Group Inc., Harleysville Group Inc., The Hartford Financial Services Group Inc., Markel Corporation, Selective Insurance Group Inc., State Auto Financial Corporation, and The Travelers Companies Inc. (Peer Group). Not all of these companies are included in the Index.

These eight publicly traded companies were selected because they generally market their products through the same types of independent insurance agencies that represent our company and they provide both commercial lines and personal lines of insurance, as we do. We also included in the new peer group a company that historically has followed an equity investment strategy similar to ours and that offers surplus lines coverages, similar to the business we entered in 2008.

Comparative performance and compensation data reviewed by the committee suggests that the company's executive compensation is at levels consistent with its performance as compared with the Peer Group. The following table includes one-, three-, and five-year total shareholder returns as of December 31, 2008 and compensation data compiled by Equilar from the 2008 proxy statements.

Rank	Market Capitalization	One-Year Total Shareholder Return	Three-Year Total Shareholder Return	Five-Year Total Shareholder Return	Total Direct Compensation
1	Travelers	State Auto	Harleysville	Harleysville	Travelers
2	Chubb	Selective	Chubb	Chubb	Hartford
3	Hartford	Harleysville	Hanover	Hanover	Chubb
4	Cincinnati	Chubb	Selective	Selective	Selective
5	Markel	Hanover	State Auto	State Auto	Hanover
6	Hanover	Travelers	Travelers	Travelers	Markel
7	Selective	Cincinnati	Markel	Markel	Cincinnati
8	State Auto	Markel	Cincinnati	Cincinnati	Harleysville
9	Harleysville	Hartford	Hartford	Hartford	State Auto

As reported by Equilar, total direct compensation of \$7,663,942 paid to our named executive officers in 2007 was 36 percent of the average total direct compensation of \$21,467,360 paid by companies in the Peer Group to their named executive officers in the same year.

The committee does not employ compensation consultants for recommendations concerning executive compensation. Our chief executive officer annually provides the committee with peer group performance and compensation data collected by the chief financial officer from the Equilar service and publicly available proxy statements and Form 10-K filings.

Tax policies. Section 162(m) of the Internal Revenue Code limits to \$1 million per year the federal income tax deduction to public corporations for compensation paid for any fiscal year to any individual who is identified as a named executive officer as of the end of the fiscal year in accordance with the Exchange Act. This limitation does not apply to qualifying “performance-based compensation.” Our committee designed our annual incentive compensation awards (which permit the committee to exercise negative discretion to reduce or eliminate payment of awards as it did in 2008) and performance based restricted stock units to qualify for the performance-based compensation exception to the \$1 million limit. In addition, stock options are considered performance-based compensation that qualify for the exception.

The committee believes that our shareholders are best served by not restricting our committee’s discretion and flexibility in making compensation decisions, such as annual salaries, variable compensation awards, service-based restricted stock units and similar non-performance based awards, although some of these elements of compensation may from time to time result in certain non-deductible compensation expenses. Accordingly, the committee may from time to time approve compensation for certain named executive officers that are not fully deductible and reserves the right to do so in the future, in appropriate circumstances.

In 2008, portions of the non-performance based compensation paid to Messrs. Stecher, Schiff and Benoski were not tax deductible due to the value of de minimis perquisites and benefits and adjustments in base salary and variable compensation awards in line with adjustments to salaries and variable compensation awards for all of our exempt associates as a group. For information about how 2008 salaries and variable compensation awards were determined, see Components of Compensation, Base Salary and Variable Compensation, Page 21.

Employment agreements, change in control provisions and post-retirement benefits. We do not have employment agreements with any of our named executive officers, who are all at-will employees. Our long-standing corporate perspective has been that employment contracts do not provide the company with any significant advantage. We believe our corporate culture, current compensation practices and levels of stock ownership by our executive officers have resulted in stability in our current 15-member executive officer group, who average 25 years with the company.

Change in control provisions are included only in our 2006 Stock Compensation Plan, and that provision applies to all associates receiving awards under the plan, not just to executive officers. An identical change in control provision also is included in the proposed Annual Incentive Compensation Plan of 2009. The change in control provisions in these plans contain a “double trigger,” which requires both a change in control event, as defined in the plan, and termination of the associate’s employment due to the change in control within a specified time period. The double trigger ensures that we will become obligated to accelerate vesting of prior awards only if the associate is actually or constructively discharged because of the change in control event.

We occasionally provide post-retirement benefits to long-tenured, executive officer-level associates who continue to provide services to the company after retirement from their executive positions. These post-retirement benefits are intended to compensate the associate for ongoing services associated with maintaining continuity of relationships and providing guidance to their successors and other associates. We have no formal agreements with any of the current named executive officers for specific post-retirement benefits upon their future retirement. However, when a named executive officer retires, we may choose to provide him or her with modest cash compensation, office space, access to administrative support, and continuation of certain health and welfare benefits generally available to all associates in exchange for services rendered. In 2008, one associate who had previously retired from an executive position received one or more of the described benefits at a total cost to the company of approximately \$23,000. The company is paying no post-retirement benefits to Mr. Benoski following his retirement from the company’s executive management in January 2009. Mr. Benoski will be paid director fees and a pro-rated cash retainer for his service as an outside director in 2009. For information about compensation paid to outside directors, see the 2008 Director Compensation table and accompanying disclosure beginning on Page 39.

Components of Compensation

The primary components of compensation are discussed below.

Base Salary and Variable Compensation. Non-incentive cash compensation for named executive officers consists of base salary and variable compensation. Variable compensation is reported in the Summary Compensation Table in the bonus column. Amounts shown as salary in the Summary Compensation Table on Page 29 reflect adjustments to base salary made the preceding November as well as any adjustments during the calendar year. Base salary reflects the requirements and responsibilities of each officer's particular role, the performance of his current responsibilities and market conditions. Advancement in abilities, experience and responsibilities are recognized with increases in base salary. Changes to variable compensation awards reflect base salary, length of service, individual performance and company performance. While awards of variable compensation are discretionary, we normally have not considered compensation in this form "at risk." Variable compensation is a tool available to the committee and to management, through its recommendation to the committee, to control overall company compensation expense. In the last three years, increases in variable compensation declined year over year, holding flat in 2008, after increasing 5 percent and 7 percent in 2007 and 2006 respectively.

In practice, we evaluate each named executive officer's base salary and variable compensation as a unit. In 2008, non-incentive cash compensation, as a percentage of total direct compensation (defined as the sum of salary, variable compensation and annual incentive compensation paid plus grant date fair value of stock-based awards) averaged 63 percent for the named executive officers, down from 78 percent in 2007 as increases in salary and variable compensation related to mid-year management changes outpaced the value of nearly twice the historic annual level of stock-based grants as the market value of the company's stock declined over the last year.

In November 2008, the committee increased annualized non-incentive cash compensation by 16 percent over November 2007 levels for the group of eight named executive officers listed in the Summary Compensation Table on Page 29 of this proxy statement. This overall increase was due to mid-year base salary adjustments to Messrs. Stecher, Johnston, Scherer and Joseph in connection with management changes and increased responsibilities occurring at that time. Except for Mr. Schiff, whose base salary was reduced to \$250,000 from \$805,000 to reflect reduced responsibilities following mid-year management changes, in November 2008 base annual salaries for all other named executive officers were increased by 4 percent. At the same time, variable compensation for the named executive officers was held flat, except for Mr. Stecher, whose variable compensation was increased to reflect six months of performance in the office of president and chief executive officer.

Decisions about salary and variable compensation awards for the named executive officers coincided with decisions about the companywide salary and variable compensation pools. The committee established these pools based on the company's 2008 financial results at nine months and projected trends through the end of the year. The committee determined the 4 percent increase in the companywide salary pool was appropriate based on the assumption that it was competitive with general salary increases in the Cincinnati marketplace. It further determined that companywide pool for variable compensation awards not be increased considering the disruption in financial markets and the resulting reduction in the company's book value, but recognizing that excluding catastrophe losses, the company's underwriting performance as measured by the calendar year combined ratio was on par with the prior year.

In November of 2007, the committee increased non-incentive cash compensation over November 2006 levels by 4 percent to \$4,800,520 for the named executive officers listed in the summary compensation table of the company's 2008 proxy statement. Each named executive officer's salary and variable compensation award was increased by 4 percent and 5 percent respectively, coinciding with increases in the companywide salary and variable compensation pool. The committee established these pools based on the company's financial results at nine months and projected trends through the end of the year. Satisfactory efforts to maintain profitability, increase new business and sustain policyholder retention, tempered by the level of revenue and an expected reduction in book value at year-end, led the committee to establish the pool for annual salary increases at the same rate as in 2006 and to lower the rate of increase for the pool for awards of variable compensation to 5 percent in 2007 from 7 percent in 2006.

In November 2006, the committee increased the sum of base salary and variable compensation over November 2005 levels by 13 percent to \$4,599,136 for the group of five named executive officers listed in the Summary Compensation Table of the company's 2007 proxy statement. Within the group, Mr. Schiff declined increases in salary or variable compensation award for 2006, while increases to annualized cash compensation for Mr. Benoski and Mr. Stecher of 40 percent and 32 percent respectively, substantially exceeded the average for the group due to mid-year compensation adjustments for promotions and increased responsibilities.

Annual Incentive Bonus. Under the existing Incentive Compensation Plan, the five most highly compensated named executive officers also are eligible to annually receive an award of up to \$1 million in cash based on achievement of specific performance-based criteria. The compensation committee is using this plan to provide the opportunity for a reasonable reward for superior short-term performance of certain named executive officers and to provide the company an opportunity to increase the tax deductibility of such compensation.

Under the plan, an incentive cash bonus is earned when the company achieves any two of the following performance goals:

- A specified percentage increase in gross direct written premiums for the calendar year over those for the prior year (Gross direct written premium is insurance business written by our independent insurance agencies. It does not include premiums from assumed or ceded business, such as reinsurance or state pools, or premiums from annuities. The committee selected this measure of premium growth because it demonstrates the success of our agency-centered business activities);
- A specified percentage increase in operating income for the calendar year over that of the prior year. (In calculating the company's operating income, the effects of capital gains and losses and accounting changes shall not be considered nor will losses attributable to catastrophes that are assigned catastrophe numbers by the American Insurance Services Offices (now known as the Property Claim Services (PCS) unit of ISO).) (Because accounting changes and losses attributable to catastrophes are excluded from operating income as defined by the Incentive Compensation Plan, this measure differs from the "net income before realized investment gains and losses" or "operating income" measures that are provided in our quarterly earnings releases and other shareholder communications and reconciled to GAAP under Regulation G);
- Exceeding the median annual percentage increase in earnings per share for the company's peer group for the calendar year, including the effects of catastrophic losses, but excluding the effects of capital gains and losses and accounting changes. (Earnings per share as defined by the Incentive Compensation Plan is equivalent to the "net income before realized investment gains and losses before one-time items" or "operating income before one-time" measures that are provided in quarterly earnings releases and other shareholder communications and reconciled to GAAP under Regulation G).

These performance goals consider our key growth metric, property casualty insurance premiums, as well as overall performance excluding items that can distort results in the short-term, such as catastrophe losses, accounting changes and realized investment gains and losses. Exclusion of certain items like realized investment gains also eliminates the opportunity for named executive officers to make investment decisions they otherwise would not make merely to achieve payouts of awards, while exclusion of items like catastrophe losses from certain performance goal definitions focuses the named executive officers' attention on appropriate events that are within their ability to control.

Under the current plan, the target for payout is achievement of two of the three goals. The committee believes that the cyclical nature of the insurance business could result in years in which one of the goals may not be met, but the company may nevertheless produce superior performance for which it wishes to award incentive bonuses based on its achievement of the other two goals. For instance, when direct written premium growth is difficult to achieve, the company may write very profitable business and otherwise operate its business to satisfy or exceed targets for operating income and earnings per share compared with the peer group. The two out of three target permits the annual incentive compensation award to be flexible and incent the named executive officer throughout all phases of the market cycle.

At the same time, requiring achievement of two-of-three performance goal helps ensure that the individual named executive officer is not encouraged to expose the company to excessive risk in one area of performance to achieve an incentive bonus payout without regard to counterbalancing performance objectives.

The level of award determined for incentive compensation grants under the plan is the maximum amount the committee may choose to pay if the two-of-three target is achieved. Historically, these maximum award levels have been less than the named executive officer's salary. These comparatively low levels of awards also reduce the incentive for excessive risk taking, while providing an opportunity for a meaningful compensation for achievement of short-term performance goals.

Payout of awards is a two-step process. No payment may be authorized if the target is not achieved. If the target is achieved, the committee considers whether it will exercise its discretion to reduce the amount of or eliminate the award for any named executive officer in light of factors the committee deems appropriate, including each officer's individual performance. Incentive bonuses under the plan are paid as soon as practical after payment of the award is authorized by the committee.

In March 2008, the committee measured the company's 2007 performance against the plan target for awards granted in March 2007. The level of awards granted by the committee in March 2007 was \$400,000 for Mr. Schiff, \$300,000 for Mr. Benoski, \$150,000 for Mr. Stecher and \$100,000 for Mr. Scherer. Under the terms of the plan, which limited participation to the chief executive officer and the four next highly compensated named executive officers as reported in the prior year's proxy statement, Mr. Joseph was ineligible for an award under the plan in 2007. The company did achieve the performance target established for 2007 incentive compensation awards by achieving a 2.9 percent increase adjusted operating income against a goal of 1.5 percent, and achieving adjusted earnings per share increase of 25.5 percent against the peer group median increase of 13.7 percent. The company did not achieve the performance goal of increasing 2007 gross direct written premiums by 1.5 percent. Although the performance target for 2007 annual incentive compensation awards was achieved, the committee nevertheless exercised its negative discretion and reduced each of the awards to zero, determining that compensation already paid to these four named executive officers was appropriate in light of the individual performance of each and the overall performance of the company.

In March 2008, the committee made grants under the Incentive Compensation Plan to be earned upon achievement of the performance target established for 2008. Award levels were established at \$400,000 for Mr. Schiff, \$300,000 for Mr. Benoski, \$150,000 for Mr. Stecher and \$100,000 each for Mr. Scherer and Mr. Joseph. In setting the variable performance targets and amounts for the grants, the committee considered the current salary and projected level of variable compensation for 2008 of each eligible named executive officer, industry trends and internal company projections for premium growth and profitability. The company did not achieve the performance target established by the committee as the company's adjusted gross written premiums declined 2.3 percent, exceeding the targeted decline of less than 1.5 percent and adjusted operating income declined 24.1 percent, exceeding the targeted decline of less than 14 percent. Although not all information is yet available to determine whether the company's earnings per share increase exceeded the median earnings per share increase of the peer group, because two of the performance targets were not achieved, the awards were not earned.

In the first quarter of 2009, the committee intends to consider annual incentive compensation awards to eligible named executive officers using one or more of the performance objectives available under the amended and restated annual incentive compensation plan, subject to shareholder approval at the 2009 Annual Meeting of Shareholders. In keeping with its past practice, the committee intends to continue to disclose performance targets in awards granted under the new plan. Primary differences between the existing plan and the new plan are the addition of a wider range of performance objectives intended to focus the attention of named executive officers on short term tactical actions believed to be important for achievement of longer term strategic goals, and the addition of a forfeiture and recoupment provision to enable the company to recover payments under this plan when circumstances warrant.

Long-Term Stock-Based Compensation. We believe people tend to value and protect most that which they have paid for, generally by investing their time, effort or personal funds. Over the long run, we believe shareholders are better served when associates at all levels have a significant component of their financial net worth invested in the company. For that reason, we grant awards of stock-based compensation not only to our directors and to named executive officers, but also generally to all

full-time exempt associates of the company. We believe this approach encourages associates at all levels to make decisions in the best interest of the company as a whole, linking their personal financial success with the organization's success. Although we do not have access to information about broker accounts, we estimate that approximately 90 percent of our current associates hold shares of Cincinnati Financial Corporation. Stock ownership guidelines applicable to all directors and officers will help the committee monitor ownership for all directors and officers. Our Director and Officer Stock Ownership Guidelines may be found at www.cinfin.com/Investors.

We award stock-based compensation not only to reward service to the company, but also to provide incentive for individuals to remain in the employ of the company and help it prosper. Over the last three years, the grant date fair value of stock-based compensation has ranged from approximately 15 percent to 45 percent of the total amount of compensation set by the committee each year for named executive officers (salary, variable compensation awards, incentive cash bonus, and stock-based awards).

Until 2007, incentive stock-based awards were entirely in the form of stock options that vested in equal amounts over the three years following the date of grant, supporting the company's long-term focus. Beginning in 2007, awards of performance-based restricted stock units that cliff vest after three years if performance targets are achieved were added to the mix of equity awards granted to the named executive officers. Stock-based awards granted to all associates in any year generally total less than 1.5 percent of total shares outstanding. In 2008, total stock-based awards granted to the eight named executive officers represented approximately 14.2 percent of all equity grants awarded that year and less than 0.2 percent of total shares outstanding.

Performance-based restricted stock units tie vesting of a portion of stock-based compensation to performance goals and support the committee's efforts to maximize the company's federal income tax deduction for executive compensation. Stock options tie the compensation realized from such awards, if any, to changes in the stock price experienced by shareholders generally.

The three-year performance period for awards of restricted stock units reinforces the company's long-term focus and matches the period after which stock option awards are fully vested and exercisable. If the restricted stock units vest, the award is paid in shares of common stock, one share for each restricted stock unit. For performance-based restricted stock units, the committee expects to set targets that it considers are achievable, but that will require a slight stretch, based on market conditions and the current insurance industry environment at the time of grant.

Historically, the committee made decisions about stock-based compensation based on the number of shares underlying the award, which remained constant year over year, rather than the cost of the awards in any given year. See the discussion under Stock-Based Award Grant Practices beginning on Page 26. With the introduction of the restricted stock units in 2007, the number of stock options awarded was reduced to accommodate awards of restricted stock units. In determining the allocation of 2007 stock-based compensation between stock options and restricted stock units, the committee emphasized the following objectives:

- Keep the overall cost to the company of stock-based compensation in line with the cost of stock-based compensation comprised only of stock options,
- Continue to emphasize stock options that require associates to make a personal investment upon exercise, and
- Award a sufficient number of restricted stock units that upon vesting will strengthen the associate's ability to collateralize loans to exercise stock options and ability to satisfy applicable stock ownership guidelines.

The committee made grants of stock-based awards in 2008. At its meeting on January 30, 2008, it granted incentive stock options and service-based restricted stock units to all associates except executive officers and certain other senior officers included in the group designated to receive performance-based restricted stock units. Grants to that group, which included the named executive officers, was deferred as the committee studied peer group and industry data to develop appropriate performance targets and goals. At its meeting on February 18, 2008, the committee granted stock-based awards in the form of both stock options and restricted stock units to that group, including the named executive officers as follows: 30,000 nonqualified stock options and target levels of 7,900 performance-based restricted stock

units each to Messrs. Schiff and Benoski and 8,000 nonqualified stock options and target levels of 2,400 performance-based restricted stock units each to Messrs. Stecher, Joseph, Scherer, Timmel and Popplewell.

Performance-based restricted stock units granted in February 2008 will vest according to the amount of operating income achieved over the three calendar years ending December 31, 2010. Threshold, target and maximum aggregate three-year performance targets of 285 percent, 300 percent and 315 percent of 2007 operating income were established for threshold, target and maximum awards of 6,320, 7,900 and 9,480 shares respectively for Messrs. Schiff and Benoski and 1,920, 2,400 and 2,880 shares respectively for Messrs. Stecher, Joseph, Scherer, Timmel and Popplewell. As with the 2007 performance-based restricted stock unit awards described below, the committee used the definition for operating income set forth in the Incentive Compensation Plan, but amended that definition to include an annual cap of 2.5 percent for the contribution of favorable development on prior period reserves to address the atypically high level of favorable development in 2007.

At its meeting on June 14, 2008, the committee approved awards of 8,000 nonqualified stock options and 2,400 performance-based restricted stock units for Mr. Johnston with a grant date of July 1, 2008, to coincide with the start of his employment as the company's new chief financial officer.

The performance-based restricted stock units were granted with the same terms and performance objectives as described above for grants made in February 2008.

At its meeting on November 14, 2008, the committee granted stock-based awards in the forms of stock options and restricted stock units to all associates, including awards to the named executive officers as follows: 30,000 nonqualified stock options and target levels of 7,900 performance-based restricted stock units each to Messrs. Stecher, Schiff and Benoski and 8,000 nonqualified stock options and target levels of 2,400 performance based restricted stock units each for Messrs. Johnston, Scherer, Joseph, Timmel and Popplewell. The committee decided to accelerate stock-based compensation otherwise planned for January 2009 to tie them to management changes that occurred in the middle of the year.

The performance-based restricted stock units granted in November 2008 will vest according to the level of total shareholder return achieved over the three calendar years ending December 31, 2011. Threshold, target and maximum aggregate three-year performance targets at the 25th, 50th and 75th percentiles of the peer group's total shareholder return were established for threshold, target and maximum awards of 5,925, 7,900 and 9,875 shares respectively for Messrs. Stecher, Schiff and Benoski and 1,800, 2,400 and 3,000 shares respectively for Messrs. Johnston, Scherer, Joseph, Timmel and Popplewell. The committee changed performance objectives for the November grants to three-year total shareholder return conditioning payout on overall company performance compared with the peer group and further aligning the interests of the performance group with the long-term interests of shareholders. See 2008 Grant of Plan-Based Awards, Page 31, for details about these awards.

At its meeting on January 31, 2007, based on recommendations made by the chief executive officer and the chief financial officer, the committee granted both stock options and restricted stock units to the named executive officers as follows: 25,000 nonqualified stock options and 6,100 performance-based restricted stock units each to Messrs. Schiff and Benoski and 7,500 nonqualified stock options and 1,850 performance-based restricted stock units each to Messrs. Stecher, Joseph, Scherer, Timmel and Popplewell.

Under the terms of the 2007 awards of performance-based restricted stock units, the named executive officers' restricted stock units will vest on March 1, 2010, if the sum of "operating income" for the three calendar years ending December 31, 2007, through December 31, 2009, equals or exceeds 315 percent of operating income for 2006. For these performance-based restricted stock unit awards, the definition of operating income is the same as the definition of operating income in the Incentive Compensation Plan discussed above.

Additionally, named executive officers are eligible to receive stock bonuses under the company's broad-based Holiday Stock Bonus Plan, which annually awards one share of common stock to each full-time associate for each year of service up to a maximum of 10 shares. This plan, in effect since 1976, encourages stock ownership at all levels of the company.

Stock-Based Award Grant Practices. In awarding stock options and other forms of stock-based compensation, the committee follows certain general precepts:

- ***Timing.*** The committee has historically granted stock-based compensation awards at approximately the same date every year, at its first regularly scheduled meeting of the calendar year. This meeting is scheduled to occur within the two weeks preceding the first meeting of the board of directors that occurs in the last week of January or first week of February each year. Although this schedule has led to stock-based grants during the period immediately before the announcement of year-end results, the committee believes the consistency of this practice eliminates concerns over the timing. When grants are made at any other time of the year, the committee ensures that such grants are granted outside of any regular trading blackout associated with the company's disclosure of financial results and when the company is not otherwise in possession of material nonpublic information.
- ***Option Exercise Price.*** All stock-based compensation is granted at fair market value on the date of grant. For stock-based awards in 2007 and 2008 under the 2006 Stock Compensation Plan and Stock Option Plan VII, fair market value is defined as the average of the high and low sale price on NASDAQ on the grant date. For stock options granted before 2007 under Stock Option Plan VII and earlier plans, the fair market value is defined as the closing price on NASDAQ on the business day prior to the grant date. Unless a future date is specified, the grant date is the date of the committee meeting at which the grant is made. Fair market value for awards under the 2003 Director Stock Plan and the Holiday Stock Bonus Plan is the average of the high and low sale price on NASDAQ on the grant date. The committee does not delegate timing or pricing of stock-based awards to management.
- ***Procedure.*** The chief executive officer recommends tiers of stock-based awards for each level of responsibility throughout the organization, based on job titles. Managers participate in the stock-based award process by confirming which full-time associates at each level they believe should be eligible for a stock-based award. The number of shares may be adjusted for individuals or groups after committee deliberations and ultimately is determined and granted by the committee. The committee does not delegate authority to management to grant stock options or other stock-based awards.

Retirement Benefits. In 2008, the company transitioned away from providing associates with a defined benefit pension plan, instead choosing to assist associates to build savings for retirement by providing a company match of associate contributions to a tax qualified 401(k) plan. This change was primarily in response to feedback from associates who wanted control over their retirement benefit accounts. Participation in the defined benefit pension plan terminated for associates under the age of 40, and they transitioned to the new tax qualified 401(k) plan with a company matching contribution. None of the named executive officers is under age 40. Associates age 40 and over as of August 31, 2008 were given a one-time election to remain in the defined benefit pension plan or to leave the plan and participate in the 401(k) plan with a company match. Those associates leaving the pension plan received distributions of their accumulated pension benefit from the defined benefit plan that they could choose to receive in cash, roll over to the company's 401(k) plan or roll-over to an Individual Retirement Account. Mr. Timmel and Mr. Popplewell elected to leave the pension plan, roll-over their accumulated benefit to Individual Retirement Accounts and participate in the 401(k) with the company match on a going forward basis. Mr. Johnston, hired after entry to the pension plan was closed, also participates in the 401(k) plan with the company match. All other named executive officers elected to remain in the pension plan.

Tax-qualified defined benefit pension plan. The Cincinnati Financial Corporation Retirement Plan (Retirement Plan) is a tax-qualified defined benefit pension plan available to all full-time associates ages 40 and over on August 31, 2008 who elected to remain in the plan effective September 1, 2008. The Retirement Plan is closed to new participants. Members of the Retirement Plan earn one year of service for each calendar year in which they work at least 1,000 hours. Members also earn service for time that they are paid, or entitled to be paid, but do not actually work. These times include vacation, holidays, illness and military duty and some periods of disability. The maximum amount of service that may be earned under the Retirement Plan is 40 years. Vesting is 100 percent after five years of service, and there are no deductions for Social Security or other offset amounts.

The Retirement Plan defines earnings for any given plan year as the base rate of salary in effect on the last day of the plan year, subject to the maximum recognizable compensation under Section 401(a)(17) of the Internal Revenue Code. Bonuses, stock-based awards and other forms of compensation do not contribute to earnings under the Retirement Plan.

Normal retirement age as defined in the Retirement Plan is age 65. The normal retirement pension is computed as a single life annuity. The annual benefit payment is the greater of the following two calculated amounts:

The first calculated amount is the sum of:

1. 0.45 percent per year of the member's highest five-year average earnings for the first 15 years of service, plus
2. 1.35 percent per year of the member's highest five-year average earnings up to \$35,000 for the first 15 years of service, plus the sum of:
 - a. 0.6 percent per year of the member's highest five-year average earnings for years 16 through 40 plus
 - b. 1.8 percent of the member's highest five-year average earnings up to \$35,000 for years 16 through 40.

The second calculated amount is the sum of:

1. 0.9 percent per year of the member's highest five-year average earnings for the first 15 years of service plus
2. 1.2 percent per year of the member's highest five-year average earnings for years 16 through 40.

The normal form of benefit payment under the terms of the Retirement Plan is a single life annuity for unmarried members and a joint and 50 percent survivor annuity for married members. The plan permits members to elect to receive payment of benefits in the following forms:

- Single life only
- Single life only with 60-month or 120-month guarantee
- Joint and 50 percent contingent annuitant
- Joint and 66.67 percent contingent annuitant
- Joint and 100 percent contingent annuitant
- Lump sum

Alternative forms of benefit payment are offered to provide plan members some flexibility in retirement income and estate planning by giving them the option of electing monthly benefits with or without a survivor's benefit. Generally, the single life annuity alternative provides the largest monthly benefit, but does not provide a survivor's benefit. All other payment forms are the actuarial equivalent of the single life annuity alternative. Alternatives other than the single life annuity provide slightly lower monthly benefits to the plan member, depending on such factors as presence of survivor's benefit, the member's age and any contingent annuitant's age. The lump sum payment permits plan members to roll the present value of their benefit into an Individual Retirement Account and defer income taxes until the member withdraws funds from that account.

Supplemental Retirement Plan. The second retirement plan in which some named executive officers participate is The Cincinnati Financial Corporation Supplemental Retirement Plan (SERP). The SERP is unfunded and subject to forfeiture in the event of bankruptcy.

The SERP is a non-tax-qualified plan maintained by the company to pay eligible associates the difference between the amount payable under the tax-qualified plan and the amount they would have received without the tax-qualified plan's limit due to Section 401(a)(17) and Section 415 of the Internal Revenue Code. Accordingly, the SERP definitions for service, normal retirement and annual earnings are the same as those for the Retirement Plan except the SERP's definition of annual earnings is not limited, and there is no limit on number of years of service.

The SERP is integrated with Social Security. The integration level is equal to the average of the integration levels for the period of the member's employment, using wages paid, with a maximum of \$6,000 for years beginning before 1976 and wages subject to Social Security tax for all years after 1976.

The pension benefit under the SERP is payable only in the form of a single lump sum. The normal retirement pension benefit for current members of the SERP is the sum of 0.75 percent of the member's highest five-year average annual earnings below the integration level plus 1.25 percent of the member's highest five-year average annual earnings in excess of the integration level, multiplied by the number of years of service, minus the pension benefit payable from the Retirement Plan.

All of the named executive officers who participate in the SERP were members of the SERP on or before January 1, 2006. For members added to the SERP on or after December 1, 2006, the normal retirement benefit under the SERP will be equal to the excess of the member's monthly benefit under the Retirement Plan as of the member's retirement date, without regard to the limit on earnings under Section 401(a)(17) of the Internal Revenue Code and without regard to any limit on benefits under Section 415 of the Internal Revenue Code over the member's monthly benefit payable under the Retirement Plan as of the member's retirement date. Participation in the SERP terminated for Messrs. Timmel and Popplewell on December 31, 2008. Amounts equivalent to the calculated accrued benefit under the SERP will be transferred in early 2009 to their respective Top Hat Savings Plan accounts where they may allocate investment of these amounts among the investment alternatives approved for that plan.

Both retirement plans permit early retirement between age 60 and age 65, provided the member has at least five years of service. Benefits for early retirement are calculated by adjusting for life expectancy and reducing the benefit payable at age 65 by 0.5 percent per month for each month prior to age 65 that the member elects to begin receiving pension benefits. For example, if a member elects to retire at age 60, he would receive 70 percent (60 months X 0.5 percent = 30 percent reduction) of the life-expectancy adjusted benefit payable at age 65.

Actuarial work related to both the Retirement Plan and SERP is performed by Towers Perrin, which provides human resource strategy, design and management; actuarial and management consulting to the financial services industry; and reinsurance intermediary services. The committee engaged Towers Perrin to provide actuarial and consultative services related to the design of the company's retirement and employee benefit plans. Towers Perrin also brokers our property casualty and certain working reinsurance treaties, and we have used Towers Perrin for various projects, including access to catastrophe loss modeling.

Members of the SERP are added to the plan by the committee, acting upon the recommendation of the chief executive officer. Messrs. Stecher, Scherer, and Joseph were added to the SERP effective January 1, 2006, because the benefits they could receive under the Retirement Plan were limited by the application of Section 401(a) and Section 415 of the Internal Revenue Code.

Defined contribution plans. The company sponsors a tax qualified 401(k) savings plan for all associates as well as the Cincinnati Financial Corporation Top Hat Savings Plan, a deferred compensation plan for certain highly compensated associates. The company made no cash contributions to the 401(k) or Top Hat plans until September 2008. In connection with retirement benefit plan changes effective September 1, 2008, the company began to match contributions to the 401(k) plan made by associates who were not members of the Retirement Plan, up to a maximum of 6 percent of the associate's annual cash compensation (salary and variable compensation award). Participants in the Top Hat savings plan do not receive a matching contribution from the company unless their compensation level exceeds the maximum recognizable compensation under Section 401(a)(17) of the Internal Revenue Code, which for 2008 was \$235,000. To provide the same 6 percent matching contribution benefit to associates at all levels of the company, beginning in 2009 the company is matching associate contributions to the Top Hat Savings Plan up to a maximum under both plans of 6 percent of the officer's annual cash compensation including those officers who reached the maximum contribution allowable in the tax qualified 401(k) plan because of their level of compensation. Contributions made by associates immediately vest, while company matching contributions vest with three years of service.

Perquisites and Other Personal Benefits. Perquisites and other personal benefits are intended to support our corporate objectives or the performance of an individual's responsibilities. The perquisites and personal benefits offered to the named executive officers, and generally to all of the company's officers, consist of personal umbrella liability insurance coverage, life insurance, executive tax services, use of a company car, safe driver award, executive health exams, club dues and spouse travel to and meals associated with certain business functions. Management is responsible for administering these programs. From time to time, the committee reviews these programs and may recommend changes or additions. The committee reviews the types and level of perquisites offered but does not control directly the actual amounts of named executive officer compensation paid pursuant to these programs.

The committee believes that the level of perquisites and personal benefits we offer our officers is de minimis (totaling no more than \$12,924 for any named executive officer in 2008). Because the level of perquisites is low and each perquisite has business value, the committee does not consider them when monitoring total compensation levels.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$ (1))	Option Awards (\$ (2))	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$ (3))	All Other Compensation (\$)	Total Compensation (\$)
Kenneth W. Stecher Chief Executive Officer and President Cincinnati Financial Corporation	2008	\$657,730	\$426,060	\$ 7,818	\$ 232,912		\$ 317,889	\$ 9,280 (4)	\$ 1,651,689
	2007	553,963	352,119	75,692	80,988		352,143	9,908	1,424,813
	2006	445,842	335,351	452	430,095		914,825	9,649	2,136,214
John J. Schiff, Jr. Chairman of the Board and former Chief Executive Officer Cincinnati Financial Corporation	2008	762,308	447,037	7,818	634,169		215,294	6,218 (4)	2,072,844
	2007	777,308	447,037	74,266	554,382		262,699	5,219	2,120,911
	2006	775,000	425,750	452	666,042		340,695	6,070	2,214,009
Steven J. Johnston Chief Financial Officer Cincinnati Financial Corporation	2008	193,539	175,000	2,291	7,737			11,437 (4)(7)	390,004
James E. Benoski Vice Chairman of the Board and former President Cincinnati Financial Corporation	2008	685,237	479,154	7,818	408,861		271,903	8,214 (4)	1,861,187
	2007	658,882	479,154	248,674	269,872		320,303	9,568	1,986,453
	2006	500,709	456,337	452	1,373,420		147,682	7,873	2,486,473
Jacob F. Scherer, Jr. Executive Vice President The Cincinnati Insurance Company	2008	442,626	380,632	(19,804)	113,342		122,145	14,137 (5)	1,053,078
	2007	411,090	380,632	22,770	175,085		139,082	14,263	1,142,922
	2006	367,843	362,507	452	208,542		415,387	14,565	1,369,296
Thomas A. Joseph President The Cincinnati Casualty Company and Senior Vice President The Cincinnati Insurance Company	2008	404,192	274,991	(19,804)	113,342		114,625	8,288 (4)	895,634
	2007	364,459	274,991	22,770	175,085		139,437	12,111	988,853
	2006	323,105	261,896	452	208,542		459,641	12,742	1,266,378
Timothy L. Timmel Senior Vice President The Cincinnati Insurance Company	2008	379,196	148,827	2,563	109,026			976,675 (4)(6)(7)	1,616,287
David H. Popplewell President and Chief Operating Officer The Cincinnati Life Insurance Company	2008	349,919	210,006	2,563	111,855			311,560 (4)(6)(7)	985,903

- (1) Amounts shown in this column reflect amounts expensed during the year for stock awards under the Holiday Stock Bonus Plan and restricted stock units under the 2006 Stock Compensation Plan. Awards under the Holiday Stock Bonus Plan are valued at full market value, determined by the average of the high and low sales price on NASDAQ on the date of grant, multiplied by the number of shares. The per share fair market values were \$27.18, \$40.39 and \$45.24 for the grant dates of November 26, 2008, November 21, 2007, and November 22, 2006, respectively. There are no awards of restricted stock units in 2006. Assumptions used in the valuation of restricted stock units are disclosed in our 2008 Annual Report on Form 10-K, Part II, Item 8, Note 17, Page 117. There are no forfeitures of stock or restricted stock unit awards in 2008, 2007 or 2006.
- (2) Assumptions used in the valuation of option awards are disclosed in our 2008 Annual report on Form 10-K, Part II, Item 8, Note 17, Page 117. There were no forfeitures of option awards in 2008, 2007 or 2006. Option awards were canceled in 2008 due to expiration of the unexercised grant as follows: 6,007 for Mr. Stecher; 126,788 for Mr. Schiff; 27,563 each for Messrs. Scherer, Timmel and Popplewell; and 3,308 for Mr. Joseph.
- (3) No preferential earnings were paid on deferred compensation in 2008. Amounts in this column reflect changes in values of actuarially calculated accumulated benefit in the company's Retirement Plan and SERP as follows:
 - For Mr. Stecher, an increase of \$1,616 for Retirement Plan and an increase of \$316,273 for SERP
 - For Mr. Schiff, an increase of \$51,771 for Retirement Plan and an increase of \$163,523 for SERP
 - For Mr. Benoski, an increase of \$101,117 for Retirement Plan and an increase of \$170,786 for SERP
 - For Mr. Scherer, an increase of \$34,034 for Retirement Plan and an increase of \$88,111 for SERP
 - For Mr. Joseph, an increase of \$34,346 for Retirement Plan and an increase of \$80,279 for SERP
 - For Mr. Timmel, a decrease of \$1,100,132 for Retirement Plan and an increase of \$25,543 for SERP
 - For Mr. Popplewell, a decrease of \$272,965 for Retirement Plan and an increase of \$22,744 for SERP.Messrs. Timmel and Popplewell ceased participation in the Retirement Plan effective August 31, 2008, and ceased accumulating benefit under the SERP effective December 31, 2008.
- (4) Includes perquisites in an aggregate amount less than \$10,000 for one or more of the types described in Perquisites and Other Personal Benefits, Page 29.
- (5) Includes \$4,590 for expenses associated with spouse travel to business events that provide opportunities for company representatives and agents to interact; \$3,773 annual business club dues; \$2,735 for personal use of company car; premiums paid for officer life and personal umbrella insurance policies; executive health examination; and a safe driver award.
- (6) Includes the present value of accumulated pension benefit obligation distributed and rolled over to personal IRAs in connection with termination of participation in the company's defined benefit plan in the amounts of \$963,153 for Mr. Timmel and \$296,298 for Mr. Popplewell.
- (7) Includes matching contributions to the company's 401(k) plan in the amounts of \$9,837 for Mr. Johnston; \$4,906 for Mr. Timmel; and \$7,334 for Mr. Popplewell.

2008 Grant of Plan-Based Awards (1)

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards	Estimated Possible Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Share of Stock or Units (2)	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards (3)	Grant date fair value of stock and option awards (4)				
			Threshold (#)	Target (#)	Maximum (#)					Target (\$)	Maximum (\$)		
Kenneth W. Stecher	2/18/2008*	\$ 150,000	1,920	2,400	2,880	10	8,000	\$ 37.59	\$ 63,966				
	2/18/2008**												90,216
	3/25/2008***												
	11/14/2008**										30,000	26.59	168,936
	11/14/2008**							5,925	7,900	9,875			210,061
11/26/2008****								272					
John J. Schiff, Jr.	2/18/2008*	\$ 400,000	6,320	7,900	9,480	10	30,000	37.59	239,871				
	2/18/2008**												296,961
	3/25/2008***												
	11/14/2008**										30,000	26.59	168,936
	11/14/2008**							5,925	7,900	9,875			210,061
11/26/2008****								272					
Steven J. Johnston	7/1/2008*		1,920	2,400	2,880		8,000	25.08	34,401				
	7/1/2008**												60,192
	11/14/2008**										8,000	26.59	45,050
	11/14/2008**							1,800	2,400	3,000			63,816
James E. Benoski	2/18/2008*	\$ 300,000	6,320	7,900	9,480	10	30,000	37.59	239,871				
	2/18/2008**												296,961
	3/25/2008***												
	11/14/2008**										30,000	26.59	168,936
	11/14/2008**							5,925	7,900	9,875			210,061
11/26/2008****								272					
Jacob F. Scherer, Jr.	2/18/2008*	\$ 100,000	1,920	2,400	2,880	10	8,000	37.59	63,966				
	2/18/2008**												90,216
	3/25/2008***												
	11/14/2008**										8,000	26.59	45,050
	11/14/2008**							1,800	2,400	3,000			63,816
11/26/2008****								272					
Thomas A. Joseph	2/18/2008*	\$ 100,000	1,920	2,400	2,880	10	8,000	37.59	63,966				
	2/18/2008**												90,216
	3/25/2008***												
	11/14/2008**										8,000	26.59	45,050
	11/14/2008**							1,800	2,400	3,000			63,816
11/26/2008****								272					
Timothy L. Timmel	2/18/2008*		1,920	2,400	2,880	10	8,000	37.59	63,966				
	2/18/2008**												90,216
	11/14/2008**										8,000	26.59	45,050
	11/14/2008**							1,800	2,400	3,000			63,816
	11/26/2008****												
David H. Popplewell	2/18/2008*		1,920	2,400	2,880	10	8,000	37.59	63,966				
	2/18/2008**												90,216
	11/14/2008**										8,000	26.59	45,050
	11/14/2008**							1,800	2,400	3,000			63,816
	11/26/2008****												

* Cincinnati Financial Corporation Stock Option Plan No. VII

** Cincinnati Financial Corporation 2006 Stock Compensation Plan.

*** Cincinnati Financial Corporation 2006 Incentive Compensation Plan.

**** Holiday Stock Bonus Plan. See Long-Term Stock-Based Compensation, Page 23, for information about awards of shares under the Holiday Stock Bonus Plan.

(1) No material modifications or repricing occurred with respect to any outstanding option or other stock-based award in 2008.

- (2) The grant date fair value of shares awarded under the Holiday Stock Bonus Plan is 100 percent of the average of the high and low sales price on NASDAQ on the date of grant, which was \$27.18 on November 26, 2008.
- (3) The option exercise price is 100 percent of the average of the high and low sales price on NASDAQ on the date of grant, which was \$37.59, \$25.08 and \$26.59 for the grant dates of February 18, 2008, July 1, 2008 and November 14, 2008 respectively.
- (4) The grant date fair value of a performance-based restricted stock unit is 100 percent of the average of the high and low as reported on NASDAQ on the date of grant, which was \$37.59, \$25.08 and \$26.59 for the grant dates of February 18, 2008, July 1, 2008 and November 14, 2008 respectively, unadjusted for the present value of future dividends that holders of restricted stock units do not receive during the vesting period.

Total 2008 compensation, excluding attributions of compensation related to retirement plans, declined from 2007 levels for each named executive officer except Mr. Stecher and Mr. Johnston. Mr. Stecher's base salary, variable compensation and stock-based compensation grants were all increased with his promotion to president and chief executive officer. Mr. Johnston's employment with the company began June 30, 2008. The year-over-year decline in compensation unrelated to retirement plans for all of the other named executive officers was due largely to the lower per share grant date fair value of stock-based compensation compared to 2007 as the number of shares underlying their awards remained constant. For all of the named executive officers, reported values of stock awards in 2008 declined as compensation expense for most awards of performance-based restricted stock units granted in previous periods was reversed in the fourth quarter 2008 when management determined that achievement of the performance-based targets was no longer probable. Expensing of 2007 grants of performance-based restricted stock units granted to Messrs. Stecher, Schiff, Benoski, Timmel and Popplewell were not reversed as awards to these retirement-eligible named executive officers could vest and be paid out if they retire before the end of the performance period. Because Messrs. Scherer and Joseph are not retirement eligible, amounts reported for stock awards is a negative number as the reversal of compensation expense related to all grants of performance-based restricted stock unit awards prior to November 2008 more than offset the value of the November 2008 performance-based restricted stock units and 10 holiday shares awarded. Total 2007 compensation for each named executive officer was lower compared to 2006 because of the difference in the expense and composition of stock-based awards made in those years. In addition, total compensation in 2006 included attributions of compensation from expensing of all outstanding stock options for Messrs. Benoski and Stecher and attributions of compensation for all accrued benefits under the SERP for Messrs. Stecher, Joseph and Scherer.

Total compensation disclosed in the Summary Compensation Table does not reflect compensation actually received by the named executive officer or decisions made by the compensation committee for any individual named executive officer for any given year. For example, amounts shown for stock awards and option awards reflect the amount expensed by the company in that year, not an amount received or realized by the named executive officer. Similarly, amounts shown for changes in pension value generally reflect changes in the actuarial present value of benefits under retirement to be distributed in the future. Amounts shown in the Summary Compensation Table for salary, bonus and total compensation include amounts the named executive officer chose not to receive currently, but to save for retirement under the Top Hat Savings Plan. See 2008 Nonqualified Deferred Compensation Plan, Page 37.

Because annual adjustments to base salary are effective the first pay period in December, amounts reflected in the Salary column do not exactly match the base annual salaries set by the committee for the following year.

- In November 2008, the committee set 2009 base annual salaries at \$780,000 for Mr. Stecher, \$250,000 for Mr. Schiff, \$710,460 for Mr. Benoski, \$416,000 for Mr. Johnston, \$474,472 for Mr. Scherer, \$445,000 for Mr. Joseph, \$393,158 for Mr. Timmel, and \$362,795 for Mr. Popplewell. Mr. Benoski retired from executive management of the company effective January 19, 2009 and no longer receives a salary.
- In July 2008, in connection with management changes made mid-year, the committee set 2008 base annual salary at \$400,000 for Mr. Johnston; and adjusted 2008 base annual salaries to \$750,000 for Mr. Stecher; \$456,222 for Mr. Scherer; and \$427,875 for Mr. Joseph.
- In November 2007, the committee set 2008 base annual salaries at \$574,355 for Mr. Stecher; \$805,000 for Mr. Schiff; \$683,135 for Mr. Benoski; \$426,222 for Mr. Scherer; \$377,875 for Mr. Joseph; \$378,033 for Mr. Timmel and \$348,841 for Mr. Popplewell.

- In November 2006, the committee set 2007 base annual salaries of \$552,264 for Mr. Stecher; \$775,000 for Mr. Schiff; \$656,681 for Mr. Benoski; \$409,829 for Mr. Scherer and \$363,341 for Mr. Joseph. Mr. Schiff declined increases in his salary or variable compensation award in November 2006.
- In May 2006, in connection with changes in executive responsibilities, the committee adjusted base annual salaries to \$529,363 for Mr. Benoski and \$457,805 for Mr. Stecher.
- In November of 2005, the committee set 2006 base annual salaries of \$407,807 for Mr. Stecher; \$775,000 for Mr. Schiff; \$429,363 for Mr. Benoski; \$364,344 for Mr. Scherer and \$319,752 for Mr. Joseph.

See Base Salary and Variable Compensation, Page 21.

The terms of all of the stock option awards granted in 2008 and prior years and performance-based restricted stock units granted in January 2007 provide for immediate vesting upon retirement at normal retirement age or retirement with 35 years of service. Because Messrs. Stecher, Schiff, Benoski, and Timmel satisfy one or both of these age and service conditions, Statement of Financial Accounting Standards (SFAS) No. 123(R) requires us to expense the full amount of these awards in the year of grant or any unvested portion of such awards the year in which the named executive officer becomes retirement eligible. Accordingly, amounts shown in the Option Awards column of the Summary Compensation Table for 2008 for Messrs. Stecher, Schiff, Benoski, and Timmel reflect the full SFAS 123(R) value of stock options granted in 2008 as well as attribution of SFAS 123(R) compensation from unvested portions of stock options awarded in prior years. Amounts shown in the Stock Awards and Option Awards columns of the Summary Compensation Table for 2007 for Messrs. Benoski and Stecher reflect the full SFAS 123(R) value of awards granted in 2007. Amounts shown in those columns for 2006 for Messrs. Benoski and Stecher reflect attribution of SFAS 123(R) compensation from unvested portions of stock-based awards granted in years prior to 2006 as well as the full SFAS 123(R) value of awards granted in that year. For all other named executive officers, amounts shown in these columns reflect the ratable portion of current and past grants of stock-based compensation award expensed during the year.

Amounts shown in the “Change in Pension Value and Nonqualified Deferred Compensation Earnings” column of the Summary Compensation Table represent the annual incremental changes in the present values of benefits under the company’s defined benefit and SERP plans and changes in the balances of the Top Hat accounts of named executive officers due to their contributions and investment performance during the year. For Messrs. Timmel and Popplewell change in pension value includes a negative amount attributable to the distribution of an amount equal to the actuarial present value of their accumulated benefit that they rolled over into an Individual Retirement Account in connection with their move out of the defined benefit pension plan. See Retirement Benefits, Page 26. Amounts shown in 2006 for Messrs. Stecher, Joseph and Scherer include the total present value of benefits then payable under the SERP because they were first added to the plan effective January 1, 2006.

Outstanding Equity Awards at 2008 Year-End

Name	Option Awards (1)				Stock Awards (3)	
	Number of Securities Underlying Unexercised Options Exercisable (2) (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Kenneth W. Stecher	5,513		\$ 30.60	1/27/2009		\$
	16,538		26.95	1/25/2010		
	16,538		32.81	1/31/2011		
	16,538		34.96	1/28/2012		
	16,538		32.45	2/1/2013		
	16,538		38.80	1/19/2014		
	21,000		41.62	1/25/2015		
	10,000	5,000	45.26	2/2/2016		
	2,500	5,000	44.79	1/31/2017		
		8,000	37.59	2/18/2018	1,850	53,003
	30,000	26.59	11/14/2018	2,400	68,760	
				7,900	226,335	
John J. Schiff, Jr.	115,763		30.60	1/27/2009		
	25,125		26.95	1/25/2010		
	55,125		32.81	1/31/2011		
	55,125		34.96	1/28/2012		
	55,125		32.45	2/1/2013		
	55,125		38.80	1/19/2014		
	63,000		41.62	1/25/2015		
	33,333	16,667	45.26	2/2/2016		
	8,334	16,666	44.79	1/31/2017		
		30,000	37.59	2/18/2018	6,100	174,765
	30,000	26.59	11/14/2018	7,900	226,335	
				7,900	226,335	
Steven J. Johnston		8,000	25.08	7/1/2018		
		8,000	26.59	11/14/2018	2,400	68,760
					2,400	68,760
James E. Benoski	46,670		26.95	1/25/2010		
	55,125		32.81	1/31/2011		
	55,125		34.96	1/28/2012		
	55,125		32.45	2/1/2013		
	55,125		38.80	1/19/2014		
	63,000		41.62	1/25/2015		
	33,333	16,667	45.26	2/2/2016		
	8,334	16,666	44.79	1/31/2017		
		30,000	37.59	2/18/2018	6,100	174,765
		30,000	26.59	11/14/2018	7,900	226,335
				7,900	226,335	

Name	Option Awards (1)				Stock Awards (3)	
	Number of Securities Underlying Unexercised Options Exercisable (2) (#)	Number of Securities Underlying Unexercised Options Unexercisable (2) (#)	Option Exercise Price (\$)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Jacob F. Scherer, Jr.	16,538		\$ 30.60	1/27/2009		\$
	16,538		26.95	1/25/2010		
	16,538		32.81	1/31/2011		
	16,538		34.96	1/28/2012		
	16,538		32.45	2/1/2013		
	16,538		38.80	1/19/2014		
	21,000		41.62	1/25/2015		
	10,000	5,000	45.26	2/2/2016		
	2,500	5,000	44.79	1/31/2017		
		8,000	37.59	2/18/2018	1,850	53,003
		8,000	26.59	11/14/2018	2,400	68,760
					2,400	68,760
Thomas A. Joseph	5,513		30.60	1/27/2009		
	16,538		26.95	1/25/2010		
	16,538		32.81	1/31/2011		
	16,538		34.96	1/28/2012		
	16,538		32.45	2/1/2013		
	16,538		38.80	1/19/2014		
	21,000		41.62	1/25/2015		
	10,000	5,000	45.26	2/2/2016		
	2,500	5,000	44.79	1/31/2017		
		8,000	37.59	2/18/2018	1,850	53,003
		8,000	26.59	11/14/2018	2,400	68,760
					2,400	68,760
Timothy L. Timmel	16,538		30.60	1/27/2009		
	16,538		26.95	1/25/2010		
	16,538		32.81	1/31/2011		
	16,538		34.96	1/28/2012		
	16,538		32.45	2/1/2013		
	16,538		38.80	1/19/2014		
	21,000		41.62	1/25/2015		
	10,000	5,000	45.26	2/2/2016		
	2,500	5,000	44.79	1/31/2017		
		8,000	37.59	2/18/2018	1,850	53,003
		8,000	26.59	11/14/2018	2,400	68,760
					2,400	68,760
David H. Popplewell	16,538		30.60	1/27/2009		
	16,538		32.81	1/31/2011		
	16,538		34.96	1/28/2012		
	16,538		32.45	2/1/2013		
	16,538		38.80	1/19/2014		
	15,750		41.62	1/25/2015		
	10,000	5,000	45.26	2/2/2016		
	2,500	5,000	44.79	1/31/2017		
		8,000	37.59	2/18/2018	1,850	53,003
		8,000	26.59	11/14/2018	2,400	68,760
					2,400	68,760

- (1) Option shares awarded and exercise price have been adjusted to reflect stock splits and stock dividends where applicable.
- (2) One-third of each option award vests and becomes exercisable on the first, second, and third anniversaries of the grant provided the associate remains continuously employed with the company or its subsidiaries. The vesting date of each option is listed in the table below by expiration date:

Grant Date	Vesting Dates			Expiration Date
1/5/1998	1/5/1999	1/5/2000	1/5/2001	1/5/2008
2/7/1998	2/7/1999	2/7/2000	2/7/2001	2/7/2008
8/24/1998	8/24/1999	8/24/2000	8/24/2001	8/24/2008
1/27/1999	1/27/2000	1/27/2001	1/27/2002	1/27/2009
1/25/2000	1/25/2001	1/25/2002	1/25/2003	1/25/2010
1/31/2001	1/31/2002	1/31/2003	1/31/2004	1/31/2011
1/28/2002	1/28/2003	1/28/2004	1/28/2005	1/28/2012
2/1/2003	2/1/2004	2/1/2005	2/1/2006	2/1/2013
1/19/2004	1/19/2005	1/19/2006	1/19/2007	1/19/2014
1/25/2005	1/25/2006	1/25/2007	1/25/2008	1/25/2015
2/2/2006	2/2/2007	2/2/2008	2/2/2009	2/2/2016
1/31/2007	1/31/2008	1/31/2009	1/31/2010	1/31/2017
2/18/2008	2/18/2009	2/18/2010	2/18/2011	2/18/2018
7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2018
11/14/2008	11/14/2009	11/14/2010	11/14/2011	11/14/2018

Vesting is accelerated and stock options are exercisable immediately upon retirement for Messrs. Stecher, Schiff, Benoski and Timmel due to attainment of normal retirement age or 35 years of continuous service.

- (3) The restricted stock units awards granted on February 18, 2008, and July 1, 2008 will vest on March 1, 2011, if performance targets are achieved. The restricted stock units awards granted on November 14, 2008, will vest on March 1, 2012, if performance targets are achieved. The restricted stock unit awards granted in 2007 will vest on March 1, 2010, if performance targets are achieved, or upon retirement during the performance period at age 65 or with 35 years of continuous service.

2008 Option Exercises and Stock Vested

Name	Option Awards		Stock Awards (1)	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Kenneth W. Stecher		\$		\$
John J. Schiff, Jr.				
Steven J. Johnston				
James E. Benoski	1,290	11,494		
Jacob F. Scherer, Jr.				
Thomas A. Joseph	3,308	24,909		
Timothy L. Timmel				
David H. Popplewell				

- (1) Prior to 2007 the company made no stock-based awards to associates other than stock options and the Holiday Stock Bonus Plan.

2008 Pension Benefits

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$) (1) (2)
Kenneth W. Stecher	Qualified Pension Plan	40	\$ 1,201,008
	Supplemental Retirement Plan	41	1,401,097
John J. Schiff, Jr.	Qualified Pension Plan	23	1,356,536
	Supplemental Retirement Plan	23	1,371,172
Steven J. Johnston (3)	Qualified Pension Plan	0	-
	Supplemental Retirement Plan	0	-
James E. Benoski	Qualified Pension Plan	37	1,153,394
	Supplemental Retirement Plan	37	1,247,943
Jacob F. Scherer, Jr.	Qualified Pension Plan	25	704,039
	Supplemental Retirement Plan	25	511,622
Thomas A. Joseph	Qualified Pension Plan	32	935,958
	Supplemental Retirement Plan	32	523,549
Timothy L. Timmel	Qualified Pension Plan	38	-
	Supplemental Retirement Plan	38	722,744
David H. Popplewell	Qualified Pension Plan	12	-
	Supplemental Retirement Plan	12	146,357

- (1) Amounts listed in the "Present Value of Accumulated Benefit" column were calculated as of December 31, 2008, using the Pension Benefit Guaranty Corporation Immediate Interest Rate published on December 15, 2007, which was 3.0 percent, and the 1983 Group Annuity Mortality Table for males, set back one year.
- (2) The amounts shown in the "Present Value of Accumulated Benefit" column for Messrs. Schiff and Benoski reflect action by the Retirement Committee effective January 1, 2000, to transfer the accrued benefit amount of each SERP member to the Retirement Plan as an additional special benefit that will be paid from the tax-qualified Retirement Plan. Any additional benefit amounts accrued from the SERP after January 1, 2000, will be paid from the SERP.
- (3) Mr. Johnston joined the company after entry into the defined benefit pension plan was closed.

See Retirement Benefits, Page 26, for details about plans providing retirement benefits to the named executive officers.

At December 31, 2008, Mr. Stecher was eligible to elect early retirement under the Retirement Plan and the SERP, and Messrs. Schiff and Benoski were eligible for normal retirement under these plans.

2008 Nonqualified Deferred Compensation Plan (1) (2)

Name	Aggregate balance at 2007 Year End (\$)	Executive contributions in 2008 (\$ (3))	Registrant contributions in last FY (\$)	Aggregate earnings in 2008 (\$)	Aggregate balance at 2008 Year End (\$ (4))
Kenneth W. Stecher	\$ 29,718			\$ (12,710)	\$ 17,008
John J. Schiff, Jr.	476,107			(108,060)	368,047
Steven J. Johnston	-				-
James E. Benoski	-				-
Jacob F. Scherer, Jr.	494,922	41,600		(192,275)	344,247
Thomas A. Joseph	67,556	11,895		(31,918)	47,533
Timothy L. Timmel	272,669			(61,887)	210,782
David H. Popplewell	-				-

- (1) Prior to 2009 the company did not contribute to the Top Hat Savings Plan.
- (2) No withdrawals or distributions occurred in 2008.
- (3) The named executive officer's contributions shown in this column are also reported in the Summary Compensation Table in the salary or bonus columns, and included in the amounts shown for total compensation.
- (4) Of the amounts shown in this column, \$4,458, \$20,880, \$84,000 for Messrs. Stecher, Joseph and Scherer, respectively, were reported in the Summary Compensation Table in prior years.

Compensation payable to the named executive officers may be deferred pursuant to the Top Hat Savings Plan. Under the Top Hat Savings Plan, highly compensated individuals as defined by the plan, including the named executive officers, may elect to defer up to 25 percent of salary and up to 100 percent of variable compensation, less the required withholdings, provided that the total amount of salary and variable compensation deferred does not exceed the maximum amount permitted by the Internal Revenue Code, which was \$46,000 in 2008. Deferral elections are made before the plan year for which

compensation is to be deferred and are effective for the entire year and generally may not be modified or terminated for that year. Compensation deferred by the named executive officer is credited to the individual's deferred compensation account maintained by the company.

Beginning in 2008, in connection with the company's redesign of our retirement benefits plans, we amended the Top Hat Savings Plan to eliminate the cap on the amount of salary that may be deferred and to permit company matching contributions for officers who have contributed to and received the maximum company match allowable in their 401(k) accounts, yet due to tax law limitations, are unable to contribute and receive a matching contribution for the compensation that exceeds the limit imposed on tax qualified 401(k) plans. We do not otherwise contribute to or match contributions to this plan. Participants are prohibited from borrowing or pledging amounts credited to their accounts. Fifth Third Bank, a subsidiary of Fifth Third Bancorp, is the third-party administrator of the Top Hat Savings Plan. Under the plan, individuals choose one or more of several specified investment alternatives, including an alternative for Cincinnati Financial Corporation common stock. Earnings credited to the named executive officer's account are calculated based on the performance of the applicable investment choice(s) selected by the named executive officer. We do not guarantee any level of return on contributions to the Top Hat Savings Plan.

Distributions from the Top Hat Savings Plan are made as soon as legally and administratively feasible after retirement, other termination of employment or death, or pursuant to a qualified domestic relations order. Distributions to the named executive officers due to retirement or other termination of employment are not permitted until 180 days after employment terminates. Other than distributions pursuant to qualified domestic relations orders, distributions are made in the form of either a single lump sum payment or monthly installments of not less than 12 months or more than 120 months, depending upon the participant's prior election. To the extent that a participant chooses to have earnings credited based on the Cincinnati Financial Corporation common stock election, the participant may choose to receive any benefit payments in the form of stock. All other distributions are made in cash.

Potential Payments upon Termination or Change of Control

As of December 31, 2008, the only benefit a named executive officer could receive upon any termination of employment, except for retirement or termination due to a change in control is the balance of a Top Hat Savings Plan account disclosed in the "Aggregated Balance at 2008 Year End" column of the 2008 Nonqualified Deferred Compensation Plan table above. In the case of retirement, named executive officers who are at least 65 years of age additionally could receive vested retirement benefits and accelerated vesting of certain outstanding stock-based awards, while for retirement at age 60 without 35 years of service a named executive officer could receive a vested early retirement benefit, but no acceleration of outstanding stock-based awards. Named executive officers who retire before reaching 60 years of age but who have achieved 35 years of continuous service or who retire due to total and permanent disability could receive accelerated vesting of certain outstanding stock-based awards. Named executive officers who are terminated due to a change in the control of the company could receive accelerated vesting of all stock-based awards made under the 2006 Stock Compensation Plan, but not under earlier plans. The following table reflects the values of retirement benefits and the acceleration of vesting of the pertinent stock-based awards assuming termination of employment due to retirement or a change of control on December 31, 2008.

Potential Payments upon Termination

Name	Retirement Plan	SERP	Accelerated Vesting of Stock-Based Awards		
			Retirement	Retirement with disability	Change in control
Kenneth W. Stecher	\$1,093,012 (1)	\$1,275,109 (1)	\$128,180	\$427,601	\$427,601
John J. Schiff, Jr.	1,356,536	1,371,172	251,727	711,033	711,033
Steven J. Johnston (2)				193,777	193,777
James E. Benoski	1,153,394	1,247,943	251,727	711,033	711,033
Jacob F. Scherer, Jr.				213,156	213,156
Thomas A. Joseph				213,156	213,156
Timothy L. Timmel (2)		615,959 (1)	73,620	213,156	213,156
David H. Popplewell (2)		145,720 (1)	73,620	213,156	213,156

(1) Reflects early retirement benefit calculation.

(2) Mr. Johnston was hired after entry into the defined benefit pension plan was closed and, therefore, was never a member of the pension plan or the SERP. Messrs. Timmel and Popplewell were not participants in the defined benefit pension plan on December 31, 2008.

2008 Director Compensation (1)

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(2)	All Other Compensation \$(3)	Total (\$)
William F. Bahl	\$ 147,500	\$ 60,019	\$ 7,350	\$ 214,869
Gregory T. Bier	141,500	60,019	5,584	207,103
Dirk J. Debbink	43,000	18,001	2,472	63,473
Kenneth C. Lichtendahl	102,500	52,523	5,374	160,397
W. Rodney McMullen	144,500	60,019	5,540	210,059
Gretchen W. Price	102,500	52,523	1,330	156,353
Thomas R. Schiff	135,500	60,019	1,584	197,103
Douglas S. Skidmore	93,500	43,522	1,380	138,402
John F. Steele, Jr.	87,500	37,506	1,809	126,815
Larry R. Webb	108,500	58,515	6,400	173,415
E. Anthony Woods	143,000	60,019	6,023	209,042

(1) Directors listed in this table are outside directors. Messrs. Stecher, Schiff and Benoski are directors who are also executive officers of the company. Their compensation as named executive officers is shown in the Summary Compensation Table and supporting disclosure beginning on Page 29. They receive no additional compensation for their service as directors.

(2) Stock awards are valued at full fair market value determined by the average of the high and low sales price on NASDAQ on January 29, 2009, the date of grant, times the number of shares awarded. The per share fair market value on January 29, 2009, was \$23.50. The number of shares granted to directors for award reported in this column were: 2,554 shares each to Messrs. Bahl, Bier, McMullen, Schiff and Woods; 2,490 shares to Mr. Webb; 2,235 shares each to Mr. Lichtendahl and Ms. Price, 1,852 shares to Mr. Skidmore; 1,596 shares to Mr. Steele, and 766 shares to Mr. Debbink. There were no forfeitures in this plan in 2008.

(3) Reflects perquisites in an aggregate amount less than \$10,000 of one or more of the types described in Perquisites and Other Personal Benefits, Page 29.

Outside directors are paid cash fees of:

- \$4,500 for attendance at each parent or subsidiary company's board meeting and
- \$1,500 for attendance at each meeting of a parent or subsidiary board committee.

Fees for all meetings in any one day are not to exceed \$6,000. In 2008, outside directors were paid an annual cash retainer of \$50,000. Outside directors are reimbursed for travel expenses incurred in attending meetings. Outside directors also receive compensation in the form of common stock under the Cincinnati Financial Corporation 2003 Non-Employee Directors' Stock Plan (2003 Stock Plan). The purpose of this shareholder-approved plan is to attract and retain the services of experienced and knowledgeable non-employee directors and to strengthen the alignment of interests between the non-employee directors and shareholders. Shares received under the plan assist directors in achieving ownership levels consistent with the company's Director and Officer Stock Ownership Guidelines. Under the 2003 Stock Plan, directors receive unrestricted shares of the company's common stock with a fair market value on the date of grant equal to the cash director's fees received by such directors during

the last calendar year, up to a maximum of \$60,000 of cash fees. Awards to individual directors may slightly exceed \$60,000 in value as the plan provides for rounding up to whole shares.

The committee grants awards for each director's prior year's board service under the 2003 Stock Plan at its first scheduled meeting each calendar year. See Stock-Based Award Grant Practices, Page 26. Amounts shown in the Stock Awards column reflect grants awarded under the 2003 Stock Plan at the committee's meeting on January 29, 2009, based on cash fees earned for board service in 2008.

At its January 30, 2009, meeting, the board of directors, acting upon recommendations from the compensation committee, approved two changes to the structure of director compensation for outside directors beginning in 2009, provided shareholders approve the Directors' Stock Plan of 2009 (2009 Stock Plan) at the Annual Meeting of Shareholders. Subject to shareholder approval of the plan, the board reduced the level of annual cash retainer to \$25,000 and adopted the 2009 Stock Plan, which grants shares of the company's common stock equal to meeting fees as under the 2003 Stock Plan, plus shares equal to the reduced cash retainer. Shares granted under the 2009 Stock Plan would be restricted shares, nontransferable, except upon death, for three years from the grant date. The committee and the board believe that these changes will increase stock ownership by outside directors in furtherance of the ownership guidelines and by restricting transferability of the shares, will further align the outside director's financial interest with the interests of shareholders.

The company also provides outside directors with life insurance, personal umbrella liability insurance and spouse travel and meals to certain business events. See Perquisites and Other Personal Benefits, Page 29, for details about these benefits. Amounts contained in the All Other Compensation column reflect the aggregate cost of these individual benefits.

The company does not provide outside directors with retirement benefits, benefits under health and welfare plans or compensation in any form not described above, nor does it have any agreement with any director to make charitable donations in the director's name.

Proposal 3 – Management’s Proposal to Adopt Cincinnati Financial Corporation Annual Incentive Compensation Plan of 2009

Purpose

The board of directors of the company has approved and recommends shareholder approval of the Cincinnati Financial Corporation Annual Incentive Compensation Plan of 2009, (a copy of which is attached as Appendix A). The 2009 Incentive Plan replaces the shareholder-approved 2006 Annual Incentive Compensation Plan.

The purposes of the plan are to:

- Link bonus compensation for the executive officers of the company, to the company’s achievement of pre-established performance goals.
- Maximize the company’s federal income tax deduction for the annual cash compensation paid to those executives pursuant to Section 162(m) of the Internal Revenue Code.

Under Internal Revenue Code Section 162(m), the compensation of any one of the named executive officers, to the extent it exceeds \$1 million per year, is a deductible expense by the company only when any amount of compensation exceeding \$1 million is based upon the achievement of pre-established performance goals. Approval of this plan would allow the company to maximize its income tax deduction if the bonuses paid under the plan cause total compensation for any participant to exceed \$1 million in any calendar year.

Plan Description

The company’s executive officers are eligible to participate in the plan. Participants are eligible to receive awards under the plan upon achievement by the company and its subsidiaries on a consolidated basis of one or more performance goals specified in the plan. The 2009 Incentive Plan provides a wider variety of performance objectives from which the compensation committee can select appropriate short-term performance objectives to support the company’s strategic objectives. Performance goals under the 2009 Incentive Plan include: total shareholder return, return on equity, return on economic capital, change in operating income, underwriting profitability, revenue, expenses, earnings per share, operating earnings per share or the company’s value creation ratio defined by the plan. Performance goals may be numeric or a comparison to the peer group.

The compensation committee sets the performance targets within the first 90 days of the calendar year to which the goals apply. The maximum bonus amount each participant is eligible to receive is \$1 million annually, with the actual amount of any bonus set by the compensation committee pursuant to the overall compensation policies of the committee. The compensation committee may exercise negative discretion to reduce or eliminate the amount of any award earned upon achievement of the specified performance goal for the year. Awards may be forfeited or recouped by the company in certain cases of misconduct by the officer.

The board of directors may modify or terminate the plan at any time for any legal purpose. However, shareholder approval of any modifications to material terms of the plan is necessary for the company to retain its federal income tax deduction for compensation paid under this plan.

There are three substantive differences between the 2009 Incentive Plan and the predecessor plan. First, the definition of “participant” is expanded to include all executive officers instead of only the “top five” named in the proxy statement. This expansion is intended to support the committee’s ability to use this compensation plan for certain executive officers without the eligibility disruption caused by one-time events that can determine which executive officers are included in the company’s Summary Compensation Table. Next, the 2009 Incentive Plan includes a variety of performance objectives that can be used by the committee to establish performance targets for awards while the predecessor plan used a static 3-part performance objective. Last, the 2009 Incentive Plan includes new forfeiture and recoupment provisions that allow the company to recover awards in certain cases of misconduct by the participant.

Subject to shareholder approval of the plan, in the first 90 days of 2009, the committee intends to establish performance targets and grant awards under the 2009 Incentive Plan to one or more executive officers.

Use of Predecessor Plan

Following shareholder approval in 2006, the compensation committee granted awards under the predecessor plan in 2007 and 2008. In 2007, grants of awards ranging from \$100,000 to \$400,000 were made to four executive officers. The performance targets established for the 2007 awards were achieved. However, the compensation committee exercised its negative discretion to reduce all award payouts to zero, finding that compensation otherwise paid to these officers for 2007 was adequate under all of the facts and circumstances known to the committee. In 2008, grants of awards ranging from \$100,000 to \$400,000 were made to five executive officers. Performance targets established for the 2008 awards were not achieved, and no awards were paid.

To approve the plan, a copy of which is attached as Appendix A, a majority of the shares present or represented by proxy at the meeting and entitled to vote must be voted FOR the proposal.

The board of directors recommends a vote FOR the proposal to adopt the Cincinnati Financial Corporation Incentive Compensation Plan of 2009.

Proposal 4 – Management’s Proposal to Adopt Cincinnati Financial Corporation Directors’ Stock Plan of 2009

Purpose

The board of directors of the company has approved the proposal to submit the Cincinnati Financial Corporation Directors’ Stock Plan of 2009 (a copy of which is attached as Appendix B) to shareholders for approval. The 2009 Directors’ Stock Plan replaces the shareholder-approved 2003 Non-Employee Director Stock Plan that expires in January 2010. The purpose of the 2009 Directors’ Stock Plan is to enable Cincinnati Financial Corporation to attract and retain the services of experienced and knowledgeable outside directors and to strengthen the alignment of interests between outside directors and the shareholders of the company through the increased ownership of shares of the company’s common stock. This will be accomplished by granting directors shares of common stock as a part of their annual compensation.

Plan Description

Under the 2009 Directors’ Plan adopted by the board of directors in January 2009, the compensation committee of the board of directors is authorized to grant outside directors restricted shares of common stock with a fair market value on the date of grant equal to the sum of i) the annual cash retainer plus ii) cash director’s fees received by such directors for attendance at board and committee meetings during the prior calendar year, but not to exceed \$60,000 of meeting fees in any calendar year. If the plan is approved by shareholders, the annual cash retainer will be reduced to \$25,000 from \$50,000. Because the shares granted under the plan will include shares equal to the reduced cash retainer, the result is payment of the \$50,000 retainer half in cash and half in stock. The level of shares granted for meeting fees will be unchanged from the predecessor plan. Such grants are compensation in addition to cash compensation earned for board service. Shares awarded under the 2009 Directors’ Plan will be restricted and nontransferable, except upon death, for three years following the date of grant. The grant of a stock award under the plan will result in ordinary taxable income to the director in an amount equal to the value of the stock award on the date of grant, and the company will be entitled to a tax deduction for the same amount.

Share awards are valued at the average of the high and low sales price quotations for common stock of the company on the NASDAQ National Market on the day of the grant. A total of 300,000 shares are available under the 2009 Directors’ Plan. The 2009 Directors’ Plan permits the number of available shares to be adjusted for stock dividends and stock splits.

Use of Predecessor Plan

Under the expiring 2003 Non-employee Directors Stock Plan a total of 105,155 shares were granted between 2003 and 2009. The predecessor plan allowed the number of shares available under the plan to be adjusted for stock dividends and stock splits. On January 29, 2009, the date of the most recent grant under the predecessor plan, the average of the high and low of the company’s common stock market price as reported by NASDAQ was \$23.50 per share.

The board of directors recommends a vote FOR the proposal to adopt the Cincinnati Financial Corporation Incentive Compensation Plan.

OTHER BUSINESS

Proposal 5 – Shareholder Proposal for Declassified Board

The company has been notified that Gerald R. Armstrong, 910 Sixteenth Street, No. 412, Denver, Colorado 80202-2917, owner of 200 shares of the company's common stock, intends to present the proposal set forth below for consideration at the Annual Meeting. In accordance with federal securities regulations, we include the shareholder proposal plus any supporting statement exactly as submitted by the proponent. Therefore, the company takes no responsibility for the content of the proposal or supporting statement submitted by the proponent. To help readers easily distinguish between material provided by the proponent and material provided by the company, we have boxed the material provided by the proponent.

Resolution

That the shareholders of CINCINNATI FINANCIAL CORPORATION request its Board of Directors to take the steps necessary to eliminate classification of terms of the Board of Directors to require that all Directors stand for election annually. The Board declassification shall be completed in a manner that does not affect the unexpired terms of the previously-elected Directors.

Statement

The proponent believes the election of directors is the strongest way that shareholders influence the directors of any corporation. Currently, our board of directors is divided into three classes with each class serving three-year terms. Because of this structure, shareholders may only vote for one-third of the directors each year. This is not in the best interest of shareholders because it reduces accountability.

Xcel Energy Inc., Devon Energy Corporation, ConocoPhillips, ONEOK, Inc. CenterPoint Energy, Inc., Hess Corporation have adopted this practice and it has been approved by shareholders at C H Energy Group, Inc., Central Vermont Public Service Corporation, Black Hills Corporation, Spectra Energy Corp., Chesapeake Utilities Corp. upon presentation of a similar resolution by the proponent during 2008. The proponent is a professional investor who has studied this issue carefully.

The performance of our management and our Board of Directors is now being more strongly tested due to economic conditions and the accountability for performance must be given to shareholders whose capital has been entrusted in the form of share investments.

A study by researchers at Harvard Business School and the University of Pennsylvania's Wharton School titled "Corporate Governance and Equity Prices" (Quarterly Journal of Economics, February, 2003), looked at the relationship between corporate governance practices (including classified boards) and firm performance. The study found a significant positive link between governance practices favoring shareholders (such as annual directors election) and firm value.

While management may argue that directors need and deserve continuity, management should become aware that continuity and tenure may be best assured when their performance as directors is exemplary and is deemed beneficial to the best interests of the corporation and its shareholders.

The proponent regards as unfounded the concern expressed by some that annual election of all directors could leave companies without experienced directors in the event that all incumbents are voted out by shareholders. In the unlikely event that shareholders do vote to replace all directors, such a decision would express dissatisfaction with the incumbent directors and reflect the need for change.

If you agree that shareholders may benefit from greater accountability afforded by annual election of all directors, please vote "FOR" this proposal.

BOARD OF DIRECTORS OPPOSES PROPOSAL SUGGESTING WE TAKE STEPS TOWARD DECLASSIFIED BOARD

We believe that taking steps toward declassifying our board and asking our shareholders to annually elect directors would not serve the best interests of those shareholders or your company. After careful consideration, we recommend a NO vote on this proposal.

Under your company's Articles of Incorporation, the board currently consists of three classes or groupings of directors, each serving three-year terms staggered so that approximately one-third of your directors stand for election each year. This classified structure is a very common structure for boards of

U.S. publicly traded companies. For more than 55 years, shareholders have benefited from its positive effects, which complement the cyclical nature of our insurance business and support our long-term strategic focus.

First, we ask shareholders to preserve the classified board structure in view of these many advantages it offers:

Continuity – The three-year staggered term is designed to provide stability and continuity, assuring that a majority of your directors at any given time has prior experience as directors of your company. Experienced directors can share accumulated knowledge to increase the full board’s understanding of the company’s business and the complex insurance marketplace.

The experience and qualifications of our board as a whole depend upon a balance of contributions from individuals, each with a specific expertise, that jointly are essential to the board’s ability to make decisions, execute long-term strategic plans and increase our long-term return to shareholders. *A classified board also permits us to attract and retain highly qualified individuals.*

Shareholder Protection – A classified board also protects us from hostile and unsolicited takeover attempts that do not offer the greatest value to our shareholders. If the board were declassified, a potential acquirer could - without paying any premium to our shareholders – gain control of your company by replacing a majority of your board with its own slate of nominees at a single annual meeting. *The existence of a classified board would encourage a potential acquirer to negotiate with your directors, giving us additional time and bargaining power to negotiate a transaction in the best interests of our shareholders and other constituencies.*¹

Alignment with Shareholders – Most importantly, your board believes that its interests are specifically aligned with shareholders’ interests, through the fiduciary duty owed by directors to act in shareholders’ best interests. Your directors intend to discharge that duty to our utmost ability, using the available defensive tactics to resist any action that the board believes not to be in the best interests of shareholders. *Your board is comprised of a majority of independent, non-management directors who will always put the interests of our shareholders first.*

Second, we ask shareholders to note factual inaccuracies in the proposal’s argument that could mislead you about the benefits of approving the proposal.

Inaccurate on Accountability – The proposal inaccurately asserts that the classified board structure diminishes director accountability to shareholders. All directors have fiduciary duties to act in good faith and in the best interests of the company and shareholders, regardless of how frequently they stand for election. Your board of directors has remained steadfast in considering the long-term effects of its decisions on shareholder value and not exclusively focusing on short-term profits. *Contrary to the proponent’s argument, declassifying the board would not increase your board’s accountability, which arises from this fiduciary relationship, not from a director’s term of service.*

Inaccurate on Shareholder Value – The proposal also inaccurately refers to a correlation between annual election of directors and firm value. It selectively cites one of many academic studies on this topic, each of which has different criteria, weighting and conclusions.² The authors of the cited study do not suggest a causal relationship between value and any one of the 24 corporate governance provisions they reviewed, much less a special correlation between annual election of directors and firm value. *In fact, this study states that if the power provided by a classified board is used judiciously, it could lead to increased shareholder wealth.*

¹ Target shareholders of firms with classified boards receive a larger proportional share of the total value gains from a merger. Eric S. Robinson, *Classified Boards Once Again Prove Their Value to Shareholders in Recent Takeover Battle*, Wachtell, Lipton, Rosen & Katz (2007). In 2007, Midwest Air obtained 13 percent above the price its shareholders would have received from a hostile takeover had Midwest Air not had a classified board and shareholder rights plan.

² Paul A. Gompers, Joy L. Ishii, Andrew Metrick, *Corporate Governance and Equity Prices*, Quarterly Journal of Economics (2003).

Moreover, a different study was conducted the same year reviewing a broader index of 51 corporate governance provisions. This study suggests that companies with classified boards have higher profit margins and higher dividend yields. *Furthermore, the study indicated that annual election of directors is one of the seven governance factors, among the 51 reviewed, that most are often associated with “bad performance.”*³

Inaccurate on Adoption Facts – Your company’s current election of directors by classes is a common practice adopted by many companies. Half of the companies in the Standard & Poor’s 1500 Index currently have boards with classified terms. The proposal selectively listed several companies that have taken steps to implement annual director terms, ignoring the particular financial and market circumstances underlying each company’s decision. *In addition, the proponent erroneously cites Spectra Energy Corp. and Chesapeake Utilities Corp. as having declassified their board. In fact, both companies continue to maintain classified boards.*

Third, we ask shareholders to cautiously and prudently consider any such proposal that calls for an extended process and introduces changes into our fundamental corporate documents.

Approval of this shareholder proposal would not accomplish the declassification of our board. The proposal requests only that our board take the necessary steps to declassify.

To actually change its structure, your board would have to initiate a process that could extend over multiple years, using time and resources better focused on conducting business in these challenging times. Proceeding toward declassification would require that the board ultimately decide to change the classified board, and then present to you, our shareholders, a proposal to amend your company’s Amended and Restated Certificate of Incorporation. The affirmative vote of at least 75 percent of the voting power of all outstanding shares of your company’s stock would be required for an amendment to become effective.

Summary – In short, directors who have experience with us and are familiar with our policies, strategies, and businesses are a valuable resource and well positioned to make decisions aligned with your shareholder interests and with company interests. The current classified board structure helps assure this experience, supporting the continuity and stability of the company’s management and policies. It ensures that a majority of directors at any given time has prior experience with and in-depth knowledge of our company. Further, it would protect shareholders in the event of a takeover attempt by allowing time for negotiation of a premium payable to you, the shareholders. Continuing with a classified board would position your company alongside many other companies that seek these same benefits and would avoid a lengthy, resource-consuming process.

The board of directors recommends a vote AGAINST this proposal to move toward a declassified board.

³ Lawrence D. Brown and Marcus L. Caylor, *Corporate Governance and Firm Performance*, Institutional Shareholder Services (2004) at p. 30.

CONCLUSION

Shareholder Proposals for Next Year

Any qualified shareholder who wishes to present a proposal for action at the 2010 Annual Meeting of Shareholders must submit the proposal to Cincinnati Financial Corporation, P.O. Box 145496, Cincinnati, Ohio 45250-5496, on or before November 23, 2009, to be included in our proxy statement and proxy for the 2010 annual meeting. Any such proposal must conform to the rules and regulations of the SEC and otherwise be in accordance with other federal laws as well as the laws of the State of Ohio. If the date of the 2010 annual meeting is not within 30 days of May 2, 2010, the deadline will be a reasonable time before we begin to print and mail the proxy material for the 2010 Annual Meeting of Shareholders. In addition, the proxy solicited by the board for the 2010 annual meeting will confer discretionary authority on the persons named in such proxy to vote on any shareholder proposal presented at that meeting if we receive notice of such proposal later than February 8, 2010, without the matter having been discussed in such proxy.

Cost of Solicitation

Proxies may be solicited by our directors, officers or other employees, either in person or by mail, telephone or e-mail. The cost of soliciting proxies will be borne by the company. We have contracted with Broadridge Financial Solutions Inc. to provide Internet and telephone voting service for our direct shareholders of record. We ask banks, brokerage houses, other custodians, nominees and fiduciaries to forward copies of the proxy material to beneficial owners of shares or to request authority for the execution of proxies; and we have agreed to reimburse reasonable out-of-pocket expenses incurred. The company has retained Georgeson Shareholder Communications Inc. to be available to assist in soliciting proxies for the annual meeting should a need for their services be determined. The cost of those services, if used, would be approximately \$12,500 plus out of pocket expenses.

Other Business

Management does not know of any other matter or business that may be brought before the meeting; but if any other matter or business properly comes before the meeting, it is intended that a vote will be cast pursuant to the accompanying proxy in accordance with the judgment of the person or persons voting the same.

/S/ Steven J. Johnston

Steven J. Johnston, FCAS, MAAA, CFA

Secretary

March 20, 2009

Cincinnati Financial Corporation

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Appendix A
Cincinnati Financial Corporation
Annual Incentive Compensation Plan of 2009

1. **Purpose.** The purpose of the Cincinnati Financial Corporation Annual Incentive Compensation Plan of 2009 is to provide the executive officers of Cincinnati Financial Corporation and its subsidiaries on a consolidated basis with bonus compensation based upon the achievement of pre-established Performance Goals, as well as to maximize the Company's income tax deduction for the amount of the annual compensation paid to the president and chief executive officer and the four most highly compensated executive officers other than the president and chief executive officer, pursuant to Section 162(m) of the Internal Revenue Code.
2. **Definitions.** For purposes of the Plan, the following terms are defined as set forth below:
 - a. "Award" means the Incentive Compensation to which a Participant may become entitled upon the achievement of the Performance Goals.
 - b. "Board" means the board of directors of the Company.
 - c. "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.
 - d. "Commission" means the Securities and Exchange Commission or any successor agency.
 - e. "Committee" means the compensation committee of the Board or a subcommittee thereof, any successor thereto or such other committee or subcommittee as may be designated by the Board to administer the Plan, which shall at all times consist of two or more outside directors, as defined under Section 162(m) of the Internal Revenue Code and the treasury regulations issued thereunder.
 - f. "Company" means Cincinnati Financial Corporation, a corporation organized under the laws of the State of Ohio, or any successor thereto and its subsidiaries on a consolidated basis.
 - g. "Participant" means the executive officers of the Company, including the president and chief executive officer and the four most highly compensated officers of the Company (other than the president and chief executive officer), as more fully described by the regulations adopted by the Commission under the Securities' Exchange Act of 1934.
 - h. "Peer Group" means The Chubb Corporation, The Hanover Insurance Group, Inc., Harleysville Group, Inc., The Hartford Financial Services Group, Inc., Markel Corporation, Selective Insurance Group, Inc., State Auto Financial Corporation, and The Travelers Companies, Inc.
 - i. "Performance Goals" means the objectives for the Company as established by the Committee within the first 90 days of each calendar year. The Performance Goals are intended to constitute "performance-based" compensation with the meaning of Section 162(m) of the Code, or any amended or successor provision.
 - j. "Performance Year" means the calendar year ending December 31 in which the performance goal shall be measured.
 - k. "Plan" means the Cincinnati Financial Corporation Annual Incentive Compensation Plan of 2009, which is the amended and restated Cincinnati Financial Corporation 2006 Incentive Compensation Plan.
 - l. "Value Creation Ratio" equals the total of 1) the rate of growth in book value per share plus 2) the ratio of dividends declared per share to beginning book value per share.
3. **Administration of Plan.** The Plan is administered by the Company's Compensation Committee. The Committee has full power, authority and discretion to administer and interpret the Plan and to establish rules for its administration. The Committee, in making any determination under or referred to in the Plan, is entitled to rely on opinions, reports or statements of officers, employees, legal counsel and the public accountants of the Company, and upon the published financial reports of the Company's Peer Group.
4. **Effective Date of Plan.** The Plan is effective on the date of approval by the Company's Board of Directors, conditioned upon shareholder approval at the next Annual Meeting of Shareholders.

5. **Awards.** Each Award under the Plan is evidenced by a written agreement in a form prescribed by the Committee that sets for the terms, conditions and limitations for the Award (Award Agreement). Each Participant is eligible to receive an Award of up to \$1,000,000 annually pursuant to the satisfaction of the Performance-Based Goal from in Section No. 6 that is set forth in the Award Agreement.

6. **Performance-Based Goals.**

- a. Awards under the Plan are earned upon the achievement by the Company of the Performance Goal set forth in the Award Agreement. The Committee may establish the Performance Goal for the Performance Year based on one or more of the following performance objectives: total shareholder return, return on equity, return on economic capital, change in operating income, underwriting profitability, revenue, expenses, earnings per share, operating earnings per share, or Value Creation Ratio. Performance Goals may be numeric or a comparison to the peer group.
- b. Written targets for the Performance Goal are established by the Committee as soon as practicable either before or within 90 days after the beginning of each calendar year.
- c. Notwithstanding anything to the contrary in this Plan, the Committee retains complete negative discretion (within the meaning of the applicable rules of the Internal Revenue Service under Section 162(m) of the Code) to reduce the amount of or eliminate part or all of the Award otherwise earned by the Participant upon the attainment of the Performance Goal in light of factors deemed appropriate by the Committee, but in no event may the Committee increase the amount of the Award payable to a Participant upon the attainment of the Performance Goal.

7. **Determination and Payment of Award.** Awards are determined by the Committee and paid by the Company as soon as practicable after the Committee is able to certify that the Performance Goal established under Section No. 6 was in fact achieved. In no event are Awards paid later than two months and 15 days following the close of the calendar year in which the Performance Goal is achieved.

If a Participant terminates employment with the Company due to death or retirement during a calendar year in which the Performance Goal is achieved, the Participant may be entitled to the payment of the Award at the discretion of the Committee. In no event is an Award paid later than two months and fifteen days following the close of the calendar year in which the Performance Goal is achieved.

8. **Forfeiture and Recoupment of Awards.** If at any time the Committee reasonably believes that a Participant has committed an act of embezzlement, fraud, dishonesty, nonpayment of any obligation owed to the company, breach of fiduciary duty or deliberate disregard of the Company's rules resulting in loss, damage or injury to the company, any outstanding Award under the Plan shall be forfeited. In addition, if any Participant engaged in an act of embezzlement, fraud or breach of fiduciary duty during the Participant's employment that contributes to an obligation to restate the Company's financial statements, the Participant shall be required to repay to the Company in cash and upon the demand, any Award paid under this Plan based on performance of any period for which the Company's financial statements are restated. Repayment of Awards is in addition to and separate from any other relief available to the Company due to the Participant's misconduct. Any determination by the Committee with respect to the foregoing is final, conclusive and binding on all interested parties.

9. **Miscellaneous.**

- a. **Acceleration of Awards.** Unless otherwise expressly provided in an applicable Award agreement and notwithstanding any other provision of the Plan to the contrary, if a Participant's employment with the Company or one of its subsidiaries is terminated by action of the employing entity within 12 months after the effective date of a Change in Control, then any outstanding Award held by such Participant as of the date of termination shall become fully vested, and the restrictions and other conditions applicable to any such Award held by such Participant as of the date of termination, including vesting requirements, shall lapse, and such Awards shall become free of all restrictions and fully vested. For this purpose, a "Change in Control" means the event which is deemed to have occurred if either:
 - i. after the date this Plan is adopted by the Company's shareholders, without prior approval of the Board, any person, entity or group becomes a beneficial owner, directly or indirectly, of

securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities; or

- ii. without prior approval of the Board, as a result of, or in connection with, or within two years following, a tender or exchange offer for the voting stock of the Company, a merger or other business combination to which the Company is a party, the sale or other disposition of all or substantially all of the assets of the Company, a reorganization of the Company, or a proxy contest in connection with the election of members of the Board of Directors, the persons who were directors of the Company immediately prior to any such transactions cease to constitute a majority of the Board of Directors or of the board of directors of any successor to the Company (except for resignation due to death, disability or normal retirement.) For purposes of the definition in the preceding sentence, any terms that are defined by rules promulgated by the Securities and Exchange Commission have the meanings specified in such definitions from time to time.
- b. **Participant Rights.** No Participant has any claim or right to be granted an award under the Plan and there is no obligation on behalf of the Company or the Committee for uniformity of treatment among Participants. Awards under the Plan may not be attached, assigned or alienated in any manner.
- c. **Not an Employment Obligation.** Neither the adoption of the Plan nor the granting of Awards under the Plan (or any other action taken hereunder) confers upon any Participant any right to be continued employment nor interferes in any way with the right of the Company to terminate the employment of any Participant at any time.
- d. **Income Tax Withholding.** The Company has the right to deduct from any Award to be paid under the Plan any federal, state or local taxes required by law to be withheld with respect to such payment.
- e. **Governing Law.** The Plan is governed by the laws of the State of Ohio and by applicable federal laws, excluding any conflicts or choice of law, rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in an Award, Participants are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Ohio, to resolve any and all issues that may arise out of or relate to the Plan or any related Award.
- f. **Amendment, Modification and Termination.** The Board of Directors of the Company may amend, modify or terminate the Plan at any time, except that no such amendment or modification shall affect awards previously granted. Any such amendment or modification is effective at such date as the Board may determine.
- g. **Severability.** If any provision of the Plan is held invalid or unenforceable, the invalidity or unenforceability has no effect on the remaining parts of the Plan, and the Plan shall be enforced and construed as if such provision had not been included.
- h. **Interpretation.** The Plan is designed and intended to comply with Section 162(m) of the Code, and all provisions hereof shall be construed in a manner to so comply.

Appendix B
Cincinnati Financial Corporation
Directors' Stock Plan of 2009

- 1. Purpose.** The purpose of the Cincinnati Financial Corporation Directors' Stock Plan of 2009 is to enable the Company to attract and retain the service of experienced and knowledgeable outside directors and to strengthen the alignment of interests between outside directors and the shareholders of the Company through the increased ownership of shares of the Company's common stock. This will be accomplished by granting shares of common stock to outside directors as a part of their annual compensation for service on the Company's board of directors.
- 2. Definitions.** For purposes of the Plan, the following terms are defined as set forth below:
 - a. "Board" means the board of directors of the Company.
 - b. "Commission" means the Securities and Exchange Commission.
 - c. "Committee" means the compensation committee of the Board or a subcommittee thereof, any successor thereto or such other committee or subcommittee as may be designated by the Board to administer the Plan, which shall at all times consist of two or more non-employee directors as defined in Rule 16b-3 under the Securities and Exchange Act of 1934, as amended, or any successor rule or definition adopted by the Commission.
 - d. "Company" means Cincinnati Financial Corporation, a corporation organized under the laws of the State of Ohio, or any successor thereto and its subsidiaries on a consolidated basis.
 - e. "Outside Directors" mean directors of the Company who are not also officers and employees of the Company.
 - f. "Participants" means Outside Directors of the Company.
 - g. "Plan" means the Cincinnati Financial Corporation Directors' Stock Plan of 2009, which is the amended and restated Cincinnati Financial Corporation 2003 Non-Employee Directors' Stock Plan.
- 3. Administration.**
 - a. The Company's Committee administers the Plan. The Committee has full power, authority and discretion to administer and interpret the Plan and to establish rules for its administration. The Committee recommends to the Board any amendments to the Plan or otherwise as it deems necessary or appropriate. The Committee, in making any determination under or referred to in the Plan, is entitled to rely on opinions, reports or statements of officers, employees, legal counsel and the public accountants of the Company.
 - b. A decision by a majority of the Committee governs all actions of the Committee.
 - c. Subject to express provisions of this Plan, the Committee has authority to grant Participants an equivalent amount of whole shares of common stock of the Company, equal to the sum of:
 - i. The Participant's directors' fees for meetings earned in the preceding year, exclusive of any retainer, (but in no case more than \$60,000 worth of common stock for any year of service as a director), plus
 - ii. The retainer earned by the Participant in the preceding year; all subject to such conditions or restrictions, if any, as the Committee may determine.
 - d. The Committee may designate the secretary of the Company or such other employees of the Company to assist the Committee in the administration of this Plan and may grant authority to such persons to execute documents on behalf of the Committee.
- 4. Participation.** Only Outside Directors may participate in the Plan.
- 5. Limitation on Number of Shares for the Plan.** The total number shares of common stock of the Company that may be awarded under the Plan shall not exceed 300,000 shares.
- 6. Shares Subject to Use under the Plan.** Shares of common stock to be awarded under the terms of this Plan may be either treasury shares or authorized but unissued shares.

7. Grant of Shares

- a. Commencing with the year 2010 and each year thereafter, the Committee may grant to each Participant shares of common stock with a fair market value on the date of grant that equal (i) the cash director's fees earned by such Participant for Board and committee meetings during the prior calendar year, but limited to \$60,000, plus (ii) the retainer earned by the Participant for that year.
- b. All shares awarded under the Plan are granted at the first meeting of the Committee in each calendar year, or at such other meeting as the Committee may determine and are valued as set forth below.
- c. The shares awarded under the Plan are subject to a restriction on the sale or other transfer for a period of three years ending on the third anniversary of the date of grant, and, such other conditions or restrictions, if any, as the Committee may determine. The conditions and restrictions may vary from time to time and may be set forth in agreements between the Company and the Participant or in the awards of shares to them, all as the Committee may determine. Upon the death of a Participant before the end of the three-year period of restriction on the sale or transfer of shares awarded, such restriction as to shares awarded to that Participant automatically lapse.
- d. The shares awarded are valued at fair market value on the date of grant, which is calculated as the average of the high and low sales price quotations for common stock of the Company on the NASDAQ System on the day of the grant to a Participant. All shares awarded are full shares, rounded up to the nearest whole share.

- 8. Adjustments.** The amount of shares authorized to be issued under this Plan are subject to the appropriate adjustment in the event of future stock splits, stock dividends, or other changes in capitalization of the Company to prevent the dilution or enlargement of rights under this Plan; following any such change, the term "common stock" shall be deemed to refer to such class of shares or other securities as may be applicable.

9. Additional Provisions

- a. The Board may, at any time, repeal or amend this Plan. The Participants and the Company are bound by any such amendments as of their effective dates. If this Plan is repealed in its entirety, all previously awarded shares subject to conditions or restrictions pursuant to this Plan continue to be subject to such conditions or restrictions.
- b. Every recipient of shares pursuant to this Plan is bound by the terms and provisions of this Plan and by any restrictions relating to the shares received and the acceptance of any grant of shares pursuant to this Plan constitutes a binding agreement between the recipient and the Company.

- 10. Duration of Plan.** The Plan is effective on the date of approval by the Board, conditioned upon shareholder approval at the next Annual Meeting of Shareholders. The Plan will terminate on the tenth anniversary of the date it is approved by the Board unless an earlier termination date is fixed by action of the Board, but no such termination affects the prior rights under this Plan of the Company or of anyone to whom shares have been granted prior to such termination.

- 11. Service as a Director.** Nothing in the Plan will interfere with or limit in any way the right of the Company or the Board to terminate any Participant at any time, and neither the Plan, nor the awarding of shares nor any other action taken pursuant to the Plan, will constitute or be evidence of an agreement or understanding, express or implied, that any Participant will be retained on the Board for a any period of time, or at any particular level of compensation.

Contact Information

Communications directed to Steven J. Johnston, FCAS, MAAA, CFA, senior vice president, chief financial officer and secretary, are shared with the appropriate individual(s). Or, you may directly access services:

Investors: Investor Relations responds to investor inquiries about Cincinnati Financial Corporation and its performance.

Heather J. Wietzel – Vice President, Investor Relations

513-870-2768 or investor_inquiries@cinfin.com

Shareholders: Shareholder Services provides stock transfer services, fulfills requests for shareholder materials and assists registered shareholders who wish to update account information or enroll in shareholder plans.

Jerry L. Litton – Assistant Vice President, Shareholder Services

513-870-2639 or shareholder_inquiries@cinfin.com

Media: Corporate Communications assists media representatives seeking information or comment from Cincinnati Financial Corporation or its subsidiaries.

Joan O. Shevchik, CPCU, CLU – Senior Vice President, Corporate Communications

513-603-5323 or media_inquiries@cinfin.com

CINCINNATI FINANCIAL CORPORATION

The Cincinnati Insurance Company

The Cincinnati Casualty Company

The Cincinnati Indemnity Company

The Cincinnati Specialty Underwriters Insurance Company

The Cincinnati Life Insurance Company

CSU Producer Resources Inc.

CFC Investment Company

Mailing Address:

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Cincinnati, Ohio 45250-5496

Street Address:

6200 South Gilmore Road

Fairfield, Ohio 45014-5141

Phone: 513-870-2000

Fax: 513-870-2066

www.cinfin.com



Cincinnati Financial Corporation

Letter from the
Chairman
and the
**Chief Executive
Officer**

March 2009

About the Company

Cincinnati Financial Corporation stands among the 25 largest property casualty insurers in the nation, based on premium volume. A select group of agencies in 35 states actively markets our property casualty insurance within their communities. Standard market commercial lines policies are available in all of those states, while personal lines policies are available in 29 and surplus commercial lines policies are available in 33 of the same 35 states. Within this select group, we also seek to become the life insurance carrier of choice and to help agents and their clients – our policyholders – by offering leasing and financing services.

Three hallmarks distinguish our company, positioning us to build value and long-term success:

- Commitment to our network of professional independent insurance agencies and to their continued success
- Financial strength that lets us be a consistent market for our agents' business, supporting stability and confidence
- Operating structure that supports local decision making, showcasing our claims excellence and allowing us to balance growth with underwriting discipline

Learn more about where we are today and how we plan to create value for shareholders, agents, policyholders and associates by reviewing publications that we promptly post on www.cinfin.com/Investors as they are completed. Please refer to the most recent item for the timeliest information.

2008 Fourth-quarter and Full-Year *Letter to Shareholders* – available on www.cinfin.com/Investors

2008 *Annual Report on Form 10-K* – available on www.cinfin.com/Investors

2009 *Shareholder Meeting Notice and Proxy Statement* – available on www.cinfin.com/Investors

Letter from the Chairman and the Chief Executive Officer – available now

The *Letter* from our chairman and our CEO presents management's perspectives on your company's 2008 performance and trends that may affect performance in 2009 and beyond. The *Cincinnati Resilience*, highlighting our risk management, accompanies this *Letter*.

First-quarter 2009 *Letter to Shareholders* – early May 2009

Second-quarter 2009 *Letter to Shareholders* – early August 2009

Third-quarter 2009 *Letter to Shareholders* – early November 2009

Stay Involved, Be Informed and Save Some Trees Too!

Thank you for your interest in Cincinnati Financial Corporation. We continue to make it easy to go green and get your information fast. By enrolling in e-Delivery at www.cinfin.com/Investors, you can help us save paper and postage while promptly receiving links to all materials and proxy voting communications via e-mail. We mail printed copies of our quarterly and annual letters only to shareholders who are **not** enrolled in e-Delivery.

To Our Shareholders, Friends and Associates:

Your company broke some records in 2008. Uncharacteristically, this was not good news.

Policyholders of The Cincinnati Insurance Companies suffered record storm damages in the first half of the year. Then, winds from Hurricane Ike came through the Midwest in September, causing our largest gross loss ever from a single catastrophe, \$129 million, reduced by reinsurance to a net loss of \$58 million.

The property casualty insurance industry – our main business – endured a fifth year of pricing pressure. As disciplined underwriters, we experienced a decline of 3.4 percent in net written premiums in 2008 compared with a decline of 0.8 percent industrywide.

For the first time, earnings on our investment portfolio were less than the year before. Our \$537 million of pretax investment income was off 11.6 percent from the 2007 total on lower dividends paid by holdings in our equity portfolio. This shortfall is one reflection of the forces buffeting the investment markets over the past months. Because of our low cost basis, we were able to lock in gains on sales of many holdings, leading to \$686 million of net gains from investment transactions. Those gains were partially offset by unprecedented non-cash write-downs of \$510 million, arising from our judgment that securities we continue to hold in our portfolio may not recover lost market value within a reasonable period of time.

Our capital remained at high levels despite this multitude of pressures, but volatility in our equity portfolio caused ratings agencies to place our ratings on negative review and then lower them. By year-end 2008, A.M. Best Co. and Moody's Investors Service had Stable

outlooks on our ratings. Our property casualty group rating from A.M. Best remains in the Superior category, but at A+ it is a notch down from the A++ we enjoyed for many years. This rating of our financial strength continues in the top 10 percent of the more than 1,000 insurer groups A.M. Best rates. Our insurance companies are capitalized at levels far exceeding regulatory requirements, increasing our flexibility through all periods to invest in and expand our insurance operations.

When all was said and done, net income totaled \$429 million, about half of 2007 earnings. Year-end book value was \$25.75 compared with \$35.70 at year-end 2007. We take little consolation in knowing that we were not alone in these disappointments and that broader economic and natural forces were at work. And we cannot say the worst is over. The first two months of the year have made it clear that we need to brace for another difficult year in 2009.

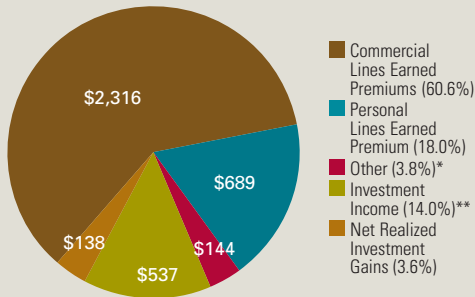
What we will say is that our agent-centered business model is sound and gives a solid foundation for our next steps. We were not sufficiently prepared for all that happened in 2008. We cannot change the past, but we certainly have learned from it. We took major steps in response to the current extreme conditions, and we



John J. Schiff, Jr., CPCU (left), chairman of the board, with Kenneth W. Stecher, president and chief executive officer. The leadership transition in mid-2008 separated the chairman and CEO roles and responsibilities.

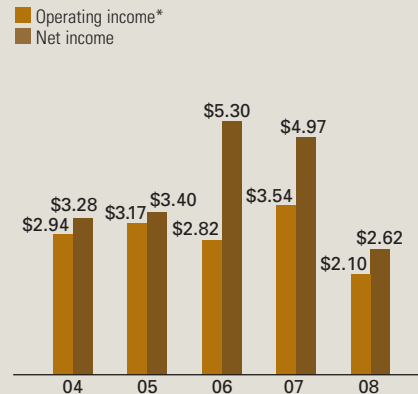
Creating Long-term Value

2008 Consolidated Revenues of \$3,824 million
(In millions)



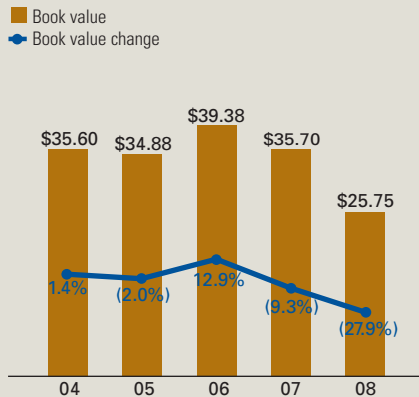
* Other includes \$126 million life and \$5 million surplus lines insurance earned premiums and other earned revenues.
** Investment income less expenses

Net and Operating* Income
Per common share

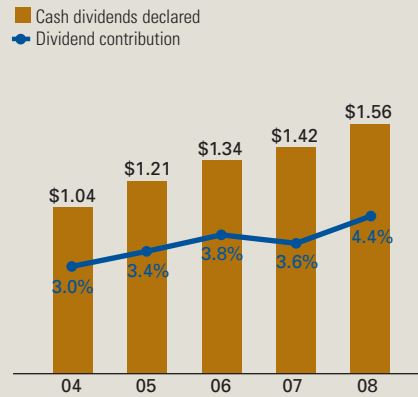


* The Definitions of Non-GAAP Information and Reconciliation to Comparable GAAP Measures on www.cinfin.com defines and reconciles measures presented in this report that are not based on GAAP or Statutory Accounting Principles.

Book Value
Per common share



Cash Dividends Declared
Per common share



Consolidated revenues show the contribution of our insurance and investment operations, while net and operating income are important measures of the value we create for shareholders. With the current economic and market uncertainty, we believe our value creation ratio is an appropriate way to measure our long-term progress because it also captures the importance we place on paying cash dividends to shareholders:

$$\begin{aligned} & \text{Rate of growth in book value per share (book value change)} \\ & + \text{Ratio of dividends declared per share to beginning book value per share (dividend contribution)} \\ & = \text{Value creation ratio} \end{aligned}$$

In 2008, this measure was below our long-term target, and it may be again in 2009, pressured by external forces and our continued investment in our business.

In the period 2010 through 2014, we believe implementation of our strategic plan will lead to a five-year value creation ratio of 12 to 15 percent. This outlook anticipates that commercial insurance pricing will start to firm during 2009 and that the economy and financial markets can resume a growth track by the end of 2010. If those assumptions prove to be inaccurate, we may not be able to achieve our performance targets even after accomplishing our strategic plan.

agents and associates. Our efforts in 2008, to be multiplied in 2009 and beyond, will firm up our position of strength and we will emerge a stronger competitor than ever over the next five years.

Strong Financial Resources

We are going forward with strong liquidity and capital.

Cash on hand was more than \$1 billion at year-end. Implementing revised portfolio guidelines, we sold selected equity investments in 2008 and early 2009, locking in gains and reducing volatility by increasing sector and company diversification. In particular, we took our financial sector holdings

are confident we are building a more competitive and agile company.

We have the resources, the plans and the people to create long-term value for shareholders, policyholders,

to 12.4 percent of the equity portfolio at year-end 2008 from 56.2 percent at year-end 2007. We ended the year with no single stock accounting for more than 14.5 percent of the equity portfolio, which

remained in an overall unrealized gain position at year-end.

Reducing our financial sector holdings included taking gains on our position in Fifth Third Bancorp, reducing it to 12 million shares at year-end 2008. During January 2009, we sold most of our remaining financial sector equity holdings, including the last shares from our Fifth Third holding.

Ample reserves and an effective reinsurance program have protected our liquidity, allowing fixed income investments to mature and equity investments to appreciate over time. Even in a tough year like 2008, cash flow provided adequate funds to pay claims. We have never been forced to prematurely sell securities to pay claims. At its year-end value of \$5.8 billion, our diversified, highly rated fixed income portfolio more than covers our total insurance reserves.

The parent company has healthy capital and flexibility, with \$1.3 billion of cash and invested assets at year-end 2008. In the current environment, we intend to preserve capital and did not repurchase shares in the second half of 2008. Low debt leverage also increases our flexibility. We had access at year-end 2008 to \$176 million on our lines of credit, and our three issues of long-term debt are not due until 2028 and 2032.

Through 2008, your Cincinnati Financial cash dividends increased annually for 48 consecutive years, a record that fewer than a dozen U.S. companies can claim. Generally, our directors declared the increases during the first quarter. In February 2009, the board maintained the quarterly dividend at 39 cents, postponing discussion of a 2009 increase to later

in the year. Many other companies have cut dividends in recent months, including some that contributed to our investment income. As we make quarterly 2009 dividend decisions, we'll carefully weigh our dividend record, responsibly considering our resources and our initiatives to preserve capital and grow profitably over the long term.

With \$3.360 billion of property casualty statutory surplus and a ratio of written premiums to surplus of only 0.9 to 1, we are deploying capital and resources where they will help us expand and succeed.

Strategic Operating Plans

We are working toward improved efficiencies to benefit agency and company profitability.

We will achieve a good return, over time, on staffing expense for new territories and states and on new technology to improve ease, efficiency and profitability for our agencies and our company. We have shortened timelines for delivery of our next generation processing systems. We now expect our new system for commercial packages and commercial auto to go live in 10 states in 2009 and most other states in 2010. Our personal lines system now is scheduled to move to a faster, friendlier format in early 2010. Other business data initiatives will



Martin F. Hollenbeck, CFA, CPCU (left), senior vice president of investments, with Steven J. Johnston, FCAS, MAAA, CFA, senior vice president and chief financial officer. Hollenbeck and Johnston worked together in 2008 to preserve the company's capital and financial strength.

improve our underwriting and pricing by assuring quality data for use in models for rate-making, forecasting, risk management and other decisions.

Accurate exposure, loss and expense data will help us address weaker property casualty underwriting profitability, partially masked in 2008 by reserve releases. Years of ongoing underwriting efforts, as well as allocation refinements, have built a trend of lower than expected losses from previous years, helping current calendar year profitability. This favorable reserve development more than offset our unusually high catastrophe losses in 2008, allowing a statutory combined ratio near breakeven at 100.4 percent versus an industrywide ratio of 104.7 percent.

We continue in 2009 to apply the same prudent

reserving philosophies and practices that have consistently benefited our results.

Our growth initiatives are succeeding.

Prices continue to be low across the property casualty industry on both new and renewal business. The independent insurance agents who market our policies are helping their clients weigh value and service in addition to price, and they continue to award us a generous portion of their carefully selected new business. Agents are using our three-year policy term as a distinct sales advantage to attract and retain commercial accounts. Agents find that many businesses will pay slightly more to get stable costs on selected coverages, allowing them to budget a known amount.

We wrote \$368 million of new business premiums, up

13.1 percent in 2008.

The \$43 million increase is about the same amount as the sum of contributions from agencies appointed since 2004 and from our new surplus lines operations.

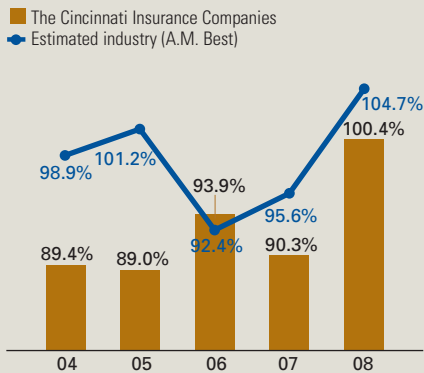
Production generally ramps up over the first 10 years as agency relationships mature.

We continue to expand to new agencies and states, opening central Texas in 2008 and making plans to open

Colorado and Wyoming

Strategy: Improving Insurance Profitability

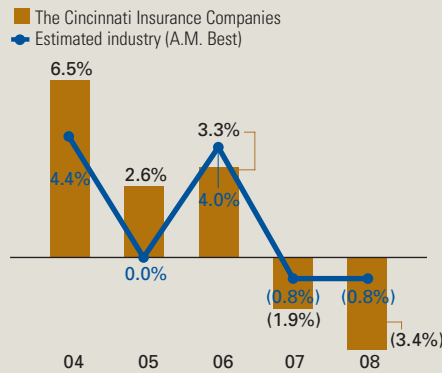
Property Casualty Combined Ratio Statutory



We measure the overall success of our initiatives to grow profitability primarily through our combined ratio. We believe this ratio can be consistently below 100 percent over any five-year period. Our GAAP and statutory combined ratios were below 100 percent in each year over the past five years, except 2008 when we experienced a record level of catastrophe losses. Our GAAP combined ratio averaged 92.8 percent over the during the period. Our statutory combined ratio averaged 92.6 percent over the same period compared with an estimated 98.5 percent for a broad group of standard market property casualty insurance companies.

Strategy: Driving Premium Growth

Property Casualty Net Written Premium Growth Statutory



We measure the overall success of our initiatives to expand our geographic footprint and to diversify our premium sources primarily through changes in net written premiums. We believe we can grow faster than the industry average over any five-year period. The compound annual growth rate of our net written premiums was 1.3 percent over the past five years, matching the estimated growth rate for a broad group of standard market property casualty insurance companies.

in 2009. Over time, our westward movement is improving our spread of risk and potentially mitigating catastrophe volatility.

We offer the full range of products our property casualty agencies need to diversify their revenues and meet the needs of people in their local communities. We will see growing contributions from our surplus lines operation – which wrote \$14 million in 2008, its first year of operation – and from sales of personal lines by agencies that previously marketed only our commercial policies. By steadily improving our processing systems and pricing accuracy, we are helping agencies see the value of selling our personal lines. Approximately 80 percent of our property casualty agencies sell our life insurance products, which feature simplicity, guarantees and service supported by our investment in imaging and workflow technology.

Committed People, Clear Priorities

We are setting the stage for continuity of leadership, values and commitments.

Our own jobs changed in 2008. As Vice Chairman Jim Benoski was preparing to retire in early 2009 from active employment, we moved ahead with executive transitions. Jack and Jim continue to lead our board as chairman and vice chairman, respectively. As of July 1, 2008, Jim passed the presidential torch to Ken, who stepped up from his post as chief financial officer; and Jack likewise turned over chief executive officer duties to Ken. Steve Johnston joined the company to be our new chief financial officer, bringing 25 years of experience in insurance accounting, finance, investments, actuarial and technology.

This is the first time your company's president and CEO came from outside our insurance underwriting and marketing ranks. With his 40+ years with the company, Ken is the right leader as we sharpen our focus on our efficiency, enterprise risk management, data quality, modeling and technology initiatives to support smart growth and benefit agents, policyholders and shareholders. His selection was timely; together he and Steve brought their seasoned financial perspectives and a measured, analytic approach to our decisions as events of the second half of 2008 unfolded.

At the same time, responsibilities for several other executive officers broadened or changed, allowing all to round out their experience and qualifications to advance in our next generation of leadership. J.F. Scherer, head of our Sales & Marketing area, now is executive vice president. Tom Joseph now is president of



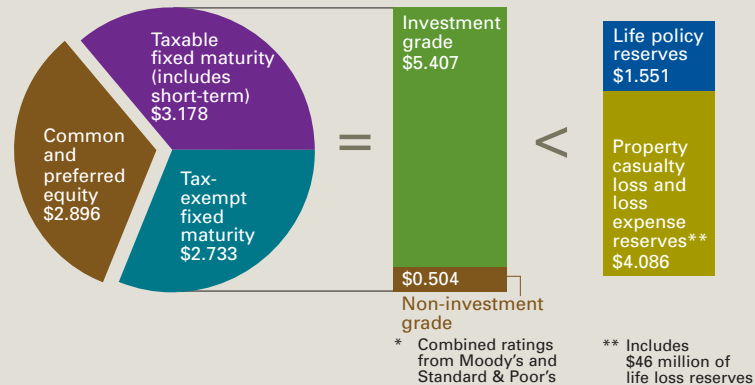
Martin J. Mullen, CPCU (left), senior vice president and chief claims officer, with James E. Benoski, vice chairman of the board. Benoski, who had advanced to president in 2006 after a 35-year claims career, retired from active employment in 2009. Under Mullen, management is consolidated for headquarters and field claims operations.



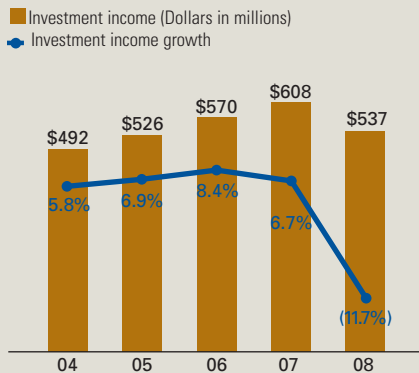
Thomas A. Joseph, CPCU (left), president of The Cincinnati Casualty Company, with Charles P. (Bud) Stoneburner II, CPCU, AIM, senior vice president of commercial lines. Joseph and Stoneburner head our largest underwriting departments, working together to increase our competitiveness and profitability.

Strategy: Preserving Capital

Consolidated Investment Portfolio
At December 31, 2008
(In billions)



Consolidated Pretax Investment Income
Less expenses



We are implementing initiatives to preserve our capital and liquidity so that we can successfully grow our insurance business. Despite the unprecedented events of 2008, our financial condition remains strong and our insurance operations remain capitalized at levels well in excess of regulatory requirements. Our reserving practices have historically produced redundancies, with total insurance reserves covered by a highly rated, diversified, fixed-maturity portfolio almost equally divided between taxable and tax-exempt bonds.

Looking forward, the best measures of the success of our initiatives will be:

- Resumption of investment income growth, which averaged 2.9 percent for 2004 through 2008. It grew in each year except 2008 when we experienced a dramatic reduction in dividend payouts by financial services companies held in our equity portfolio, a risk we addressed aggressively during 2008.
- Total return on our equity investment portfolio that exceeds that of the Standard & Poor's 500 Index. Over the five years ended December 31, 2008, our compound annual equity portfolio return was negative and about 7 percentage points worse than the Index. In 2008, we improved the potential for above-market portfolio performance and reduced the potential for future volatility by increasing sector and company diversification.

The Cincinnati Casualty Company, heading up our personal lines operation. Bud Stoneburner has taken the reins in our largest business area, commercial lines.

There also were director transitions in 2008.

Ken joined the board, and Dirk Debbink departed after he was recalled to active military duty and appointed Vice Admiral and Chief of Navy Reserve, U.S. Navy. We thank him, both for his service to your company and for his service to our country.

All of our directors and members of our executive team share a firm commitment to perpetuate our agent-centered values. Agents and policyholders can rely on our board and executive team to continue differentiating Cincinnati in the marketplace making decisions at the local level, providing superior claims service and managing the company to preserve and build financial strength.

We made it a priority to honor relationships and act with integrity as we carried out change.

Some difficult and necessary actions better positioned your company for the future. Foremost among those hard decisions was the one relating to our 2009 dividend, discussed earlier in this letter.

We also moved most of our associates out of our defined benefit pension plan and into 401(k) accounts with matching contributions. Our goal was to make our benefits program more attractive to many current and prospective associates while reducing potential volatility on our company balance sheets.

Finally, in February 2009, we chose to close CinFin Capital Management, our asset management subsidiary, suspending fees and facilitating smooth transitions to

other money managers. Over its 10 years, CinFin Capital had been profitable, but further growth would have required resources we believe we can use more strategically to advance our core insurance business.

Lasting Shareholder Value

We are committed to building long-term rewards for you, our shareholders.

Near-term indicators for the U.S. economy continue negative, although our agents and field representatives are reporting some positive signs that insurance pricing is flattening and may firm. Your company, like most American companies, has never before operated through a period of comparable uncertainty and volatility in the financial markets. In 2008, our total shareholder return was a negative 22.5 percent compared with negative 36.9 percent for the S&P 500 Index.

The many unknowns we all face include details and impacts of government programs affecting everything from banking, insurance and taxes to energy policy,

public construction and entitlements. Even healthy companies like ours that are not recipients of government funds cannot predict how TARP, the stimulus package or other programs may change the environment for our industry or for the businesses and people we insure.

Any specific 2009 performance targets we could suggest would be heavily conditioned by assumptions.

In line with the long-term perspective we use to set

decisions and initiatives, we believe guidance that looks beyond 2009 will prove more helpful to those who study the outlook for our future success.



Larry R. Plum, CPCU, ARe (left), senior vice president of government relations, with Timothy L. Timmel, senior vice president of operations. Plum and Timmel guide departments that help the company safely navigate through changes in legislative and judicial environments and assure our legal and regulatory compliance.

Better Data > Better Tools > Better Decisions

While our business model and operating discipline are the foundation of our risk management program, we also use financial and actuarial models to help quantify risks, understand how they correlate and identify the impact of various business choices. Financial models help us estimate the impact of our business plans and identify operational targets. Actuarial models simulate various events, giving us a distributional snapshot of their probability, which we consider in making business decisions.

Models rely on historical data and assumptions. Although they cannot predict the future with certainty, they are helpful tools to analyze and understand choices to improve long-term results. For example, we use models to estimate claims reserve needs and catastrophe exposures, applying results as we formulate underwriting and pricing guidelines and plans for geographical expansion. We also use dynamic financial analysis to help understand our capital needs in making reinsurance choices and comparing outcomes of various business strategies. Economic capital models quantify the risks a company faces and calculate both the capital needed to cover them and their risk-adjusted returns.

Our resources, plans and people give us the flexibility we need to assure resilience through all underwriting cycles and economic markets. We are confident that for the five-year period spanning 2010 to 2014, we can achieve an average of 12 to 15 percent for a measure we are calling our *value creation ratio*. This ratio is the sum of the growth rate of book value per share plus the ratio of dividends declared per share to beginning book value per share. It captures the drivers of our progress in building shareholder value – the contribution of our insurance operations, the success of our investment strategy and the high priority we place on paying cash dividends to you.

We believe this target is achievable as long as there is some firming of commercial insurance prices this year,

and by the end of 2010, a turn toward recovery in the economy and financial markets. Will we achieve this level of value creation in 2009 or in every year of the five-year span? This is unlikely. Our five-year target represents an average, recognizing that the inevitable ups and downs of markets and business cycles, catastrophes and, yes, looming economic uncertainties may take a toll in some years. Our focus is not on timing, but on plans that build success over time.

Short-term pressures cannot alter our focus on achieving success over time through our flexible, relationship-based and agent-centered business model. We are more determined and convinced than ever that we will recover our stride and step up to higher levels of performance over the coming years.

Respectfully,

/S/ John J. Schiff, Jr.
John J. Schiff, Jr., CPCU
Chairman of the Board

/S/ Kenneth W. Stecher
Kenneth W. Stecher
President and Chief Executive Officer

March 16, 2009

Cincinnati Resilience

Managing risk to increase stability and agility

Your company's first defense against risk and uncertainty is its structure and simplicity. Since 1950, when independent insurance agents founded The Cincinnati Insurance Company, we have emphasized disciplined underwriting, low-debt tolerance and a simple, long-term investment strategy. These ideals continue to serve us well in uncertain times.

At our parent company level, financial flexibility comes from our strong liquidity and low debt. Our investment portfolio reflects our belief that we should undertake only those risks that we understand.

At the insurance company level, our defenses include firsthand knowledge of local markets served by our large force of empowered field representatives, as well as conservative reinsurance and reserving practices. Our reinsurance program, backed by highly rated reinsurers, helps assure our stability. We carefully select retentions that allow us to effectively balance costs with benefits. We hold a highly rated, diversified bond portfolio with a total market value that exceeds our insurance reserve liabilities. Our consistently adequate policy reserve levels fully reflect underwriting and loss trends as they occur.

We effectively mitigate the risks associated with our large insurance reserves by following sound claims and actuarial practices. We establish case reserves at the local level, based on local market knowledge, and use a claims mediation process to resolve many claims quickly. Key reserving decisions are subject to reviews at multiple levels and to annual review by our appointed actuary, an important check to ensure the long-term integrity of our

reserve position. We continue our conservative approach by not discounting reserves.

The recent and ongoing cascade of events in the economy and financial markets has viscerally demonstrated that it is not enough to study and manage financial and operational risks in isolation – by case, by region, by agency, by business line or segment, or by any single factor. Rather, we are wiser to stress test our readiness to withstand risk by developing solutions for scenarios where risks emerge, converge and compound.

Your company's management and board believe that we can strengthen the inherent stability and agility of our business model by applying enterprise risk management techniques. Understanding the risks we take and their potential impacts under harder-to-imagine scenarios can increase our resilience, allowing us to adapt and thrive through the worst of times.

For the past few years, we have been identifying, quantifying and defining our tolerances, mitigating risks, and managing intersecting risks across our operations. Nonetheless, ratings agencies rightfully faulted our efforts at mid-2008 for failing to reduce investment concentrations early enough to avoid losing



Craig W. Forrester, CLU (left), senior vice president of information technology, with J.F. Scherer, executive vice president of sales and marketing. We have opportunities to strengthen relationships with our customers – the independent agents who represent us – by advancing our agent-facing technology even as we maintain strong personal relationships.

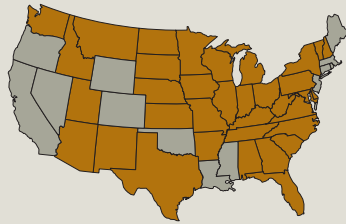
Market Opportunities

Over the next several years, we plan to expand our geographic footprint and diversify our premium sources. As we enhance current agency relationships and add new ones, over time we work to earn a No. 1 or No. 2 rank among carriers in each agency. We have an average share of about 12 percent of the property casualty insurance purchased through our 1,387 reporting agency locations.

Agency Relationship Duration	Share of Agency Premiums
Less than 1 year	0.6%
1 to 5 years	4.4%
5+ to 10 years	7.4%
10+ years	18.1%

Commercial Lines Opportunities

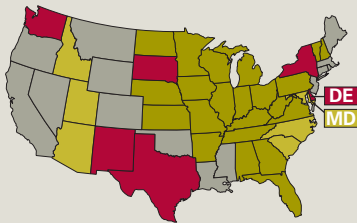
We continue to appoint new agencies in our current operating territories. In 2009, we are targeting 65 appointments of independent agencies writing an aggregate \$1 billion in property casualty premiums annually with all carriers they represent. This target includes appointments in the recently opened state of Texas. We made 76, 66 and 55 new appointments in 2008, 2007 and 2006, respectively. We carefully evaluate the marketing reach of each new appointment to ensure the territory can support both current and new agencies.



Another source of premium growth is our new surplus lines operation, which ended the year on track with products available in 33 of our 35 active states. Today, our agents write about \$2.5 billion annually of surplus lines business with other carriers. We want to earn an appropriate share by bringing Cincinnati-style service to those clients.

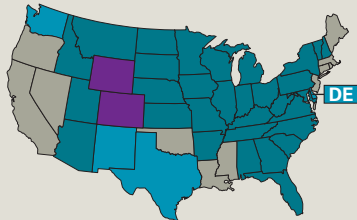
Personal Lines Opportunities

Now marketing personal lines in 29 states, we are working to position this business for profitable future growth. By late-2009, we expect to advance our use of tiered ratings, helping to further improve our rate and credit structures. As we began 2009, we recently made our personal lines products available in six additional states through agencies that currently market our commercial lines products. These agencies write approximately \$600 million in personal lines premiums annually with all carriers they represent. Agencies in an additional six states where we market commercial lines (red) do not yet offer our personal lines products.



New States

With our entry into Texas during the fourth quarter of 2008, Cincinnati Insurance now actively markets our policies in 35 states, expanding our opportunities beyond the Midwest and South. We now have a sizeable presence in the western states – opening New Mexico and eastern Washington in 2007, Utah in 2000, Idaho in 1999 and Montana in 1998. We entered Arizona in 1971. We plan to look next at taking Cincinnati Insurance to agencies in Colorado and Wyoming.



We generally are able to build a 10 percent share of an agency's business after about 10 years. In Delaware, New Mexico and Washington, our three newest states, we've appointed agencies that write about \$400 million annually with all the carriers they represent. Our writings with these new agencies were almost 2 percent of that total in 2008. We appointed our first agencies in central Texas late in 2008. Over the next 18 months, we expect to appoint agencies in that state that write about \$750 million in premiums annually with all carriers they represent.

surplus as market values declined. Just a few months later, ratings analysts who reviewed our progress gave us more favorable marks, approving of our mitigation efforts and concluding that our enterprise risk management program now is more advanced than those of many other insurers.

We are integrating our enterprise risk management framework into our business planning at the corporate and department levels. Four examples below show how the framework drives risk-based decisions, keeping us on track, helping us bounce back, and giving us the confidence in our ability to balance risk and reward:

EXAMPLE —

Relationship risk: We rely exclusively on independent insurance agencies to distribute our products. Because each agency represents multiple insurers, we must demonstrate our value to our agents and contribute to their success. To win an increasing share of their business, we need to deploy policy processing systems that streamline their workflow, increase their productivity and reduce their expenses.

Risk-based decision: In 2008, we significantly accelerated our two major technology projects, focusing resources and communicating this priority to all associates. We are on track for agencies in 10 of our larger states to begin using our e-CLAS system for commercial package and auto policies in 2009, and for most other states to go live in 2010. Our personal lines system now is slated to move to an updated, user-friendlier platform at the beginning of 2010, improving the experience of agents who sell our homeowner and personal auto products. Agents who have

reviewed and tested prototypes of these systems believe their introductions will add to the advantages we already enjoy.

Intersections: In addressing this risk, we improve our management of other risks. For example, these new systems will improve the data we collect, supporting more precise underwriting and pricing. Additionally, their operation will improve the speed and efficiency of booking premium, reducing the need for time-consuming reconciliations. Further, the new systems allow agents the choice on commercial as well as personal policies to have us bill their clients directly, letting us prepare to offer services to policyholders, such as convenient online and telephone payment options.

EXAMPLE —

Catastrophe risk: Our property casualty insurance business started in Ohio, extending today to 35 states for commercial lines and 29 for personal lines. Our most established, penetrated marketing territories are in the Midwest, followed by states in the Southeast. This geographical concentration – especially on the personal lines side, where more than 35 percent of premiums are written in Ohio – makes us vulnerable to large catastrophe losses.

Risk-based decision: We have always addressed catastrophe risk in our underwriting and pricing guidelines; now we also are shaping our growth strategy around mitigation of this risk through geographic diversification. For example, expansions are setting the stage to develop a sizeable presence in the West.

As new agency relationships mature and our share of agency business ramps up, our exposures are spreading

over a larger premium base, decreasing overall catastrophe vulnerability. We also are working to boost the premium base by leveraging our personal lines technology in agencies and states where we previously wrote only commercial lines business. Growth through our new surplus lines operation also is increasing our premium base.

Intersections: These actions not only spread our exposures and increase our premiums; they also support a more diversified stream of revenues for your company and our agencies. When economic pressures, market forces and timing diverge across geographic markets and lines of business, diversified revenues help stabilize performance.

EXAMPLE —

Investment portfolio risk: In mid-2007, our equity investment portfolio was more than 50 percent concentrated in the financial sector, including 73 million shares of a single common stock, Fifth Third Bancorp. Beginning to be stressed by the mortgage crisis, financials were losing value. Over the ensuing months, many of these companies reduced or eliminated their dividends, which had previously boosted our profits.

Risk-based decision: We developed, adopted and implemented revised investment guidelines. For the



Donald J. Doyle, Jr., CPCU, AIM (left), senior vice president of excess and surplus lines, with David H. Popplewell, FALU, LLIF, president of Cincinnati Life. Doyle helped launch Cincinnati Specialty Underwriters in 2008. Both subsidiaries extend our products beyond standard market property casualty policies, helping agents diversify revenues, round accounts and increase policy retention.

Measuring and Monitoring Ethics

Perhaps our most important defense against risk is your company's culture and the values embedded in it. Training programs and internal communications convey ethical standards and guidelines, and we assess consistency of corporate business decisions and individual actions in many ways:

- We provide a multitude of options for directors, officers and associates to communicate with management, including a toll-free hotline that allows for anonymous report of any concern.
- We annually poll focus groups on the effectiveness of our ethical guidelines, policies and training programs.
- Our periodic evaluations of the design and operating effectiveness of internal controls and processes help assure compliance with laws and regulations.

fixed-income portfolio, we limited exposures in a single issuer or within a credit rating category and placed a limit on the amount of municipal bonds that may come from a single state. For the equity portfolio, we established tolerances for company or sector concentration and for our overall equity ownership as a percent of total invested assets and statutory surplus. We moved quickly to bring the portfolio in line with the new tolerances, achieving some mitigation by year-end. As a result, we owned no shares of Fifth Third as of January 2009, and the financial sector, at only 12 percent, is no longer the largest in our equity portfolio.

Intersections: We identified and measured potential impacts from multiple relationships with Fifth Third, including insurance, banking and 401(k) plan administration. Added to the investment relationship, these dependencies entailed more correlated risk than we found acceptable. Aside from eliminating the investment relationship, we established controls to fully evaluate and monitor the potential impact of entities with which we have multiple relationships.

EXAMPLE —

Location risk: By design, approximately 70 percent of our staff works at a single headquarters facility, supporting a dispersed field force that is unencumbered by branch offices. Instead, we give our field representatives who work out of their homes wide decision-making authority. The downside to our centralized headquarters support is higher business continuity risk. A natural or manmade disaster, epidemic or major power disruption, for instance, could seriously curtail or cut off our support of field representatives and agents across the country.

Risk-based decision: We began improving our emergency backup arrangements for data and critical systems, including relocation of that capability to a different off-site, third-party facility. We expanded secure electronic access to files and systems from outside headquarters. We began converting a property to serve as an emergency operating base for selected headquarters associates. We stepped up health and wellness programs, including first responder training, and coordinated with authorities to become a point of distribution for emergency vaccines or antidotes.

Intersections: Plans to assure disaster recovery and business continuity also mitigate financial risk related to employee benefits – health, life and disability insurance, as well as workers' compensation. We mapped the aggregated risk to help us weigh potential losses and financial impacts and reduced risk by taking mitigation and transfer actions.

Condensed Balance Sheets and Income Statements (unaudited)

Cincinnati Financial Corporation and Subsidiaries

(Dollars in millions)

	At December 31,	
	2008	2007
Assets		
Investments	\$ 8,890	\$ 12,261
Cash and cash equivalents	1,009	226
Premiums receivable	1,059	1,107
Reinsurance receivable	759	754
Deferred income tax	126	0
Other assets	1,526	2,289
Total assets	<u>\$ 13,369</u>	<u>\$ 16,637</u>
Liabilities		
Insurance reserves	\$ 5,637	\$ 5,445
Unearned premiums	1,544	1,564
Deferred income tax	0	977
6.125% senior notes due 2034	371	371
6.9% senior debentures due 2028	28	28
6.92% senior debentures due 2028	392	392
Other liabilities	1,215	1,931
Total liabilities	<u>9,187</u>	<u>10,708</u>
Shareholders' Equity		
Common stock and paid-in capital	1,462	1,442
Retained earnings	3,579	3,404
Accumulated other comprehensive income	347	2,151
Treasury stock	(1,206)	(1,068)
Total shareholders' equity	<u>4,182</u>	<u>5,929</u>
Total liabilities and shareholders' equity	<u>\$ 13,369</u>	<u>\$ 16,637</u>

(Dollars in millions except per share data)

	Years ended December 31,		
	2008	2007	2006
Revenues			
Earned premiums	\$ 3,136	\$ 3,250	\$ 3,278
Investment income, net of expenses	537	608	570
Realized investment gains and losses	138	382	684
Other income	13	19	18
Total revenues	<u>3,824</u>	<u>4,259</u>	<u>4,550</u>
Benefits and Expenses			
Insurance losses and policyholder benefits	2,193	1,963	2,128
Commissions	576	624	630
Other operating expenses	515	480	463
Total benefits and expenses	<u>3,284</u>	<u>3,067</u>	<u>3,221</u>
Income Before Income Taxes	540	1,192	1,329
Provision for Income Taxes	111	337	399
Net Income	<u>\$ 429</u>	<u>\$ 855</u>	<u>\$ 930</u>
Per Common Share:			
Net income—basic	\$ 2.63	\$ 5.01	\$ 5.36
Net income—diluted	\$ 2.62	\$ 4.97	\$ 5.30

Six-year Summary Financial Information

Cincinnati Financial Corporation and Subsidiaries

(Dollars in millions except per share data)

	Years ended December 31,					
	2008	2007	2006	2005	2004	2003
Financial Highlights						
Net income	\$ 429	\$ 855	\$ 930	\$ 602	\$ 584	\$ 374
Net realized investment gains and losses, after tax	85	245	434	40	60	(27)
Operating income	\$ 344	\$ 610	\$ 496	\$ 562	\$ 524	\$ 401
Per Share Data (Diluted)						
Net income	\$ 2.62	\$ 4.97	\$ 5.30	\$ 3.40	\$ 3.28	\$ 2.10
Net realized investment gains and losses, after tax	0.52	1.43	2.48	0.23	0.34	(0.15)
Operating income	\$ 2.10	\$ 3.54	\$ 2.82	\$ 3.17	\$ 2.94	\$ 2.25
Cash dividends declared	1.56	1.42	1.34	1.21	1.04	0.90
Book value	25.75	35.70	39.38	34.88	35.60	35.10
Ratio Data						
Debt-to-capital	16.7%	12.7%	11.0%	11.5%	11.2%	8.9%
Book value growth	(27.9)	(9.3)	12.9	(2.0)	1.4	11.6
Cash dividends declared to beginning book value	4.4	3.6	3.8	3.4	3.0	2.9
Value creation ratio	(23.5)	(5.7)	16.7	1.4	4.4	14.5
Consolidated Property Casualty Insurance Operations (Statutory)						
Agency renewal written premiums	\$ 2,828	\$ 2,960	\$ 2,931	\$ 2,897	\$ 2,793	\$ 2,581
Agency new business written premiums	368	325	357	313	330	328
Written premiums	3,010	3,117	3,178	3,076	2,997	2,815
Earned premiums	3,010	3,125	3,164	3,058	2,919	2,653
Current accident year before catastrophe losses	\$ 2,174	\$ 2,030	\$ 1,947	\$ 1,854	\$ 1,797	\$ 1,776
Current accident year catastrophe losses	205	47	176	118	153	101
Prior accident years before catastrophe losses	(321)	(224)	(113)	(169)	(191)	(76)
Prior accident year catastrophe losses	(2)	(21)	(2)	9	(5)	(4)
Total loss and loss expenses	\$ 2,056	\$ 1,832	\$ 2,008	\$ 1,812	\$ 1,754	\$ 1,797
Underwriting expenses	965	988	965	914	878	746
Net underwriting gain (loss)	(11)	305	191	332	287	110
Loss ratio	57.7%	46.6%	51.9%	49.2%	49.8%	56.1%
Loss expense ratio	10.6	12.0	11.6	10.0	10.3	11.6
Underwriting expense ratio	32.1	31.7	30.4	29.8	29.3	26.5
Combined ratio	100.4%	90.3%	93.9%	89.0%	89.4%	94.2%
Policyholders' surplus	\$ 3,360	\$ 4,307	\$ 4,750	\$ 4,194	\$ 4,191	\$ 2,783
Net written premiums to surplus	0.90	0.72	0.67	0.73	0.71	1.01
Commercial Lines Property Casualty Insurance Operations (Statutory)						
Written premiums	\$ 2,311	\$ 2,413	\$ 2,442	\$ 2,290	\$ 2,186	\$ 2,031
Earned premiums	2,316	2,411	2,402	2,254	2,126	1,908
Loss ratio	54.2%	44.8%	48.4%	46.6%	43.4%	51.2%
Loss expense ratio	10.7	13.1	12.7	11.0	10.9	12.7
Underwriting expense ratio	31.7	31.3	29.7	29.5	29.4	27.0
Combined ratio	96.6%	89.2%	90.8%	87.1%	83.7%	90.9%
Personal Lines Property Casualty Insurance Operations (Statutory)						
Written premiums	\$ 685	\$ 704	\$ 736	\$ 786	\$ 811	\$ 784
Earned premiums	689	714	762	804	793	745
Loss ratio	69.0%	53.2%	62.9%	56.7%	66.7%	68.8%
Loss expense ratio	10.4	8.1	8.3	7.2	8.9	8.9
Underwriting expense ratio	32.2	32.8	32.4	30.4	29.0	25.2
Combined ratio	111.6%	94.1%	103.6%	94.3%	104.6%	102.9%
Life Insurance Operations (Statutory)						
Written premiums	\$ 185	\$ 167	\$ 161	\$ 205	\$ 193	\$ 143
Net income before realized investment gains and losses	(18)	7	(1)	10	26	27
Net income	(70)	39	28	21	28	20
Gross life insurance face amount in force	65,888	61,875	56,971	51,493	44,921	38,492
Admitted assets excluding separate account business	1,930	2,029	2,026	1,882	1,713	1,572
Risk-based capital:						
Total adjusted capital	290	506	556	511	491	443
Authorized control level risk-based capital	38	66	67	52	47	50

* The Definitions of Non-GAAP Information and Reconciliation to Comparable GAAP Measures on www.cinfin.com defines and reconciles measures presented in this report that are not based on GAAP or Statutory Accounting Principles.

Safe Harbor Statement

This is our “Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995. Our business is subject to certain risks and uncertainties that may cause actual results to differ materially from those suggested by the forward-looking statements in this report. Some of those risks and uncertainties are discussed in our 2008 Annual Report on Form 10-K, Item 1A, Risk Factors, Page 25. Although we often review or update our forward-looking statements when events warrant, we caution our readers that we undertake no obligation to do so.

Factors that could cause or contribute to such differences include, but are not limited to:

- Further decline in overall stock market values negatively affecting the company's equity portfolio and book value
 - Events, such as the credit crisis, followed by prolonged periods of economic instability, that lead to:
 - Significant or prolonged decline in the value of a particular security or group of securities and impairment of the asset(s)
 - Significant decline in investment income due to reduced or eliminated dividend payouts from a particular security or group of securities
 - Significant rise in losses from surety and director and officer policies written for financial institutions
 - Recession or other economic conditions or regulatory, accounting or tax changes resulting in lower demand for insurance products
 - Prolonged low interest rate environment or other factors that limit the company's ability to generate growth in investment income or interest rate fluctuations that result in declining values of fixed-maturity investments, including declines in accounts in which we hold bank-owned life insurance contract assets
 - Further deterioration in the banking sector or with banks with which we have relationships
 - Changing consumer buying habits and consolidation of independent insurance agencies that could alter our competitive advantages
 - Unusually high levels of catastrophe losses due to risk concentrations, changes in weather patterns, environmental events, terrorism incidents or other causes
 - Increased frequency and/or severity of claims
 - Delays or inadequacies in the development, implementation, performance and benefits of technology projects and enhancements
 - Ability to obtain adequate reinsurance on acceptable terms, amount of reinsurance purchased, financial strength of reinsurers and the potential for non-payment or delay in payment by reinsurers
 - Increased competition that could result in a significant reduction in the company's premium growth rate
 - Events or conditions that could weaken or harm the company's relationships with its independent agencies and hamper opportunities to add new agencies, resulting in limitations on the company's opportunities for growth, such as:
 - Multi-notch downgrades of the company's financial strength ratings
 - Concerns that doing business with the company is too difficult
 - Perceptions that the company's level of service, particularly claims service, is no longer a distinguishing characteristic in the marketplace
 - Underwriting and pricing methods adopted by competitors that could allow them to identify and flexibly price risks, which could decrease our competitive advantages
 - Personal lines pricing and loss trends that lead management to conclude that this segment could not attain sustainable profitability, which could prevent the capitalization of policy acquisition costs
 - Actions of insurance departments, state attorneys general or other regulatory agencies, including a change to a federal system of regulation from a state-based system, that:
 - Restrict our ability to exit or reduce writings of unprofitable coverages or lines of business
 - Place the insurance industry under greater regulatory scrutiny or result in new statutes, rules and regulations
 - Increase our expenses
 - Add assessments for guaranty funds, other insurance related assessments or mandatory reinsurance arrangements; or that impair our ability to recover such assessments through future surcharges or other rate changes
 - Limit our ability to set fair, adequate and reasonable rates
 - Place us at a disadvantage in the marketplace
 - Restrict our ability to execute our business model, including the way we compensate agents
 - Adverse outcomes from litigation or administrative proceedings
 - Events or actions, including unauthorized intentional circumvention of controls, that reduce the company's future ability to maintain effective internal control over financial reporting under the Sarbanes-Oxley Act of 2002
 - Inaccurate estimates or assumptions used for critical accounting estimates
 - Unforeseen departure of certain executive officers or other key employees due to retirement, health or other causes that could interrupt progress toward important strategic goals or diminish the effectiveness of certain longstanding relationships with insurance agents and others
 - Events, such as an epidemic, natural catastrophe or terrorism, that could hamper our ability to assemble our workforce at our headquarters location
- Further, the company's insurance businesses are subject to the effects of changing social, economic and regulatory environments. Public and regulatory initiatives have included efforts to adversely influence and restrict premium rates, restrict the ability to cancel policies, impose underwriting standards and expand overall regulation. The company also is subject to public and regulatory initiatives that can affect the market value for its common stock, such as recent measures affecting corporate financial reporting and governance. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

Subsidiary Officers and Directors

As of March 16, 2009, listed alphabetically
The Cincinnati Insurance Company (CIC)
The Cincinnati Indemnity Company (CID)
The Cincinnati Casualty Company (CCC)

The Cincinnati Specialty Underwriters Insurance
Company (CSU)
The Cincinnati Life Insurance Company (CLIC)

CSU Producer Resources Inc. (C-SUPR)
CFC Investment Company (CFC-I)

Executive Officers

Donald J. Doyle, Jr., CPCU, AIM
CIC, CID, CCC, CSU, C-SUPR Senior Vice President –
Excess & Surplus Lines
CIC, CID, CCC, CSU Director

Craig W. Forrester, CLU
CIC, CID, CCC, CLIC, Senior Vice President –
Information Technology

Martin F. Hollenbeck, CFA, CPCU
CIC, CID, CCC, CSU, CLIC Senior Vice President –
Investments
CFC-I President and Chief Operating Officer
CIC, CID, CCC, CLIC, CFC-I, CSU Director

Steven J. Johnston, FCAS, MAAA, CFA
CIC, CID, CCC, CLIC, CFC-I, CSU, C-SUPR Chief
Financial Officer, Senior Vice President and Secretary
CSU, C-SUPR – Treasurer
Director of all subsidiaries

Thomas A. Joseph, CPCU
CCC President
CIC, CID Senior Vice President – Personal Lines
CIC, CID, CCC, CSU Director

Eric N. Mathews, CPCU, AIAF
CIC, CID, CCC, CLIC Senior Vice President –
Corporate Accounting

Martin J. Mullen, CPCU
CIC, CID, CCC Senior Vice President and
Chief Claims Officer
CIC, CID, CCC, CLIC, CSU Director

Larry R. Plum, CPCU, ARE
CIC, CID, CCC Senior Vice President –
Government Relations

David H. Popplewell, FALU, LLIF
CLIC President and Chief Operating Officer; Director

J. F. Scherer
CIC, CID, CCC, CLIC Executive Vice President –
Sales & Marketing
CIC, CID, CCC, CSU, CLIC, CFC-I Director

John J. Schiff, Jr., CPCU
CIC, CID, CCC, CSU, CLIC, C-SUPR Chairman of the Board
Director of all subsidiaries

Joan O. Shevchik, CPCU, CLU
CIC, CID, CCC Senior Vice President –
Corporate Communications

Kenneth W. Stecher
CIC, CID, CSU, C-SUPR President and Chief Executive Officer
CCC, CLIC, CFC-I Chief Executive Officer
Director of all subsidiaries

Charles P. Stoneburner II, CPCU, AIM
CIC, CID, CCC Senior Vice President – Commercial Lines
CIC, CID, CCC, CSU Director

Timothy L. Timmel
CIC, CID, CCC, CLIC, CFC-I Senior Vice President –
Operations
CIC, CID, CCC, CSU, CLIC, CFC-I Director

Senior Officers

Michael R. Abrams
CIC, CID, CCC, CLIC Vice President – Investments

Dawn M. Alcorn
CIC, CID, CCC Vice President – Administrative Services

Brad E. Behringer
CLIC Senior Vice President and Chief Underwriter

David L. Burbrink
CLIC Vice President – Life Field Services

Teresa C. Cracas
CIC, CID, CCC, CLIC Vice President –
Planning & Risk Management

Richard W. Cumming, ChFC, CLU, FSA, MAAA
CIC, CID, CCC, CLIC Senior Vice President and Chief Actuary
CLIC Director

Joel W. Davenport, CPCU, AAI
CIC, CID, CCC Vice President – Commercial Lines

J. Michael Dempsey, CLU
CLIC Vice President – Life Marketing Administration

Mark R. DesJardins, CPCU, AIM, AIC, ARP
CIC, CID, CCC Vice President – Learning & Development

W. Dane Donham, AIM
CIC, CID, CCC Vice President – Commercial Lines

Harold L. Eggers, CLU, FLMI, FALU, HIAA
CLIC Vice President – Life Policy Issue

Frederick A. Ferris
CIC, CID, CCC Vice President – Commercial Lines

Carl C. Gaede, CPCU, AFSB
CIC, CID, CCC Vice President – Bond & Executive Risk

William J. Geier, CPCU, CLU, ChFC, FLMI, AIM, HIAA
CIC, CID, CCC, CLIC Vice President -
Information Technology

Gary B. Givler
CIC, CID, CCC Vice President – Headquarters Claims

David T. Groff, CPCU, FCAS, MAAA
CIC, CID, CCC Vice President – Staff Underwriting

Kevin E. Guilfoyle
CFC-I Senior Vice President – Leasing

David L. Helmers, CPCU, API, ARE, AIM
CIC, CID, CCC Vice President – Personal Lines

Theresa A. Hoffer
CIC, CID, CCC, CLIC Vice President –
Corporate Accounting
CIC, CID, CCC Treasurer

Timothy D. Huntington, CPCU, AU
CIC, CID, CCC Vice President – Commercial Lines

Thomas H. Kelly
CIC, CID, CCC Vice President – Bond & Executive Risk

**Christopher O. Kendall, CPCU, AIT, AIM, ARE,
ARM, ARP**
CIC, CID, CCC Vice President – Commercial Lines

Gary J. Kline, CPCU
CIC, CID, CCC Vice President – Commercial Lines

Steven W. Leibel, CPCU, AIM
CIC, CID, CCC Vice President – Personal Lines

Jerry L. Litton
CFC-I Treasurer

Richard L. Mathews, CPCU
CIC, CID, CCC, CLIC Vice President – Information Technology

Richard P. Matson
CIC, CID, CCC, CLIC, CFC-I Vice President –
Purchasing/Fleet

David E. McKinney, CPCU, AIM
CIC, CID, CCC, Vice President – Commercial Lines

Robyn C. Muhlbarg
CIC, CID, CCC, CLIC Vice President – Information Technology

Gary A. Nichols
CIC, CID, CCC Vice President – Headquarters Claims

Glenn D. Nicholson, LLIF
CLIC Senior Vice President and Senior Marketing Officer;
Director

Michael K. O'Connor, CFA, CPCU, AFSB
CIC, CID, CCC, CLIC Vice President – Investments

Todd H. Pendery, FLMI
CIC, CID, CCC, CLIC Vice President – Corporate Accounting
CLIC Treasurer

Marc C. Phillips, CPCU, AIM
CIC, CCC, CID Vice President – Commercial Lines

Ronald L. Robinson
CIC, CID, CCC Vice President – Field Claims

Michael A. Rouse
CIC, CID, CCC Vice President – Commercial Lines

Thomas J. Scheid
CIC, CID, CCC, CLIC Vice President – Inspection Services
& Facilities

Gregory D. Schmidt, CPCU, ARP, CPP, ACP, ARC
CIC, CID, CCC, CLIC Vice President – Staff Underwriting

J. B. Shockey, CPCU, CIC, CLU
CIC, CID, CCC Vice President – Sales & Marketing

David W. Sloan
CFC-I Vice President – Leasing

Scott K. Smith, CPCU, ARM, AIM, AU, AAI
CIC, CID, CCC Vice President – Commercial Lines

Steven A. Soloria, CFA, CPCU
CIC, CID, CCC, CLIC Vice President – Investments

Douglas W. Stang, FCAS, MAAA
CIC, CID, CCC Vice President – Staff Underwriting

Duane I. Swanson, CIC
CIC, CID, CCC Vice President – Sales & Marketing

Philip J. Van Houten, CFE, FCLS
CIC, CID, CCC Vice President – Special Investigations

Stephen A. Ventre, CPCU
CIC, CID, CCC Vice President – Commercial Lines

Jody L. Wainscott
CIC, CID, CCC Vice President – Research & Development

Michael B. Wedig, CPA
CIC, CID, CCC, CLIC Vice President –
Corporate Accounting

Paul W. Wells
CIC, CID, CCC, Vice President – Bond & Executive Risk

Mark A. Welsh
CIC, CID, CCC, CLIC Vice President –
Regulatory & Consumer Relations

Mark S. Wietmarschen
CIC, CID, CCC Vice President – Commercial Lines

Heather J. Wietzel
CIC, CID, CCC Vice President and
Investor Relations Officer

Brian K. Wood, CPCU, AIM
CIC, CID, CCC, CLIC Vice President –
Personnel & Community Relations

Gregory J. Ziegler
CIC, CID, CCC, CLIC, CFC-I Vice President –
Personnel & Community Relations

Teresa C. Cracas
CIC, CID, CCC, CLIC Counsel

Eugene M. Gelfand
CIC, CID, CCC, CLIC Counsel

Mark J. Huller
CIC, CID, CCC, CLIC Senior Counsel

G. Gregory Lewis
CIC, CID, CCC, CLIC Counsel

Lisa A. Love
CIC, CID, CCC, CLIC Senior Counsel

Stephen C. Roach
CIC, CID, CCC, CLIC Counsel

Non-Officer Directors

William F. Bahl, CFA, CIC
CIC, CID, CCC, CSU, CLIC

James E. Benoski
Director of all subsidiaries

Gregory T. Bier, CPA (Ret.)
CIC, CID, CCC, CSU, CLIC

W. Rodney McMullen
CIC, CID, CCC, CSU, CLIC

Thomas R. Schiff
CIC, CID, CCC, CSU, CLIC

Larry R. Webb, CPCU
CIC, CID, CCC, CSU

E. Anthony Woods
CIC, CID, CCC, CSU, CLIC

CIC Directors Emeriti

Vincent H. Beckman

Robert J. Driehaus

Richard L. Hildbold, CPCU

Robert C. Schiff

William H. Zimmer

Cincinnati Financial Corporation Officers and Directors

(as of March 16, 2009)

Directors

William F. Bahl, CFA, CIC

Chairman
Bahl & Gaynor Investment Counsel Inc.
Director since 1995 (1)(3)(4)(5*)

James E. Benoski

Vice Chairman of the Board
Cincinnati Financial Corporation
Director since 2000 (3)(4)

Gregory T. Bier, CPA (Ret.)

Managing Partner (Ret.), Cincinnati Office
Deloitte & Touche LLP
Director since 2006 (1)(4)

Kenneth C. Lichtendahl

President and Chief Executive Officer
Tradewinds Beverage Company
Director since 1988 (1*)(5)

W. Rodney McMullen

Vice Chairman
The Kroger Co.
Director since 2001 (2*)(3)(4)

Gretchen W. Price

Chief Financial Officer
philosophy inc.
(skin care and cosmetics)
Director since 2002 (1)(2)(5)

John J. Schiff, Jr., CPCU

Chairman of the Board
Cincinnati Financial Corporation
Director since 1968 (3*)(4*)

Thomas R. Schiff

Chairman and Chief Executive Officer
John J. & Thomas R. Schiff & Co. Inc.
(insurance agency)
Director since 1975 (4)

Douglas S. Skidmore

President and Chief Executive Officer
Skidmore Sales & Distributing Company Inc.
(food distribution)
Director since 2004 (1)(5)

Kenneth W. Stecher

President and Chief Executive Officer
Cincinnati Financial Corporation
Director since 2008 (3)(4)

John F. Steele, Jr.

Chairman and Chief Executive Officer
Hilltop Basic Resources Inc.
(aggregates/concrete supplier)
Director since 2005 (1)

Larry R. Webb, CPCU

President
Webb Insurance Agency Inc.
Director since 1979 (3)

E. Anthony Woods

Chairman and Chief Executive Officer
SupportSource LLC
(health care consulting)
Director since 1998 (2)(3)(4)

- (1) Audit Committee
 - (2) Compensation Committee
 - (3) Executive Committee
 - (4) Investment Committee; also
Richard M. Burridge, CFA, adviser
 - (5) Nominating Committee
- * Committee Chair



W.F. Bahl



J.E. Benoski



G.T. Bier



K.C. Lichtendahl



W.R. McMullen



G.W. Price



J.J. Schiff, Jr.



T.R. Schiff



D.S. Skidmore



K.W. Stecher



J.F. Steele, Jr.



L.R. Webb



E.A. Woods

Officers

John J. Schiff, Jr., CPCU

Chairman of the Board

Kenneth W. Stecher

President and Chief Executive Officer

Steven J. Johnston, FCAS, MAAA, CFA

Chief Financial Officer, Senior Vice President,
Secretary and Treasurer

Martin F. Hollenbeck, CFA, CPCU

Senior Vice President, Assistant Secretary and
Assistant Treasurer

Eric N. Mathews, CPCU, AIAF

Principal Accounting Officer, Vice President,
Assistant Secretary and Assistant Treasurer

Directors Emeriti

Vincent H. Beckman

Michael Brown

Robert J. Driehaus

John E. Field, CPCU

Jackson H. Randolph

Lawrence H. Rogers II

John Sawyer

Robert C. Schiff

Frank J. Schultheis

David B. Sharrock

John M. Shepherd

Thomas J. Smart

Alan R. Weiler, CPCU

William H. Zimmer

Shareholder Information

Cincinnati Financial Corporation had approximately 12,000 shareholders of record and approximately 37,000 beneficial shareholders as of December 31, 2008. Many of the company's independent agent representatives and most of the 4,179 associates of its subsidiaries own the company's common stock.

Common Stock Price and Dividend Data

Common shares are traded under the symbol CINF on the NASDAQ Global Select Market.

(Source: Nasdaq Global Select Market)

Quarter:	2008				2007			
	1 st	2 nd	3 rd	4 th	1 st	2 nd	3 rd	4 th
High close	\$ 39.71	\$ 39.97	\$ 33.60	\$ 31.71	\$ 45.92	\$ 47.62	\$ 44.79	\$ 44.84
Low close	35.10	25.40	21.83	18.80	42.24	42.57	36.91	38.37
Period-end close	38.04	25.40	28.44	29.07	42.40	43.40	43.31	39.54
Cash dividends declared	0.39	0.39	0.39	0.39	0.355	0.355	0.355	0.355

Annual Meeting

Shareholders are invited to attend the Annual Meeting of Shareholders of Cincinnati Financial Corporation at 9:30 a.m. on Saturday, May 2, 2009, at the Cincinnati Art Museum in Eden Park, Cincinnati, Ohio. You may listen to an audio webcast of the event by visiting www.cinfin.com/investors.

Independent Registered Public Accounting Firm

Deloitte & Touche LLP
250 East Fifth Street
Cincinnati, Ohio 45202-5109

Contact Information

Communications directed to Steven J. Johnston, FCAS, MAAA, CFA, senior vice president, chief financial officer, treasurer and secretary, are shared with the appropriate individual(s). Or, you may directly access services:

Investors: Investor Relations responds to investor inquiries about Cincinnati Financial Corporation and its performance.

Heather J. Wietzel – Vice President, Investor Relations

513-870-2768 or investor_inquiries@cinfin.com

Shareholders: Shareholder Services provides stock transfer services, fulfills requests for shareholder materials and assists registered shareholders who wish to update account information or enroll in shareholder plans.

Jerry L. Litton – Assistant Vice President, Shareholder Services

513-870-2639 or shareholder_inquiries@cinfin.com

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CINCINNATI FINANCIAL CORPORATION

The Cincinnati Insurance Company
The Cincinnati Casualty Company
The Cincinnati Indemnity Company
The Cincinnati Specialty Underwriters Insurance Company

The Cincinnati Life Insurance Company
CSU Producer Resources Inc.
CFC Investment Company

Mailing Address:

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Cincinnati Financial Corporation

First-quarter 2009 Letter to Shareholders

May 21, 2009

To Our Shareholders, Friends and Associates:

Your company's leadership team in place since last July has operated under conditions unlike those experienced for any other period in our 59-year history. Our immediate challenge has been to rise above a tide that has sustained its destructive force over several quarters, swelling on the confluence of economic and investment market weakness, prolonged industry pricing pressure and severe weather events.

Looking back over events of the first 10 months since we realigned our executive and leadership teams, we see that our business plans have stayed on course through the combined, special efforts of many people. Together, we are working to preserve our capital and liquidity, improve insurance profitability and drive premium growth over the long term. As we continue in the near term to navigate through uncharted waters, we are grateful to have the support, skill and sustained high level of activity of so many people.

Our board's investment committee and our internal investment managers – As uncertainty in the markets increased, the committee authorized revised investment guidelines, and our portfolio managers acted to stabilize and diversify our holdings. By March 31, their actions brought equities in our consolidated portfolio to approximately 26 percent, down from 43 percent at June 30, 2008. They reduced financial sector holdings to less than 3 percent of common stocks compared with 42 percent at mid year. While our investment income from common stocks has decreased, our investment managers have positioned the better diversified portfolio to resume investment income growth in the second half of this year.

Our professional claims staff – Our claims representatives satisfied thousands of policyholders after winds from Hurricane Ike swept into the Midwest in September. Ike was our single largest catastrophe loss ever, causing more than 20,000 claims and \$129 million of incurred losses, reduced by reinsurance to a loss of \$58 million. Severe weather hit again in this year's first quarter, but by April 30, our claims representatives had closed almost 90 percent of 8,600 claims. Together with our headquarters claims staff, these associates are responsible for Cincinnati's reputation for outstanding claims service. They continue to innovate, recently making it easier for agents to report claims into our system.

Our independent agents, field and headquarters underwriters – We are thankful for the work our agents and underwriters do to match risk to price as they renew accounts and select new business. Due to the tough economy and competitive insurance pricing, the effort required to write and retain business has increased. Recently, our associates have introduced new processes and tools to support risk-based underwriting and pricing. At the same time, they are supporting more agencies in more states and offering more lines of business, as we seek to support premium growth and improve spread of risk through expansion. Our growth initiatives helped generate \$97 million of new business in the first quarter and \$290 million of new business since mid year 2008.

Associates in every part of our operations – Late last year, we accelerated major technology projects to bring new efficiencies to our agencies and our company. Associates from many operational areas have united to keep those projects on track, with our new commercial processing system ready to pilot internally in July. And associates in all areas are identifying additional ways to reduce expenses and improve service. They believe that persevering through difficult times, building on our fundamental strengths and investing for the future will ultimately reward the company and you, our shareholders.

Thank you for the opportunity you give us to assure your company's continuity of leadership, values and commitments.

Respectfully,

/S/ John J. Schiff, Jr.

John J. Schiff, Jr., CPCU
Chairman of the Board

/S/ Kenneth W. Stecher

Kenneth W. Stecher
President and Chief Executive Officer

About the Company

Cincinnati Financial Corporation stands among the 25 largest property casualty insurers in the nation, based on premium volume. A select group of agencies in 35 states actively markets our property casualty insurance within their communities. Standard market commercial lines policies are available in all of those states, while personal lines policies are available in 29 and surplus commercial lines policies are available in 33 of the same 35 states. Within this select group, we also seek to become the life insurance carrier of choice and to help agents and their clients – our policyholders – by offering leasing and financing services.

Three hallmarks distinguish our company, positioning us to build value and long-term success:

- Commitment to our network of professional independent insurance agencies and to their continued success
- Financial strength that lets us be a consistent market for our agents' business, supporting stability and confidence
- Operating structure that supports local decision making, showcasing our claims excellence and allowing us to balance growth with underwriting discipline

Learn more about where we are today and how we plan to create value for shareholders, agents, policyholders and associates by reviewing publications that we promptly post on www.cinfin.com/Investors as they are completed. Please refer to the most recent item for the timeliest information.

2008 Fourth-quarter and Full-Year Letter to Shareholders – available on www.cinfin.com/Investors

2008 Annual Report on Form 10-K – available on www.cinfin.com/Investors

2009 Shareholder Meeting Notice and Proxy Statement – available on www.cinfin.com/Investors

Letter from the Chairman and the Chief Executive Officer – available on www.cinfin.com/Investors

First-quarter 2009 Letter to Shareholders – available now

This message from our chairman and our president includes recent news releases about financial results announced April 30, results of shareholder votes at the 2009 Annual Meeting of Shareholders and actions of the board at its May meeting. For additional details, see our Quarterly Report on Form 10-Q, filed with the SEC by April 30, 2009.

Second-quarter 2009 Letter to Shareholders – early August 2009

Third-quarter 2009 Letter to Shareholders – early November 2009

Stay Involved, Be Informed and Save Some Trees Too!

Thank you for your interest in Cincinnati Financial Corporation. We continue to make it easy to go green and get your information fast. By enrolling in e-Delivery at www.cinfin.com/Investors, you can help us save paper and postage while promptly receiving links to all materials and proxy voting communications via e-mail. We mail printed copies of our quarterly and annual letters only to shareholders who are **not** enrolled in e-Delivery.

Recent News Releases

Cincinnati Financial Reports First-quarter 2009 Results

Cincinnati, April 30, 2009 – Cincinnati Financial Corporation (Nasdaq: CINF) today reported:

- First-quarter 2009 net income of \$35 million, or 22 cents per share, compared with a net loss of \$42 million, or 26 cents per share, in the first quarter of 2008.
- Operating income* of \$37 million, or 23 cents per share, compared with \$109 million, or 66 cents per share.
- Previously announced catastrophe losses and workers' compensation reserve strengthening reduced first-quarter net income by 29 cents per share compared with 15 cents per share for first-quarter 2008.
- The investment income portion of net income per share for the first quarter of 2009 was 59 cents compared with 74 cents for the first quarter of 2008, down 15 cents per share.

Financial Highlights

(Dollars in millions except share data)

	Three months ended March 31,		
	2009	2008	Change %
Revenue Highlights			
Earned premiums	\$ 765	\$ 780	(2.0)
Investment income	124	152	(18.7)
Total revenues	890	704	26.5
Income Statement Data			
Net income (loss)	\$ 35	\$ (42)	nm
Net realized investment gains and losses	(2)	(151)	98.9
Operating income*	\$ 37	\$ 109	(65.7)
Per Share Data (diluted)			
Net income	\$ 0.22	\$ (0.26)	nm
Net realized investment gains and losses	(0.01)	(0.92)	98.9
Operating income*	\$ 0.23	\$ 0.66	(65.2)
Book value	23.88	33.40	(28.5)
Cash dividend declared	\$ 0.39	\$ 0.39	0.0
Diluted weighted average shares outstanding	162,663,625	165,105,311	(1.5)

Insurance Operations Highlights

- 107.5 percent first-quarter 2009 property casualty combined ratio, representing an underwriting loss of \$55 million.
- Property casualty net written premiums increased \$2 million or 0.3 percent, including \$7 million in net written premiums from surplus lines operation launched in 2008.
- \$21 million increase in property casualty new business written by agencies in the first quarter of 2009, driven by new agents appointed in recent years and expansion of surplus lines and personal lines marketing in established agencies.

Investment and Balance Sheet Highlights

- \$515 million in cash and cash equivalents at March 31, 2009, providing exceptional liquidity and capital flexibility for shareholder dividends and capacity for future insurance operations growth.
- \$23.88 book value, down from \$25.75 at December 31, 2008, mainly due to lower investment portfolio valuation.
- Investment portfolio at March 31, 2009, reflected capital preservation diversification strategy. Investment income declined in the first quarter on portfolio changes and on lower dividends from holdings in the equity portfolio, partially offset by higher interest income from bonds.

* The Definitions of Non-GAAP Information and Reconciliation to Comparable GAAP Measures on www.cinfin.com defines and reconciles measures presented in this release that are not based on Generally Accepted Accounting Principles or Statutory Accounting Principles.

** Forward-looking statements and related assumptions are subject to the risks outlined in the company's safe harbor statement (see Page 13).
nm Not meaningful

Market Challenges Continue

Kenneth W. Stecher, president and chief executive officer, commented, "As anticipated, 2009 is shaping up to be a challenging, transitional year for our company, our industry and our economy. Our first-quarter results affirm that view. At the same time, our progress on key initiatives affirms our confidence that we will emerge a stronger, more competitive company as conditions improve. Looking past 2009 to the 2010-2014 period, we continue to target a five-year value creation ratio of 12 percent to 15 percent growth, reflecting the total of our rate of growth in book value plus the rate of dividend contribution.

"The broader economic and investment market trends and the low pricing trend in commercial insurance all appeared to be in a holding pattern over the first months of 2009 – not getting much worse but not getting much better either. Continued soft pricing and two other items significantly affected our profitability for the first quarter. We announced on April 16 that our property casualty insurance operations – our main business – experienced high catastrophe losses from winter storms. Our claims representatives promptly assisted policyholders in the South, Midwest and East, and as of this week, 88 percent of the more than 8,600 reported claims from those storms are closed. We also reported on April 16 that we strengthened workers' compensation reserves for claims incurred in prior years, recognizing that loss cost inflation, including medical costs, was higher than previously anticipated.

"We believe consistent and conservative reserving practices are never more important than during a period of economic distress. Likewise, we believe the superior claims service we provide in storm situations is an investment," Stecher said. "It earns policyholder and agent loyalty, ultimately bringing us new business as policyholders spread the word. Our commitment to high standards of service and a long-term perspective persists through all phases of economic and industry cycles.

"We expect unfavorable economic, investment and insurance pricing trends to continue over the coming months, dampening 2009 results and masking the positive impact of progress on our strategic initiatives – which clearly are not in a holding pattern. Our strong capital, financial flexibility and commitment to our agency-centered business model have allowed us to push steadily forward with diversification of our equity investment portfolio; with geographical expansion that will better spread our risk and reduce our vulnerability to catastrophe losses; with our new surplus lines business; and with technology improvements that are making processing more efficient for our company and our independent agencies."

Progress On Strategic Initiatives

Stecher continued, "Preserving capital is our first priority, supported by our initiative to diversify our \$8.794 billion investment portfolio. At March 31, equity investments accounted for approximately 26.2 percent of our investment portfolio, reduced from 32.9 percent at year-end 2008 and now at the lowest level in many years. In the first quarter, we sold or reduced our holdings of some stocks that had appreciated to our target price, and others where we saw opportunities to improve portfolio diversification. Further, we sold our remaining bank stocks, consistent with our longstanding preference for dividend-paying stocks and the current lack of visibility on resumption of dividends from bank holdings.

At quarter-end, no single sector accounted for more than 26 percent of the equity portfolio and no single holding accounted for more than 11 percent.

"Although we have reduced our near term exposure to the equity markets, we intend to continue to include common stocks as a key component of our investing strategy. Currently, we are purchasing more taxable and municipal bonds, which increased our pretax interest income for the first quarter by \$20 million compared with interest income at this time last year. The increase was insufficient to offset a \$46 million reduction in dividend income. We continue to invest for both income growth and potential for appreciation, anticipating that investment income may resume growth in the second half of the year.

"For our property casualty insurance operations, we are pursuing several new business growth initiatives, both to improve our long-term competitive position and to offset lower written premiums, which have been reduced by our emphasis on selectivity when writing or renewing accounts at prevailing low prices. While we do compete for high quality accounts, we do not aim to offer the lowest price due to the value of our coverages, claims service and multi-year policy contracts.

"New commercial business grew 14.9 percent in the first quarter. To generate increased new business that meets our standards, we continued adding to our sales force, appointing 18 new agencies in the first quarter. We added a third commercial marketing territory in our newest state of operations, Texas, and continued preparing to begin agency selection and marketing in Colorado and Wyoming later this year. Our personal lines operation also expanded in the first quarter; with the addition of Idaho and South Carolina, we now market homeowner and personal auto insurance in 29 states. These expansions help set the stage to diversify catastrophe risk arising from geographical concentration, although it generally takes time for new agency relationships to mature and for written premiums to grow.

“Our strong new business also reflected our agents’ very favorable response to our surplus lines products, available since the first quarter of 2008, when we wrote \$1 million of new surplus lines business. Just a year later, our first quarter 2009 new surplus lines business was \$7 million.

“Our technology progress is making it possible to attract more professional agencies as we expand and to increase efficiencies that will save time and money for all of our agencies and our company. These advances also improve service for policyholders and give them more options. First-quarter milestones included enhancement of our claims system to allow many agencies to securely submit notice of loss online and introduction of a new online payment system for personal lines policyholders who are billed by our company instead of their agency. In the second quarter, we plan to begin offering direct billing of workers’ compensation policies.

“Our major projects are on track. We will take a major leap forward before year-end as agencies in 11 states begin using our new commercial policy administration system. It will offer efficiencies such as real time policy quote and issue and payment options including direct billing, monthly payments and electronic funds transfer. We expect this system to have a positive impact on future growth from our agencies.”

Stecher concluded, “First quarter was less than satisfactory for our company, and there are few signs that industry and economic conditions will improve in the near term. We are not daunted. We are carefully managing risk and prudently adapting, all the while working to build more value, service and stability for agents and policyholders, and ultimately more shareholder value.”

Consolidated Property Casualty Insurance Operations

(Dollars in millions; percent change given for dollar amounts and point change given for ratios)

	Three months ended March 31,		
	2009	2008	Change %
Earned premiums	\$ 732	\$ 751	(2.5)
Loss and loss expenses before catastrophe losses	491	458	7.2
Loss and loss expenses from catastrophe losses	53	43	22.9
Total loss and loss expenses	544	501	8.5
Underwriting expenses	243	240	1.5
Underwriting (loss) profit	\$ (55)	\$ 10	nm
Other business metrics:			
Agency renewal written premiums	\$ 695	\$ 733	(5.2)
Agency new business written premiums	97	76	28.9
Net written premiums	778	776	0.3
Ratios as a percent of earned premiums:			
Loss and loss expenses	74.2%	66.7%	7.5
Underwriting expenses	33.3	31.9	1.4
Combined ratio	107.5%	98.6%	8.9
Other business metrics:			
Contribution from catastrophe losses	7.2	5.7	1.5
Contribution from prior period reserve development	0.9	(1.8)	2.7

- \$2 million or 0.3 percent increase in first-quarter property casualty net written premiums, as growth in new business offset much of the effect of soft pricing, exposure decreases and disciplined underwriting for renewal business.
- \$21 million increase in 2009 new business written by agencies reflected the contribution from growth initiatives, including \$4 million increase from agencies appointed since January 2008 and \$6 million increase from surplus lines.
- .97-to-1 ratio of net written premiums to property casualty statutory surplus for the 12 months ended March 31, 2009,

- up from 0.89-to-1 ratio for the 12 months ended December 31, 2008.
- 1,141 agency relationships with 1,406 reporting locations marketing standard market property casualty insurance products at March 31, 2009, up from 1,133 agency relationships with 1,387 reporting locations at year-end 2008.
- First-quarter 2009 GAAP combined ratio increased 8.9 percentage points primarily due to previously announced higher catastrophe losses and unfavorable development on prior accident years loss and loss expense reserves.

(In millions, net of reinsurance)

Dates	Cause of loss	Region	Three months ended March 31,		
			Commercial lines	Personal lines	Total
2009					
Jan. 26-28	Flood, freezing, ice, snow	South, Midwest	\$ 6	\$ 14	\$ 20
Feb. 10-13	Flood, hail, wind, water damage	South, Midwest, East	12	18	30
Feb. 18-19	Wind, hail	South	0	5	5
Development on 2008 and prior catastrophes			(4)	2	(2)
Calendar year incurred total			<u>\$ 14</u>	<u>\$ 39</u>	<u>\$ 53</u>
2008					
Jan. 4-9	Wind, hail, flood, freezing	South, Midwest	\$ 3	\$ 3	\$ 6
Jan. 29-30	Wind, hail	Midwest	5	5	10
Feb. 5-6	Wind, hail, flood	Midwest	8	9	17
Mar. 14	Tornadoes, wind, hail, flood	South	5	1	6
Mar. 15-16	Wind, hail	South	4	4	8
Development on 2007 and prior catastrophes			(3)	(1)	(4)
Calendar year incurred total			<u>\$ 22</u>	<u>\$ 21</u>	<u>\$ 43</u>

Insurance Segments Highlights

Commercial Lines Insurance Operations

(Dollars in millions; percent change given for dollar amounts and point change given for ratios)

	Three months ended March 31,		
	2009	2008	Change %
Earned premiums	\$ 557	\$ 574	(3.1)
Loss and loss expenses before catastrophe losses	374	343	9.2
Loss and loss expenses from catastrophe losses	<u>14</u>	<u>22</u>	(37.4)
Total loss and loss expenses	388	365	6.4
Underwriting expenses	<u>181</u>	<u>180</u>	0.1
Underwriting (loss) profit	<u>\$ (12)</u>	<u>\$ 29</u>	nm
Other business metrics:			
Agency renewal written premiums	\$ 557	\$ 588	(5.2)
Agency new business written premiums	76	66	14.9
Net written premiums	626	625	0.1
Ratios as a percent of earned premiums:			
Loss and loss expenses	69.8%	63.6%	6.2
Underwriting expenses	<u>32.4</u>	<u>31.4</u>	1.0
Combined ratio	<u>102.2%</u>	<u>95.0%</u>	7.2
Other business metrics:			
Contribution from catastrophe losses	2.5	3.9	(1.4)
Contribution from prior period reserve development	1.5	(2.5)	4.0

- \$1 million or 0.1 percent increase in first-quarter commercial lines net written premiums. Lower renewal premiums were offset by growth in new business and the combined impact of reinsurance and adjustments for policies in effect but still in process.
- \$76 million in first-quarter 2009 new commercial lines business written directly by agencies, up 14.9 percent from \$66 million in last year's first quarter. \$4 million of increase

is from agents appointed since January 2008 and \$4 million of increase is from ancillary standard market business from accounts originating from new excess and surplus lines policies.

- 7.2 percentage-point increase in first-quarter 2009 combined ratio primarily due to previously announced strengthening of workers' compensation loss and loss expense reserves for prior accident years.

Personal Lines Insurance Operations

(Dollars in millions; percent change given for dollar amounts and point change given for ratios)

	Three months ended March 31,		
	2009	2008	Change %
Earned premiums	\$ 171	\$ 177	(3.0)
Loss and loss expenses before catastrophe losses	113	115	(1.7)
Loss and loss expenses from catastrophe losses	39	21	88.7
Total loss and loss expenses	152	136	12.0
Underwriting expenses	54	59	(6.8)
Underwriting loss	\$ (35)	\$ (18)	(99.3)
Other business metrics:			
Agency renewal direct written premiums	\$ 137	\$ 146	(6.0)
Agency new business direct written premiums	14	8	67.2
Net written premiums	145	150	(3.5)
Ratios as a percent of earned premiums:			Points
Loss and loss expenses	88.6%	76.7%	11.9
Underwriting expenses	32.1	33.4	(1.3)
Combined ratio	120.7%	110.1%	10.6
Other business metrics:			
Contribution from catastrophe losses	22.6	11.6	11.0
Contribution from prior period reserve development	(0.7)	0.7	(1.4)

- 3.5 percent decline in first-quarter personal lines net written premiums. Higher new personal lines business continued to be offset by pricing changes that reduce premiums per policy.
- \$6 million increase in first-quarter 2009 personal lines new business written directly by agencies including \$2 million

from seven states where writing business or significant expansion of personal lines product offerings and automation capabilities commenced in 2008.

- 10.6 percentage point-increase in the combined ratio driven by an 11.0 percentage-point increase in catastrophe losses.

Life Insurance Operations

(In millions)

	Three months ended March 31,		
	2009	2008	Change %
Written premiums	\$ 50	\$ 44	14.3
Earned premiums	\$ 33	\$ 29	12.5
Investment income, net of expenses	30	29	2.7
Other income	1	1	(43.5)
Total revenues, excluding realized investment gains and losses	64	59	7.0
Contract holders benefits	39	35	9.0
Expenses	12	12	4.5
Total benefits and expenses	51	47	7.9
Net income before income tax and realized investment gains and losses	13	12	3.3
Income tax	5	4	5.3
Net income before realized investment gains and losses	\$ 8	\$ 8	2.3

- \$50 million in first-quarter 2009 life insurance segment net written premiums. Written premiums include life insurance, annuity and accident and health premiums.
- 6.7 percent increase to \$37 million in written premiums for life insurance products in total.
- 12.3 percent rise to \$20 million in term life insurance written premiums, reflecting marketing advantages of

competitive, up to date products, providing close personal attention and offering policies backed by financial strength and stability.

- 1.3 percent rise in face amount of life policies in force to \$66.756 billion at March 31, 2009, from \$65.888 billion at year-end 2008.

Investment and Balance Sheet Highlights

Investment Operations

(In millions)

	Three months ended March 31,		
	2009	2008	Change %
Investment income:			
Interest	\$ 96	\$ 76	26.4
Dividends	27	73	(63.9)
Other	3	5	(29.7)
Investment expenses	(2)	(2)	(11.5)
Total investment income, net of expenses	124	152	(18.7)
Investment interest credited to contract holders	(16)	(16)	5.8
Realized investment gains and losses summary:			
Realized investment gains and losses	52	(16)	nm
Change in fair value of securities with embedded derivatives	(4)	(2)	(54.2)
Other-than-temporary impairment charges	(50)	(214)	76.8
Total realized investment gains and losses	(2)	(232)	99.3
Investment operations income (loss)	\$ 106	\$ (96)	nm

- 18.7 percent decline in first-quarter 2009 net investment income, due primarily to dividend reductions by equity security holdings.
- \$2 million realized investment loss in first-quarter 2009 compared with realized investment loss of \$232 million in first quarter 2008.

- First-quarter pretax realized investment loss included \$50 million non-cash charge for other-than-temporary impairments that recognize significant market value declines, primarily for the fixed-maturities portfolio.

(Dollars in millions except share data)

	At March 31, 2009	At December 31, 2008
Balance sheet data		
Invested assets	\$ 8,876	\$ 8,890
Total assets	13,108	13,369
Short-term debt	49	49
Long-term debt	790	791
Shareholders' equity	3,881	4,182
Book value per share	23.88	25.75
Debt-to-capital ratio	17.8%	16.7%
	Three months ended March 31, 2009	2008
Performance measures		
Value creation ratio	(5.7)%	(5.4)%

- \$9.391 billion in cash and invested assets at March 31, 2009, compared with \$9.899 billion at December 31, 2008. Cash and equivalents of \$515 million at March 31, 2009, compared with \$1.009 billion at December 31, 2008.
- \$6.479 billion A2/A+-average rated bond portfolio at March 31, 2009, reflecting a diverse mix of taxable and tax exempt securities.
- \$2.302 billion equity portfolio was 25.9 percent of invested assets and included \$309 million in pretax unrealized gains at March 31, 2009.
- Application of new investment parameters led to

- financial sector holdings at 2.9 percent of publicly traded common stocks portfolio as of March 31, 2009, down from 12.4 percent at year-end 2008.
- \$3.105 billion of statutory surplus for the property casualty insurance group at March 31, 2009, compared with \$3.360 billion at December 31, 2008.
- Value creation ratio decreased due to the decline in the market value of the investment portfolio.

For additional information or to hear a replay of the April 30 conference call webcast, please visit www.cinfin.com/investors.

Cincinnati Financial Corporation

Condensed Balance Sheets and Statements of Income (unaudited)

(Dollars in millions)	March 31, 2009	December 31, 2008
Assets		
Investments	\$ 8,876	\$ 8,890
Cash and cash equivalents	515	1,009
Premiums receivable	1,085	1,059
Reinsurance receivable	735	759
Deferred income tax	275	126
Other assets	<u>1,622</u>	<u>1,526</u>
Total assets	<u>\$ 13,108</u>	<u>\$ 13,369</u>
Liabilities		
Insurance reserves	\$ 5,666	\$ 5,637
Unearned premiums	1,582	1,544
6.125% senior notes due 2034	371	371
6.9% senior debentures due 2028	28	28
6.92% senior debentures due 2028	391	392
Other liabilities	<u>1,189</u>	<u>1,215</u>
Total liabilities	<u>9,227</u>	<u>9,187</u>
Shareholders' Equity		
Common stock and paid-in capital	1,465	1,462
Retained earnings	3,551	3,579
Accumulated other comprehensive income	69	347
Treasury stock	<u>(1,204)</u>	<u>(1,206)</u>
Total shareholders' equity	<u>3,881</u>	<u>4,182</u>
Total liabilities and shareholders' equity	<u>\$ 13,108</u>	<u>\$ 13,369</u>

(Dollars in millions except per share data)	Three months ended March 31,	
	2009	2008
Revenues		
Earned premiums	\$ 765	\$ 780
Investment income, net of expenses	124	152
Realized investment gains and losses	(2)	(232)
Other income	<u>3</u>	<u>4</u>
Total revenues	<u>890</u>	<u>704</u>
Benefits and Expenses		
Insurance losses and policyholder benefits	581	536
Commissions	152	150
Other operating expenses	<u>123</u>	<u>118</u>
Total benefits and expenses	<u>856</u>	<u>804</u>
Income Before Income Taxes	34	(100)
Benefit for Income Taxes	<u>(1)</u>	<u>(58)</u>
Net Income (Loss)	<u>\$ 35</u>	<u>\$ (42)</u>
Per Common Share:		
Net income (loss)—basic	\$ 0.22	\$ (0.26)
Net income (loss)—diluted	\$ 0.22	\$ (0.26)

Other News Releases

Cincinnati Financial Corporation Holds Shareholders' and Directors' Meetings

Cincinnati, May 4, 2009 – Cincinnati Financial Corporation (Nasdaq: CINF) today announced that at the company's annual meeting on May 2, 2009, shareholders elected one director for a term of one year and five directors for terms of three years to the 13-member board. Shareholders also ratified the selection of Deloitte & Touche LLP as independent registered public accounting firm, adopted the Cincinnati Financial Corporation Annual Incentive Compensation Plan of 2009 and the Cincinnati Financial Corporation Directors' Stock Plan of 2009, and approved a proposal to take steps to declassify the board.

Chairman John J. Schiff, Jr., CPCU, commented: "We thank shareholders for approving our selection of Deloitte & Touche and our nominees to the board. The directors who were elected Saturday, as well as our continuing directors, combine their experiences from differing business backgrounds to execute long-term strategic plans for Cincinnati Financial Corporation and to increase our long-term return to shareholders."

Elected to the board were William F. Bahl, CFA, CIC, chairman of Bahl & Gaynor Investment Counsel Inc., based in Cincinnati; James E. Benoski, vice chairman and retired president of Cincinnati Financial Corporation; Gretchen W. Price, chief financial officer of philosophy inc., an international skin care and cosmetics company based in Phoenix, Arizona; John J. Schiff, Jr., CPCU, chairman of Cincinnati Financial Corporation; Kenneth W. Stecher, president and chief executive officer of Cincinnati Financial Corporation; E. Anthony Woods, chairman and chief executive officer of SupportSource LLC, a healthcare consulting firm based in Cincinnati.

The board also announced committee service for the coming year, in line with the independence requirements of applicable law and the listing standards of Nasdaq:

- Audit – Kenneth C. Lichtendahl (Chairman), William F. Bahl, Gregory T. Bier, Gretchen W. Price, Douglas S. Skidmore and John F. Steele, Jr.
- Compensation – W. Rodney McMullen (Chairman), Gregory T. Bier, Gretchen W. Price and E. Anthony Woods.

- Executive – John J. Schiff, Jr. (Chairman), James E. Benoski, W. Rodney McMullen, Kenneth W. Stecher, John F. Steele, Jr., Larry R. Webb and E. Anthony Woods.
- Investment – John J. Schiff, Jr. (Chairman), William F. Bahl, James E. Benoski, Gregory T. Bier, W. Rodney McMullen, Thomas R. Schiff, Kenneth W. Stecher and E. Anthony Woods. Richard M. Burrige, CFA, continues to serve as committee adviser.
- Nominating – William F. Bahl (Chairman), Kenneth C. Lichtendahl, Gretchen W. Price and Douglas S. Skidmore.

Schiff noted, "Through their committee assignments and their dedication to understanding our insurance business, our directors work toward a prosperous future for the shareholders of Cincinnati Financial, supporting stability for our agents, policyholders and associates."

The board of directors announced promotions for two officers. Martin F. Hollenbeck, CPCU, CFA, was named chief investment officer of Cincinnati Financial Corporation and all property casualty subsidiaries, in addition to his current positions as senior vice president for the company's insurance subsidiaries and president and chief operating officer of CFC Investment Company. Hollenbeck is a Chartered Property Casualty Underwriter and Chartered Financial Analyst with a master's degree in business from Xavier University and 16 years of investment management experience.

Dennis E. McDaniel, CPA, CFM, CMA, CPCU, was promoted to assistant vice president, investor relations, for the company's standard market property casualty subsidiaries. Dennis joined the company's planning and risk management department in January 2008 with 25 years experience in the insurance industry, including investor relations. In addition to several financial professional designations, Dennis holds a master's degree in business from the University of Cincinnati.

Inside Cincinnati

Since our February *Letter to Shareholders*, these associates merited promotions:

Bond & Executive Risk

Senior Underwriting Managers – **Scott Boden, AFSB;**

Steve Dorr

Field Underwriter – **Steve Davis**

Senior Underwriters – **Patrick Demmer; Yelana Muzyka;**

Brian Schmittou

Commercial Lines

Underwriting Manager – **Steve Fisher**

Associate Territory Manager – **Rick Chambers, CPCU, AU**

Chief Underwriting Specialists – **Angela Burns; Cindi**

Hollerbach; Tracey Jones, AIM, API, AU; Chris

Medinger, CPCU, AIM, AIS, AU; Meg Patrick; Barb

Randolph, AIS; Linda Witteride

Underwriting Superintendents – **Andrea Blackmon, AIS;**

Bill Broxterman; Krista Franchini, AIS, AU;

Jessica French, AIM, AIS; Amber Fry; Kerry Grever, AU;

Karen Groh, CPCU, AIM, AIT, APA, API, AU;

Joseph Harvey, AU; William Lecky; Jesse Neumann, AIM,

AIS, AU; Tricia Welsh, AU

Underwriting Specialists – **Rob Baker; David Brehm;**

Brian Bunn, CPCU; Julie Caplinger, AU; Ben Case, AU;

Michele Cheek; Sam Hacker; Jill Heil; Michael Huwel, API;

Christina Meyer, CPCU; Dawn Mussig, API;

Cindy Prising; Brian Reisert; Dwayne Stephens;

Chris Stufft

Senior Underwriters – **Justin Alig; Heather Coddington;**

Kara Cox; Annamarie Cronin; Dan Guarasci;

Jeff Harting, AU; Carrie Johnson; Chris Lewis, AIM,

ARe, AU; Jayson Scott; Tina Spille; Miriam Stetz;

Heidi Ziegler

Corporate Accounting

Senior Supervising Accountant – **Quimberly Winstead**

Senior Accounting Analyst-Support – **Jeff Pater**

Cincinnati Life Insurance

Manager; Life Policy Issue – **Pamela Wilson**

Supervisor; Life Field Services – **Colleen Trout, ACS, AIAA**

Cincinnati Specialty Underwriters

Underwriting Managers – **Dawn Chapel, CPCU, APA, ARe,**

AU; Mike Luebbe, CPCU, AIM

Field Claims

Regional Field Claims Managers – **Bruno Bischoff, CPCU,**

AIM; Paul Bush, CPCU, AIC, AIM

Field Claims Manager – **Todd Dowdy, AIC, AIM**

Field Claims Superintendents – **Tom Busch, CPCU, AIC,**

AIM; Mike Fischer; Drew Gallagher, AIC; Tom

Karenbauer, AIC, AIM; Dan May, AIC; Brant Merrill,

AIC; Rex Pynos, CPCU, AIC; Mary Sorrentino, AIC

Senior Claims Representatives – **Bruce Countryman, AIC,**

ARM; Andy Eminger, AIC; Erick Hill, AIC;

Kevin Johnson, AIC; Paul Jurkowski, AIC, ARM;

Michelle Parsons; Tom Saineghi, AIC; Gary Scavone;

Stuart Sheetz, AIC; John Wagoner, AIC;

Tanya Woodard, CPCU, AIC, AIM, API

Senior Claims Specialists – **Brett Sadler, AIC; Al Stazio,**

AIC; Scott Vest, AIC; Kathryn Wood, AIC

Claims Specialists – **Jared Biro; John Gregory, AIC;**

Wayne McKinney; Laura Vanuch, AIC; Matt Ward

Headquarters Claims

Associate Manager; Casualty Claims – **Randy Mitchell, AIC**

Associate Manager; Executive Risk Claims – **Darren Rutledge,**
CPCU, AIC

Superintendents; Casualty Claims – **Jim Brown, CPCU;**

Ron Morrison

Superintendent; Environmental Claims – **Brooke Schubert,**

CPCU, AIC, AIM, ARM

Associate Superintendent; Bond Claims – **Mike Sams, AIC**

Associate Superintendent; Operations – **Steve Horsley, AIC, AIM**

Associate Superintendent; Property Claims – **Bruce Graham**

Information Technology

Application Architect – **Phillis Engled**

Business Analyst – **Michael Strange**

Group Manager – **Joe Harter, AIS**

Infrastructure Architect – **Keith Schaechterle**

Programmers – **Robert Bradley, Jr.; Denise Proffit**

Senior Analyst – **Eric Englert, AIT**

Senior Group Manager – **Che'ree Sheffield**

Senior Programmer Analysts – **Erica Ostendorf; John Sutor**

Senior Systems Analyst – **Kathy Fitzgerald**

Systems Administrator; Network Analyst – **Jesse Mielke**

Systems Analysts – **Brian Ante; Myra Bates; Chris Onkst**

Systems Engineers – **Denita Carter; Vern Click; Jim House**

Team Leaders – **Laurie Brown; Tim Dorr**

Learning & Development

Learning Consultant – **Marc Brown**

Machinery & Equipment Specialties Field

Senior Machinery & Equipment Specialist – **Matt Frank**

Personal Lines

Billing Manager – **Cheri Tuerck, API**

Underwriting Superintendents – **Christy Bedford;**

Paul Beeber; Tom Bier, CPCU, AIM, API;

Eric Borg, CPCU, AIM, API; Mark Huelsman, API;

Jason Lewis

Underwriting Specialists – **Chris Bedford, API;**

Jeff Poe, CPCU, API; Don Rigney III, API

Senior Underwriters – **Rena Cooper; Misty Fraley, AIM,**

API; Ben Miller; Andrew Patterson, API

Premium Audit Field

Senior Field Auditor – **Ann Erickson**

Sales Field

Senior Regional Director – **LeAnn Gregory, CPCU, CIC**

Regional Director – **Jim Lay, CPCU, CIC**

Shareholder Services

Senior Shareholder Services Analyst – **Erika Engelkamp**

Special Investigations Field

Supervisor – **Dane Cramer**

Associate Superintendent – **Kevin Green**

Dividend Direct Deposit

Access your money sooner

Save a trip to the bank! Dividend Direct Deposit allows you to have your quarterly cash dividend payments delivered directly to your account at the financial institution of your choice. Your “to-do” list no longer has to include taking dividend checks to the ATM or bank. You’ll enjoy the benefits of:

- reducing the time it takes to deposit the payments
- accessing your funds immediately
- minimizing the risk of payments being lost or stolen
- adding to your shareholder value by reducing company expenses related to printing checks

On payment day, your dividend is deposited automatically into your personal checking or savings account. In lieu of a check, you receive a notice of the amount deposited. In addition, the deposit appears on your checking or savings account statement, making it easy to track the money you receive from your Cincinnati Financial ownership.

Signing up is easy. To participate, please complete the enclosed Dividend Direct Deposit Authorization Form and return it (with a blank, voided check) to Shareholder Services. Shareholders who register for My Shareholder Account can also complete the Dividend Direct Deposit Authorization Form through your account. Then, print, sign and mail the form to Shareholder Services.

For additional information, you may call Shareholder Services at 866-638-6443 or e-mail shareholder_inquiries@cinfin.com.

Shareholders who hold your shares through brokers may contact them to find out if similar programs are available. Cincinnati Financial can offer this program only to shareholders who hold registered shares in certificate or book entry form.

Professional Development and Awards

We encourage and reward associates who continue their professional insurance education, earning credentials by meeting high academic, ethical and length-of-experience standards. Congratulations to the following associates who completed a series of courses to earn a designation:

Jason Engel, Chartered Property Casualty Underwriter (CPCU); Scott Hintze, Tracy Reese and Robert Young,

Certified Risk Manager (CRM); and Deborah Naegele, Chartered Life Underwriter (CLU).

The ABC Award recognizes exemplary productivity, service and quality in exceptional associates. The ABC Award committee recently granted the quarterly Above and Beyond the Call (ABC) award to **Bill Mallard, senior business analyst, IT Project & Request Management.**

Public Responsibility

In response to recent economic issues, public policymakers continue to offer ideas on the proper role of government in the regulation of banking, investments, insurance and other financial services. New ideas range from systemic risk regulation to complete “re-regulation” of the financial services industry. These developments have rekindled the debate over the future of state insurance regulation versus federal regulation. As Congress and the president consider these proposals, we ask them to keep these points in mind:

- Policyholder risks and coverage needs vary from state to state because of diverse geographic, legal, climatic and economic conditions. State regulators are in the best position to respond with regulations and insurance products that consider this diversity.
- Proposals that grant insurers the option to choose a federal regulator create a system of regulatory arbitrage under which insurers can avoid regulation, reducing policyholder safety and consumer protection.

Safe Harbor Statement

This is our “Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995. Our business is subject to certain risks and uncertainties that may cause actual results to differ materially from those suggested by the forward-looking statements in this report. Some of those risks and uncertainties are discussed in our 2008 Annual Report on Form 10-K, Item 1A, Risk Factors, Page 25. Although we often review or update our forward-looking statements when events warrant, we caution our readers that we undertake no obligation to do so.

Factors that could cause or contribute to such differences include, but are not limited to:

- Further decline in overall stock market values negatively affecting the company’s equity portfolio and book value
- Events, such as the credit crisis, followed by prolonged periods of economic instability, that lead to:
 - Significant or prolonged decline in the value of a particular security or group of securities and impairment of the asset(s)
 - Significant decline in investment income due to reduced or eliminated dividend payouts from a particular security or group of securities
 - Significant rise in losses from surety and director and officer policies written for financial institutions
- Prolonged low interest rate environment or other factors that limit the company’s ability to generate growth in investment income or interest rate fluctuations that result in declining values of fixed-maturity investments, including declines in accounts in which we hold bank-owned life insurance contract assets
- Recession or other economic conditions resulting in lower demand for insurance products or increased payment delinquencies
- Inadequate estimates or assumptions used for critical accounting estimates
- Increased competition that could result in a significant reduction in the company’s premium volume
- Delays in adoption and implementation of underwriting and pricing methods that could increase our pricing accuracy, underwriting profit and competitiveness
- Inability to defer policy acquisition costs for our personal lines segment if pricing and loss trends would lead management to conclude this segment could not achieve sustainable profitability
- Changing consumer insurance-buying habits and consolidation of independent insurance agencies that could alter our competitive advantages
- Unusually high levels of catastrophe losses due to risk concentrations, changes in weather patterns, environmental events, terrorism incidents or other causes
- Increased frequency and/or severity of claims
- Ability to obtain adequate reinsurance on acceptable terms, amount of reinsurance purchased, financial strength of reinsurers and the potential for non-payment or delay in payment by reinsurers
- Events or conditions that could weaken or harm the company’s relationships with its independent agencies and hamper opportunities to add new agencies, resulting in limitations on the company’s opportunities for growth, such as:
 - Multi-notch downgrades of the company’s financial strength ratings
 - Concerns that doing business with the company is too difficult
 - Perceptions that the company’s level of service, particularly claims service, is no longer a distinguishing characteristic in the marketplace
 - Delays or inadequacies in the development, implementation, performance and benefits of technology projects and enhancements
- Actions of insurance departments, state attorneys general or other regulatory agencies, including a change to a federal system of regulation from a state-based system, that:
 - Restrict our ability to exit or reduce writings of unprofitable coverages or lines of business
 - Place the insurance industry under greater regulatory scrutiny or result in new statutes, rules and regulations
 - Increase our expenses
 - Add assessments for guaranty funds, other insurance related assessments or mandatory reinsurance arrangements; or that impair our ability to recover such assessments through future surcharges or other rate changes
 - Limit our ability to set fair, adequate and reasonable rates
 - Place us at a disadvantage in the marketplace
 - Restrict our ability to execute our business model, including the way we compensate agents
- Adverse outcomes from litigation or administrative proceedings
- Events or actions, including unauthorized intentional circumvention of controls, that reduce the company’s future ability to maintain effective internal control over financial reporting under the Sarbanes-Oxley Act of 2002
- Unforeseen departure of certain executive officers or other key employees due to retirement, health or other causes that could interrupt progress toward important strategic goals or diminish the effectiveness of certain longstanding relationships with insurance agents and others
- Events, such as an epidemic, natural catastrophe or terrorism, that could hamper our ability to assemble our workforce at our headquarters location
- Further, the company’s insurance businesses are subject to the effects of changing social, economic and regulatory environments. Public and regulatory initiatives have included efforts to adversely influence and restrict premium rates, restrict the ability to cancel policies, impose underwriting standards and expand overall regulation. The company also is subject to public and regulatory initiatives that can affect the market value for its common stock, such as recent measures affecting corporate financial reporting and governance. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

Receive Our *Letter to Shareholders*

Please subscribe to CFC Reports to receive an e-mail notice that links you to our quarterly *Letter to Shareholders*.

Visit www.cinfin.com/investors and select e-Mail Alerts at the bottom of the page. To speed delivery, reflect changing shareholder preferences and capture expense savings, we no longer print and mail to shareholders, except by request to investor_inquiries@cinfin.com.

Contact Information

Communications directed to Steven J. Johnston, FCAS, MAAA, CFA, senior vice president, chief financial officer, treasurer and secretary, are shared with the appropriate individual(s). Or, you may directly access services:

Investors: Investor Relations responds to investor inquiries about Cincinnati Financial Corporation and its performance.
Dennis E. McDaniel, CPA, CMA, CFM, CPCU – Assistant Vice President, Investor Relations
513-870-2768 or investor_inquiries@cinfin.com

Shareholders: Shareholder Services provides stock transfer services, fulfills requests for shareholder materials and assists registered shareholders who wish to update account information or enroll in shareholder plans.
Jerry L. Litton – Assistant Vice President, Shareholder Services
513-870-2639 or shareholder_inquiries@cinfin.com

Media: Corporate Communications assists media representatives seeking information or comment from Cincinnati Financial Corporation or its subsidiaries.
Joan O. Shevchik, CPCU, CLU – Senior Vice President, Corporate Communications
513-603-5323 or media_inquiries@cinfin.com

CINCINNATI FINANCIAL CORPORATION

The Cincinnati Insurance Company
The Cincinnati Casualty Company
The Cincinnati Indemnity Company
The Cincinnati Specialty Underwriters Insurance Company

The Cincinnati Life Insurance Company
CSU Producer Resources Inc.
CFC Investment Company

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Cincinnati Financial Corporation

Second-Quarter 2009 Letter to Shareholders

August 19, 2009

To Our Shareholders, Friends and Associates:

With an operating loss of \$5 million for the second quarter and an operating gain of only \$32 million for the first six months, 2009 is shaping up to be worse than we forecast.

Growth of book value per share rebounded in the second quarter, adding to our balance sheet strength. However, our income suffered the one-two punch of some broad external forces — a weak economy and a soft insurance market — and some stubborn line-of-business issues including catastrophe impact on our homeowner line and loss cost inflation impact on our workers' compensation line.

The economy and market are cyclical and need time to recover. Likewise, it will take time to fully realize the benefits of the actions we've taken to improve performance for those lines of business. While your company has always focused on creating value over the longer term, we are not sitting idly by expecting time to do all of the work.

A transformation is taking place in several business areas over recent quarters as we work to preserve capital, drive growth and improve profitability. By embracing the principal of diversification, we are increasing our opportunities and assuring we are prepared to grow profitably when the time is right. We believe progress in these diversification efforts will substantially reduce risks to our financial stability and substantially strengthen some competitive advantages. In the pages that follow, you'll read details of the efforts summarized here:

- We rebalanced our investment portfolio and diversified our equity holdings, applying our new parameters on an ongoing basis to avoid future concentrations in any investment sector or security issuer. This diversification helps stabilize our capital even as we continue driving shareholder value through our equity-investing approach: our equity portfolio managers seek a balance of current dividend income and the potential for appreciation, which together add to shareholders' equity over time.
- We continue to make progress in our initiatives for geographical expansion and technology upgrades, providing further diversification and growth opportunities. This will gradually spread risk geographically and should reduce volatility in catastrophe loss ratios affecting homeowners and other property lines of business. Our updated personal lines administration system is on track to deploy in early 2010. In its advent, we have prepared by appointing agencies in four new personal lines states in 2008 and 2009 and expanding our product offerings or automation capabilities in three other states. This next generation system and our improved rate structure set the stage for our new personal lines agencies to grow into meaningful contributors.

Also, we issued the first policy from our new commercial administration system for commercial package and auto policies in July and will deploy it to agents in 11 states by year-end. It offers a new option for agents to have us directly bill their clients. With these tools just around the corner, we opened Texas and Colorado for commercial lines in recent months, both far from our Midwest roots and concentrated catastrophe exposures.

- Finally, we've added significant diversification to our revenues and product line, creating more opportunity to meet more of the insurance needs of businesses in our agents' communities. Our surplus lines subsidiary launched in 2008 has contributed nicely to our increase in new business in 2009.

In all of these initiatives, we retain and emphasize the strengths that support our agent-centered mission. These include a conservative financial approach, sound and disciplined underwriting judgments and reliance on the local knowledge of our agents and field staff. Unsatisfied with our current results, we are making the changes that prepare your company to broaden our tools, our reach and our opportunities.

Respectfully,

/S/ John J. Schiff, Jr.

John J. Schiff, Jr., CPCU
Chairman of the Board

/S/ Kenneth W. Stecher

Kenneth W. Stecher
President and Chief Executive Officer

About the Company

Cincinnati Financial Corporation stands among the 25 largest property casualty insurers in the nation, based on premium volume. A select group of agencies in 36 states actively markets our property casualty insurance within their communities. Standard market commercial lines policies are available in all of those states, while personal lines policies are available in 29 and surplus lines policies are available in 34 of the 36 states. Within this select group, we also seek to become the life insurance carrier of choice and to help agents and their clients – our policyholders – by offering leasing and financing services.

Three hallmarks distinguish our company, positioning us to build value and long-term success:

- Commitment to our network of professional independent insurance agencies and to their continued success
- Financial strength that lets us be a consistent market for our agents' business, supporting stability and confidence
- Operating structure that supports local decision making, showcasing our claims excellence and allowing us to balance growth with underwriting discipline

Learn more about where we are today and how we plan to create value for shareholders, agents, policyholders and associates by reviewing publications that we promptly post on www.cinfin.com/Investors as they are completed. Please refer to the most recent item for the timeliest information.

2008 Fourth-Quarter and Full-Year *Letter to Shareholders* – available on www.cinfin.com/Investors

2008 *Annual Report on Form 10-K* – available on www.cinfin.com/Investors

2009 *Shareholder Meeting Notice and Proxy Statement* – available on www.cinfin.com/Investors

Letter from the Chairman and the Chief Executive Officer – available on www.cinfin.com/Investors

First-Quarter 2009 *Letter to Shareholders* – available on www.cinfin.com/Investors

Second-Quarter 2009 *Letter to Shareholders* – available now

This executive perspective includes our July 30 news release with financial results. For additional details, see our Quarterly Report on Form 10-Q, filed with the SEC on August 7, 2009.

Third-Quarter 2009 *Letter to Shareholders* – early November 2009

Stay Involved, Be Informed and Save Some Trees Too!

Thank you for your interest in Cincinnati Financial Corporation. We continue to make it easy to go green and get your information fast. By enrolling in e-Delivery at www.cinfin.com/Investors, you can help us save paper and postage while promptly receiving links to all materials and proxy voting communications via e-mail. We mail printed copies of our quarterly and annual letters only to shareholders who are **not** enrolled in e-Delivery.

Recent News Releases

Cincinnati Financial Reports Second-Quarter 2009 Results

Cincinnati, July 30, 2009 – Cincinnati Financial Corporation (Nasdaq: CINF) today reported:

- Second-quarter 2009 net loss of \$19 million compared with net income of \$63 million in the second quarter of 2008.
- Book value per share of \$25.49, an increase of 6.7 percent during the quarter.
- Operating loss* of \$5 million, or 3 cents per share, compared with operating income of \$69 million, or 42 cents per share.
- Net income and operating income declined 25 cents per share compared to second-quarter 2008 from the effects of higher catastrophe losses and a lesser amount of favorable development on loss and loss expense reserves for prior accident years. The contribution from investment income declined 9 cents per share.
- Value creation ratio of 8.4 percent for the second quarter and 2.0 percent for the first half of 2009 compared with negative 23.5 percent for the full year 2008.

Financial Highlights

(Dollars in millions except share data)

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	change %	2009	2008	change %
Revenue Highlights						
Earned premiums	\$ 770	\$ 794	(3.1)	\$ 1,535	\$ 1,575	(2.5)
Investment income	119	130	(8.4)	243	282	(13.9)
Total revenues	874	917	(4.7)	1,764	1,621	8.8
Income Statement Data						
Net income (loss)	\$ (19)	\$ 63	nm	\$ 17	\$ 21	(20.0)
Net realized investment gains and losses ...	(14)	(6)	(119.0)	(15)	(157)	90.0
Operating income (loss)*	\$ (5)	\$ 69	nm	\$ 32	\$ 178	(81.8)
Per Share Data (diluted)						
Net income(loss)	\$ (0.12)	\$ 0.38	nm	\$ 0.10	\$ 0.13	(23.1)
Net realized investment gains and losses ...	(0.09)	(0.04)	(125.0)	(0.10)	(0.95)	89.5
Operating income (loss)*	\$ (0.03)	\$ 0.42	nm	\$ 0.20	\$ 1.08	(81.5)
Book value				\$ 25.49	\$ 28.99	(12.1)
Cash dividend declared	0.39	0.39	0.0	0.78	0.78	0.0
Diluted weighted average shares outstanding	162,556,327	165,044,463	(1.5)	162,738,081	164,601,462	(1.1)

Insurance Operations Highlights

- 116.6 percent second-quarter 2009 property casualty combined ratio, a pre-tax underwriting loss of \$122 million.
- Property casualty net written premiums decreased \$67 million or 8.5 percent, driven by economic trends lowering insured exposures along with continued weak pricing in the insurance marketplace.
- \$7 million increase in property casualty new business written by agencies in the second quarter of 2009, driven by \$6 million from surplus lines operations that began in 2008.
- 7 cents per share contribution from life insurance operations to second-quarter operating income, up from 6 cents.
- improvement reflecting higher market-driven valuations in the investment portfolio.
- Excellent financial flexibility and growth capacity with property casualty statutory surplus of \$3.241 billion at June 30, 2009, compared with \$3.360 billion at December 31, 2008. Parent company cash and marketable securities of \$1.046 billion provide shareholder dividend capacity.
- Investment income declined for the quarter and year-to-date periods, reflecting recent quarter portfolio changes from a capital preservation diversification strategy. Lower dividend income from equity securities was partially offset by higher interest income from bonds.

Balance Sheet and Investment Highlights

- \$25.49 book value compared with \$23.88 at March 31, 2009, and \$25.75 at December 31, 2008, with the second-quarter

* The Definitions of Non-GAAP Information and Reconciliation to Comparable GAAP Measures on www.cinfin.com defines and reconciles measures presented in this release that are not based on Generally Accepted Accounting Principles or Statutory Accounting Principles.

** Forward-looking statements and related assumptions are subject to the risks outlined in the company's safe harbor statement (see Page 13).

Focus Continues on Long-Term Value Creation

Kenneth W. Stecher, president and chief executive officer, commented, “The 2009 second quarter brought an unwelcome repeat of recent trends for our property casualty insurance operations. Our underwriting loss primarily was driven by very high catastrophe losses, less favorable development on claims for prior accident years and a prolonged period of soft pricing and economic weakness that has reduced premium revenues for our company and our industry. Interest and dividend income from investments and steady profits from life insurance operations offset some of the property casualty underwriting loss.

“At June 30, 2009, unrealized gains in our stock and bond portfolio significantly exceeded the March 31 level. This increase offset the effects of the second-quarter underwriting loss on book value per share, which rose by \$1.61 during the quarter. As a result, the value creation ratio we use to measure our success trended positively, reaching 8.4 percent for the second quarter and 2.0 percent for the six months. Looking past 2009 to the 2010-2014 period, we continue to target a five-year value creation ratio of 12 percent to 15 percent, comprised of the total of our rate of growth in book value per share plus the rate of dividend contribution per share.

“We continue to focus on actions to build our company’s long-term competitive advantages, financial strength and stability through all market cycles. Some of those actions, such as the diversification of our investment portfolio that has been achieved over the past year, set income back for the short term but improved our position going forward. We rebalanced our portfolio with a smaller equity component in order to preserve capital and increase stability. After adjusting prior periods to reflect current accounting standards for impaired securities, we expect to again see favorable trend comparisons for investment income by the end of this year’s second half. At that point, we anticipate interest from bonds will increase to a level that offsets lower dividends from our stock holdings.

“We believe that the quality of an insurer’s balance sheets hinges on its reserving practices,” Stecher noted. “Consistent reserving practices are essential during soft markets. As losses develop over the years after they occur, our reserves have proven more than adequate and allowed us to release favorable development from prior-year loss reserves into current earnings. In the current quarter and first half, the benefit from this savings was less than in the year-ago period because we slightly increased our inflation assumption for workers’ compensation reserves going back 20 or more years. Our reserves for open workers’ compensation claims total nearly \$1 billion, so even small changes in inflation assumptions translate into significant quarterly income effects.

“The unique strength of our relationship with our agents remains a key competitive advantage, and we remain confident that it will lead to profitable growth as insurance markets

improve. Our strong capital position provides plenty of capacity for that growth along with financial flexibility.”

Improving Profitability

Stecher said, “We expect to see improvement in our underperforming workers’ compensation and homeowner lines of business as we apply predictive modeling techniques to improve pricing accuracy. We are on target to begin using our workers’ compensation predictive modeling tool throughout our operating territory during the second half of 2009 to assist our underwriting staff with improved risk selection and pricing capabilities. We recently refined our homeowner predictive modeling and continue to improve pricing sophistication for individual risks. Rate increases are also being implemented for states representing approximately 80 percent of our personal lines business.

“Frequent catastrophe events continue to weigh on our results, particularly for the homeowner line. In addition to the three significant events during the second quarter for which we reported a preliminary catastrophe loss estimate on July 13, we identified smaller impacts from several events classified as catastrophes by Property Claims Services, an industry group that declares catastrophes when a single incident or a series of closely related incidents causes severe insured property losses totaling more than \$25 million. Our second quarter 2009 total incurred losses from catastrophes were \$118 million compared with \$113 million for the same quarter in 2008.

“These amounts in both periods were well above our historical norm for catastrophe losses. We are addressing catastrophe risk through several initiatives, including ongoing efforts to control our hurricane exposure. Additionally, we have made progress with geographic diversification, expanding our personal lines operations over the past 18 months into seven states less prone to catastrophe events. Through the first six months of 2009, agencies in these states already have contributed more than \$5 million of new business, approximately 15 percent of total new personal lines business. While it will take time to see meaningful earnings effects from geographic diversification, it is an important part of our enterprise risk management program.”

Driving Growth

Stecher continued, “Although new property casualty business written for the second quarter of 2009 exceeded the 2008 level by 6.9 percent, due primarily to our surplus lines operation, total net written premiums declined 8.5 percent. These trends reflect pricing pressure as well as reduced premiums based on insured exposures that are highly sensitive to economic cycles, such as business sales or payrolls. Premiums on commercial accounts we choose to renew continue to reflect pricing declines at a low-single-digit rate, on average. We choose not to renew accounts that would require price decreases out of

proportion to the quality of the individual risk.

“Rather than compete for business that appears to be underpriced, we are focusing on expanding our agency plant, geographical territory and lines of business. During the second quarter, we appointed our first Colorado agency, and we expect to announce our first agency relationship in Wyoming soon. We also recently added a third marketing territory in Texas, a state where we began actively marketing in 2008, and generated \$3 million in direct written premiums for the first half of 2009. Typically, new agencies give us opportunities to underwrite accounts they formerly placed with another carrier, bringing us the advantage of risk characteristics and loss histories that are well-known to our agent.

“Agents also have responded enthusiastically to the surplus lines offerings of The Cincinnati Specialty Underwriters Insurance Company, now in its second year of operation. Of the \$29 million increase in new, consolidated property casualty business written in the first six months, \$12 million was surplus lines premium. Our ability to handle surplus lines risk through this company also increases our opportunities to write standard business for the same accounts through The Cincinnati Insurance Company.

“Our life insurance operation similarly provides opportunities to cross sell life insurance products to clients of the independent agencies that sell Cincinnati’s property casualty insurance policies. We continue to enhance this portfolio of products and later this year plan to offer a new

secondary guarantee universal life product, a new return of premium term life series and also a worksite return of premium 20-year term life product.

“We are on the verge of introducing our new commercial lines policy administration system, which we expect to drive future premium growth. A group of our associates are using it now to produce commercial package and commercial auto policies for Ohio and Indiana agencies they serve. In October, agents will receive the system and will gain direct bill capability. Further, our improved personal lines administration system is on track for early 2010 delivery to agents.

“In summary, our second quarter results were a disappointment but not a surprise, and we see few signs of a better environment for the remainder of 2009. Looking to the future, we strengthened our competitive and financial position during the second quarter by continuing to improve our portfolio and risk management, build our agency relationships, expand our independent agency force and advance our technology.”

Stecher concluded, “Our property casualty insurance group was named in July to the Ward’s 50 list of insurers that excel at balancing financial strength with superior performance over a five-year period. Our group is one of only five insurers named to the Ward’s 50 every year since inception of the list 19 years ago. With support from our loyal shareholders, agents, policyholders and associates, we will continue making progress and building value that endures over time.”

Consolidated Property Casualty Insurance Operations

(Dollars in millions; percent change given for dollar amounts and point change given for ratios)

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	change %	2009	2008	change %
Earned premiums	\$ 733	\$ 761	(3.7)	\$ 1,465	\$ 1,512	(3.1)
Loss and loss expenses before catastrophe losses	502	445	12.8	992	903	9.9
Loss and loss expenses from catastrophe losses	118	113	4.1	171	156	9.3
Total loss and loss expenses	620	558	11.2	1,163	1,059	9.9
Underwriting expenses	235	230	2.6	479	469	2.0
Underwriting loss	\$ (122)	\$ (27)	(356.3)	\$ (177)	\$ (16)	nm
Other premium metrics:						
Agency renewal written premiums	\$ 666	\$ 738	(9.8)	\$ 1,361	\$ 1,472	(7.5)
Agency new business written premiums ...	107	100	6.9	204	175	16.4
Net written premiums	723	790	(8.5)	1,501	1,566	(4.2)
Ratios as a percent of earned premiums:			Points			Points
Loss and loss expenses	84.5%	73.3%	11.2	79.4%	70.0%	9.4
Underwriting expenses	32.1	30.2	1.9	32.7	31.1	1.6
Combined ratio	116.6%	103.5%	13.1	112.1%	101.1%	11.0
Other metrics within combined ratio:						
Contribution from catastrophe losses	16.1	14.9	1.2	11.6	10.3	1.3
Contribution from prior period reserve development	(3.9)	(11.4)	7.5	(1.5)	(6.5)	5.0

- \$67 million or 8.5 percent decrease in second-quarter property casualty net written premiums as the effects of exposure decreases, soft pricing and disciplined renewal underwriting more than offset growth in new business.
- \$7 million increase in 2009 new business written by agencies reflected the contribution from growth initiatives, including a \$6 million increase from surplus lines.
- 1,168 agency relationships with 1,444 reporting locations marketing standard market property casualty insurance products at June 30, 2009, up from 1,133 agency relationships with 1,387 reporting locations at year-end 2008.
- Second-quarter 2009 GAAP combined ratio increased primarily due to less favorable development on prior accident year loss and loss expense reserves. The underwriting profit impacts of this prior accident year reserve development for the second quarter of 2009 and 2008, respectively, were \$29 million unfavorable and \$9 million favorable for the workers' compensation line of business and \$58 million favorable and \$77 million favorable for all other lines of business.

(In millions, net of reinsurance)

Dates	Cause of loss	Region	Three months ended June 30,			Six months ended June 30,		
			Commercial lines	Personal lines	Total	Commercial lines	Personal lines	Total
2009								
Jan. 26-28	Flood, freezing, ice, snow	South, Midwest	\$ (1)	\$ -	\$ (1)	\$ 5	\$ 15	\$ 20
Feb. 10-13	Flood, hail, wind	South, Midwest, East	4	5	9	15	23	38
Feb. 18-19	Wind, hail	South	1	3	4	1	8	9
Apr. 9-11	Flood, hail, wind	South, Midwest	13	15	28	13	15	28
May 7-9	Flood, hail, wind	South, Midwest	12	17	29	12	17	29
Jun. 2-6	Flood, hail, wind	South, Midwest	6	4	10	6	4	10
Jun. 10-18	Flood, hail, wind	South, Midwest	21	9	30	21	9	30
All other 2009 catastrophes			5	6	11	5	6	11
Development on 2008 and prior catastrophes			(4)	2	(2)	(7)	3	(4)
Calendar year incurred total			<u>\$ 57</u>	<u>\$ 61</u>	<u>\$ 118</u>	<u>\$ 71</u>	<u>\$ 100</u>	<u>\$ 171</u>
2008								
Jan. 4-9	Wind, hail, flood, freezing	South, Midwest	\$ -	\$ -	\$ -	\$ 3	\$ 3	\$ 6
Jan. 29-30	Wind, hail	Midwest	-	-	-	6	4	10
Feb. 5-6	Wind, hail, flood	Midwest	(2)	(1)	(3)	6	8	14
Mar. 14	Tornadoes, wind, hail, flood	South	-	-	-	5	1	6
Mar. 15-16	Wind, hail	South	(2)	1	(1)	2	5	7
Apr. 9-11	Wind, hail, flood	South	19	2	21	19	2	21
May 10-12	Wind, hail, flood	South, Mid-Atlantic	4	3	7	4	3	7
May 22-26	Wind, hail	Midwest	7	2	9	7	2	9
May 29-								
Jun 1	Wind, hail, flood	Midwest	6	6	12	6	6	12
Jun. 2-4	Wind, hail, flood	Midwest	6	7	13	6	7	13
Jun. 5-8	Wind, hail, flood	Midwest	13	11	24	13	11	24
Jun. 11-12	Wind, hail, flood	Midwest	11	12	23	11	12	23
All other 2008 catastrophes			4	4	8	4	4	8
Development on 2007 and prior catastrophes			-	-	-	(3)	(1)	(4)
Calendar year incurred total			<u>\$ 66</u>	<u>\$ 47</u>	<u>\$ 113</u>	<u>\$ 89</u>	<u>\$ 67</u>	<u>\$ 156</u>

Insurance Segments Highlights

Commercial Lines Insurance Operations

(Dollars in millions; percent change given for dollar amounts and point change given for ratios)

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	change %	2009	2008	change %
Earned premiums	\$ 556	\$ 586	(5.2)	\$ 1,112	\$ 1,161	(4.2)
Loss and loss expenses before catastrophe losses	385	342	12.3	759	685	10.8
Loss and loss expenses from catastrophe losses	57	66	(14.0)	71	89	(19.9)
Total loss and loss expenses	442	408	8.1	830	774	7.3
Underwriting expenses	175	177	(1.1)	355	357	(0.6)
Underwriting (loss) profit	\$ (61)	\$ 1	nm	\$ (73)	\$ 30	nm
Other premium metrics:						
Agency renewal written premiums	\$ 488	\$ 552	(11.7)	\$ 1,045	\$ 1,140	(8.3)
Agency new business written premiums ...	79	87	(8.7)	155	153	1.5
Net written premiums	524	597	(12.2)	1,149	1,222	(5.9)
Ratios as a percent of earned premiums:			Points			Points
Loss and loss expenses	79.5%	69.7%	9.8	74.6%	66.7%	7.9
Underwriting expenses	31.4	30.2	1.2	32.0	30.7	1.3
Combined ratio	110.9%	99.9%	11.0	106.6%	97.4%	9.2
Other metrics within combined ratio:						
Contribution from catastrophe losses	10.2	11.3	(1.1)	6.4	7.6	(1.2)
Contribution from prior period reserve development	(3.9)	(12.5)	8.6	(1.2)	(7.6)	6.4

- \$73 million or 12.2 percent decrease in second-quarter commercial lines net written premiums. Lower renewal premiums reflected pricing declines and lower insured exposure levels such as business sales or payroll volume, reflecting the weak economy. Lower new business premiums reflected decisions to decline business considered underpriced.
- \$13 million of commercial lines new business written was from agencies appointed since January 2008.
- 11.0 percentage-point increase in second-quarter 2009 combined ratio included 6.8 percentage points from development of workers' compensation loss and loss expense reserves for prior accident years. It unfavorably affected by 5.3 percentage points the second-quarter ratio of 2009 and favorably impacted by 1.5 percentage points the second quarter of 2008.

Personal Lines Insurance Operations

(Dollars in millions; percent change given for dollar amounts and point change given for ratios)

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	change %	2009	2008	change %
Earned premiums	\$ 172	\$ 174	(1.5)	\$ 343	\$ 351	(2.2)
Loss and loss expenses before catastrophe losses	112	102	10.2	225	217	3.9
Loss and loss expenses from catastrophe losses	<u>61</u>	<u>47</u>	29.3	<u>100</u>	<u>67</u>	47.3
Total loss and loss expenses	173	149	16.2	325	284	14.2
Underwriting expenses	<u>56</u>	<u>52</u>	6.6	<u>110</u>	<u>112</u>	(0.5)
Underwriting loss	\$ (57)	\$ (27)	(113.0)	\$ (92)	\$ (45)	(107.3)
Other premium metrics:						
Agency renewal direct written premiums ..	\$ 176	\$ 186	(5.3)	\$ 313	\$ 332	(5.6)
Agency new business direct written premiums	19	10	84.7	34	19	76.8
Net written premiums	190	191	(0.6)	334	341	(1.9)
Ratios as a percent of earned premiums:						
			<u>Points</u>			<u>Points</u>
Loss and loss expenses	100.9%	85.4%	15.5	94.6%	81.0%	13.6
Underwriting expenses	<u>32.3</u>	<u>29.9</u>	2.4	<u>32.3</u>	<u>31.7</u>	0.6
Combined ratio	<u>133.2%</u>	<u>115.3%</u>	17.9	<u>126.9%</u>	<u>112.7%</u>	14.2
Other metrics within combined ratio:						
Contribution from catastrophe losses	35.4	27.0	8.4	29.0	19.3	9.7
Contribution from prior period reserve development	(4.3)	(7.2)	2.9	(2.5)	(3.2)	0.7

- \$1 million or 0.6 percent decline in second-quarter personal lines net written premiums. Higher new personal lines business was offset by the effects of changes in pricing on renewal business volume.
- \$9 million increase in second-quarter 2009 personal lines new business written including \$3 million from seven states where we began in 2008 to market personal lines or significantly expanded our personal lines product offerings and automation capabilities.
- 17.9 percentage-point increase in the combined ratio due largely to an 8.4 percentage-point increase in catastrophe losses and a 3.1 percentage-point increase in personal lines large losses above \$250,000 per loss.

Life Insurance Operations

(In millions)	Three months ended June 30,			Six months ended June 30,		
	2009	2008	change %	2009	2008	change %
Written premiums	\$ 73	\$ 47	56.1	\$ 123	\$ 90	35.8
Earned premiums	\$ 37	\$ 33	9.9	\$ 70	\$ 63	11.1
Investment income, net of expenses	29	29	(0.1)	59	58	1.3
Other income	-	1	(131.0)	-	1	(83.5)
Total revenues, excluding realized investment gains and losses	66	63	3.9	129	122	5.4
Contract holders benefits	39	38	1.8	78	74	5.3
Underwriting expenses	13	10	29.8	24	21	16.0
Total benefits and expenses	52	48	7.5	102	95	7.7
Net income before income tax and realized investment gains and losses	14	15	(7.3)	27	27	(2.6)
Income tax	3	5	(41.2)	8	9	(20.8)
Net income before realized investment gains and losses	\$ 11	\$ 10	10.3	\$ 19	\$ 18	6.7

- \$33 million increase in total six-month 2009 life insurance segment net written premiums primarily due to increased fixed annuity sales. Written premiums include life insurance, annuity and accident and health premiums.
- 7.6 percent increase to \$78 million in six-month 2009 written premiums for life insurance products in total.
- 12.0 percent rise to \$43 million in six-month term life insurance written premiums, reflecting marketing advantages of competitive, up to date products, providing close personal attention and offering policies backed by financial strength and stability.
- Growth in earned premiums more than offset less favorable mortality experience as life insurance operations continue to provide a steady contribution to overall earnings.
- 2.9 percent rise in face amount of life policies in force to \$67.812 billion at June 30, 2009, from \$65.888 billion at year-end 2008.

Investment and Balance Sheet Highlights

Investment Operations

(In millions)	Three months ended June 30,			Six months ended June 30,		
	2009	2008	change %	2009	2008	change %
Investment income:						
Interest	\$ 96	\$ 79	21.0	\$ 192	\$ 155	23.7
Dividends	24	50	(52.4)	50	123	(59.2)
Other	1	3	(47.8)	5	7	(36.6)
Investment expenses	(2)	(2)	(4.3)	(4)	(3)	(7.8)
Total investment income, net of expenses	119	130	(8.4)	243	282	(13.9)
Investment interest credited to contract holders	(17)	(16)	6.8	(33)	(31)	6.3
Realized investment gains and losses summary:						
Realized investment gains and losses	23	57	(59.3)	75	40	85.1
Change in fair value of securities with embedded derivatives	11	(3)	nm	7	(6)	nm
Other-than-temporary impairment charges	(52)	(65)	18.9	(102)	(278)	63.4
Total realized investment gains and losses	(18)	(11)	(62.0)	(20)	(244)	91.9
Investment operations income	\$ 84	\$ 103	(18.3)	\$ 190	\$ 7	nm

- 8.4 percent decline in second-quarter 2009 net investment income, primarily due to dividend reductions by equity security holdings.
- \$18 million realized investment loss in second-quarter 2009 compared with an \$11 million loss in second-quarter 2008.
- Second-quarter 2009 pretax realized investment loss included \$52 million non-cash charge for other-than-temporary impairments that recognize significant market value declines, primarily for the equity portfolio.

(Dollars in millions except share data)

	At June 30, 2009	At December 31, 2008
Balance sheet data		
Invested assets	\$ 9,708	\$ 8,890
Total assets	13,522	13,369
Short-term debt	49	49
Long-term debt	790	791
Shareholders' equity	4,144	4,182
Book value per share	25.49	25.75
Debt-to-capital ratio	16.8%	16.7%
	Six months ended June 30, 2009	2008
Performance measures		
Value creation ratio	2.0%	(16.6)%

- \$9.962 billion in cash and invested assets at June 30, 2009, compared with \$9.899 billion at December 31, 2008. Cash and equivalents of \$254 million at June 30, 2009, compared with \$1.009 billion at December 31, 2008.
- \$7.127 billion bond portfolio at June 30, 2009, with an average rating of A2/A, reflecting a diverse mix of taxable and tax exempt securities.
- \$2.492 billion equity portfolio was 25.7 percent of invested assets and included \$533 million in pretax unrealized gains at June 30, 2009.
- \$3.241 billion of statutory surplus for the property casualty insurance group at June 30, 2009, compared with \$3.360 billion at December 31, 2008. Ratio of net written premiums to property casualty statutory surplus for the 12 months ended June 30, 2009, of 0.93-to-1, up from 0.89-to-1 for the 12 months ended December 31, 2008.
- Value creation ratio for the first half of 2009 includes 3.0 percent from shareholder dividends and negative 1.0 percent growth in book value per share.

For additional information or to hear a replay of the July 30 conference call webcast, please visit www.cinfin.com/investors.

Cincinnati Financial Corporation

Condensed Balance Sheets and Statements of Income (unaudited)

(Dollars in millions)	June 30, 2009	December 31, 2008
Assets		
Investments	\$ 9,708	\$ 8,890
Cash and cash equivalents	254	1,009
Premiums receivable	1,075	1,059
Reinsurance receivable	730	759
Deferred income tax	73	126
Other assets	<u>1,682</u>	<u>1,526</u>
Total assets	<u>\$ 13,522</u>	<u>\$ 13,369</u>
Liabilities		
Insurance reserves	\$ 5,847	\$ 5,637
Unearned premiums	1,565	1,544
6.125% senior notes due 2034	371	371
6.9% senior debentures due 2028	28	28
6.92% senior debentures due 2028	391	392
Other liabilities	<u>1,176</u>	<u>1,215</u>
Total liabilities	<u>9,378</u>	<u>9,187</u>
Shareholders' Equity		
Common stock and paid-in capital	1,468	1,462
Retained earnings	3,575	3,579
Accumulated other comprehensive income	304	347
Treasury stock	<u>(1,203)</u>	<u>(1,206)</u>
Total shareholders' equity	<u>4,144</u>	<u>4,182</u>
Total liabilities and shareholders' equity	<u>\$ 13,522</u>	<u>\$ 13,369</u>

(Dollars in millions except per share data)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Revenues				
Earned premiums	\$ 770	\$ 794	\$ 1,535	\$ 1,575
Investment income, net of expenses	119	130	243	282
Realized investment gains and losses	(18)	(11)	(20)	(244)
Other income	3	4	6	8
Total revenues	<u>874</u>	<u>917</u>	<u>1,764</u>	<u>1,621</u>
Benefits and Expenses				
Insurance losses and policyholder benefits	658	595	1,239	1,131
Underwriting, acquisition and insurance expenses	248	239	503	491
Other operating expenses	4	6	10	10
Interest expense	14	13	28	25
Total benefits and expenses	<u>924</u>	<u>853</u>	<u>1,780</u>	<u>1,657</u>
Income (Loss) before Income Taxes	(50)	64	(16)	(36)
Provision (Benefit) for Income Taxes	(31)	1	(33)	(57)
Net Income (loss)	<u>\$ (19)</u>	<u>\$ 63</u>	<u>\$ 17</u>	<u>\$ 21</u>
Per Common Share:				
Net income (loss)—basic	\$ (0.12)	\$ 0.38	\$ 0.10	\$ 0.13
Net income (loss)—diluted	\$ (0.12)	\$ 0.38	\$ 0.10	\$ 0.13

Other News Releases

Cincinnati Financial Corporation Increases Regular Quarterly Cash Dividend

- Sets stage for 49th consecutive year of higher dividends with 1 percent increase in indicated annual dividend rate

Cincinnati, August 17, 2009 – Cincinnati Financial Corporation (Nasdaq: CINF) today announced that the board of directors voted at its regular meeting on August 14, 2009, to increase the regular quarterly cash dividend from 39 cents to 39.5 cents per share, payable October 15, 2009, to shareholders of record as of September 18, 2009.

At the new level, the indicated annual dividend is \$1.58 per share. In 2008, cash dividends paid were \$1.53 per share and dividends declared were \$1.56 per share. The company had 162,569,163 shares outstanding at June 30, 2009.

Kenneth W. Stecher, president and chief executive officer, commented, “The company has consistently increased dividends for 48 years, and the board of directors chose to continue that record for the benefit of our shareholders.

This action demonstrates their confidence in our strong capital, liquidity and financial flexibility and in our initiatives to improve earnings performance.

“We have rebalanced our investment portfolio, positioning it to resume an increasing trend for growth and income. We are making major strides to improve pricing accuracy and policy administration efficiency for our property casualty insurance products, improving our service to agents and allowing for expense savings. Additionally, we are working to increase geographical diversification by expanding our insurance operations to new states and adding agencies in established states. Our long-term perspective drives our long-term commitment through all market and economic cycles to create value for shareholders by investing in and expanding our insurance operations.”

Colorado Agency Appointed to Represent The Cincinnati Insurance Company

Cincinnati, June 1, 2009 – Cincinnati Financial Corporation (Nasdaq: CINF) today announced that its lead property casualty insurance subsidiary, The Cincinnati Insurance Company, appointed Moody Insurance Agency in Denver, Colorado, as the first independent agency in that state to market its business insurance policies and services. Cincinnati Insurance executives initiated the relationship at the company’s headquarters, welcoming agency representatives Brad Moody, CPCU, president, and Kim Burkhardt, CPCU, ARM, director of sales development. This marks the 36th state of operation for the insurer.

As previously announced, the company plans to enter its 37th state, Wyoming, later this year.

President and CEO, Kenneth W. Stecher said, “We’ve had our eye on Colorado for several years. Operating within its stable regulatory and business climate, we see Colorado as an opportunity to support our goal of growth and diversify our geographic footprint, mitigating catastrophe losses. Opening Colorado and Wyoming adds to our now sizeable presence in the western states – entering Texas in 2008, New Mexico and eastern Washington in 2007, Utah in 2000, Idaho in 1999 and Montana in 1998. We entered Arizona in 1971.”

Stecher continued, “In 2009, we are targeting 65 appointments of independent agencies writing an aggregate \$1 billion in property casualty premiums annually with all carriers they represent. This target includes appointments in our current states and approximately eight more appointments we anticipate making in Colorado and Wyoming this year.”

Executive Vice President J.F. Scherer commented, “Agents in Colorado and Wyoming tell us they are eager to bring their commercial clients Cincinnati’s industry-leading claims service, broad coverages, highly competitive multi-year policies and solid financial strength. To provide agents with local support, our experienced field marketing representatives Lee Sanders, CIC, and Michelle Gregov, CPCU, CIC, are relocating to the Denver area. They will meet with additional agencies to find those that best fit the Cincinnati Insurance mission and will work hard to get those agents up and running quickly to deliver our steady underwriting approach to the businesses of Colorado.”

“With a healthy premium-to-surplus ratio, we have both the capacity and desire to grow with our superior, independent agency force in our current markets and in these new areas,” Scherer concluded.

Inside Cincinnati

Since our May *Letter to Shareholders*, these associates merited promotions:

Actuarial

Director – **Peggy Eubanks, ACS, AIAA, ARA**

Agency Bill Accounting

Supervising Account Specialist – **Thomas Mathias**

Bond & Executive Risk

Underwriting Superintendents – **Steve Brugger;**

Ryan Holliday; Trisha Moorhead

Field Underwriter – **Jay Watson**

Cincinnati Life

Senior Manager, Life Field Services – **Cathy Stump**

Associate Manager, Life Policy Issue – **Diana Brockman**

Commercial Lines

Senior Underwriting Manager – **Joe Ambrosiano, CPCU, AIM**

Underwriting Managers – **Dawn Eschenbach, CPCU, AIM,**

APA, ARE, AU; Jeff Geyer, CPCU, AIM, APA;

Debbie Hitt, AIM

Underwriting Superintendents – **David Brinker;**

Paul Camacho, AIM, AIS, ARM, AU; Brenda Gagnon;

Julie Geyer; Jenifer Heavner; Mike Horn; Kevin Nilsson;

Cathy Roberts, CPCU, AIM, ARM, AU;

Rebecca Rommel; Brodie Theiss, AIM

Chief Underwriting Specialists – **Don Gray;**

Megan Jewell, CPCU, ASLI; Amy Meyer

Underwriting Specialists – **Kristi Hauser; Brendan Kehoe;**

Rob Kernen, AIS, AU; Morgan Mackall; Jon Meyer, AIS,

API; Binita Patel; Jennifer Prohaska; Carrie Wilson

Senior Underwriters – **Brian Daniels; Michael Baum;**

Mark Grile; Tess Hudepohl; Jamie McClendon;

Doug Protzman, AIS; Carla Pucke; Elizabeth Rieke;

Dan Shevchik; Jeff Walls; Dan Wernke; Dyanna Wilson;

Jessica Zinsmeister

CSU Underwriting

Underwriting Director – **Carey Taylor**

Chief Underwriting Specialist – **Holly Brobst, CPCU,**

APA, ARM

Field Claims

Regional Field Claims Manager – **Len Reising, AIC, AIM**

Field Claims Managers – **Scott Hoover, AIC, AIM;**

Tonya Kelley, AIC

Field Claims Superintendents – **Keith Boger;**

Jim Karkoska, AIC; Jeff Phillips, AIC; Jeff Sansbury, AIC

Senior Claims Representatives – **Kent Alder, CPCU;**

Jennifer Clark, AIC; Corey Linder, AIC;

Wayne Moyer, CPCU

Senior Claims Specialists – **Stephanie Berns, AIC;**

Tad Langenderfer, AIC; Rob Rapp, AIC

Claims Specialists – **Natasha Byram, AIC; Dane Chesley;**

Marcia George, AIC, AIM; Paul Holland, AIC;

Guy Korner, AIC; Scott Mason, AIC;

Stacy Massengill, AIC, AIS, SCLA; Barry Smith;

Jesse Walker; Mark Williams, AIC; Tavia Young

Headquarters Claims

Manager, Claims Administration Financials –

Jay O’Hara, Jr., AIC

Associate Superintendent, Casualty Claims –

Patrick Landis, AIC

Associate Superintendent, Environmental Claims –

Craig Macke, CPCU, AIC

Associate Superintendents, Workers’ Compensation Claims –

Dan Brewer, AIC, AIM, AIS; Anita Patrick, AIC, AIM;

Patty Schneider, AIC, AIM

Supervisor, Claims Recovery – **Karen Tucker, AIC**

Information Security Office

Supervisor, Security Operations Center – **Brian Seader**

Information Technology

Business Analyst – **Mike Chrisman, CPCU**

DMT Analyst – **Brian Wisecup**

Group Managers – **Shawn Brock, PMP; Mark Cossman**

Network Administrator – **Leah Childs**

Programmer – **Stephanie Allen**

Programmer Analyst – **Damen Proffitt, AIT**

Project Manager – **Mike Lambers, PMP**

Senior Group Managers – **Joe Clabaugh; Jim Nuckols**

Systems Engineers – **Mike Abshire; Douglas Decker;**

Ed Hafertepe; Mike Hoell; Brian Pennington

Investments

Portfolio Manager – **Jeff Riechman**

Learning & Development

Learning Supervisor – **Brian Roach**

Loss Control Field

Loss Control Field Directors – **Pat Holleran, ARM;**

Celeste VanHoutte, CSP

Machinery & Equipment Specialties Field

Senior Machinery & Equipment Representative –

David Peterson

Personal Lines

Senior Personal Lines Marketing Representative –

Kristin Klemmer, API

Underwriting Specialist – **Maria Cook, API; Diane Roller, API**

Senior Underwriters – **Timothy Daly, API;**
Donald Goetz II, API; Rebecca Grossenbaugh, API;
Holly Spurgeon, AIM, API
Diamond Specialists – **Matt Meyer, CPCU, API;**
Jamie Schneider
Requirements Specialists – **Sandy Rutledge, AIC, API;**
David Silver, AIT, API
Senior Diamond Support Analyst – **Doug Shank**
Lead Analysts – **Debbie Sigmon-Grubb;**
Kevin Willis, CPCU, AIM, AIT

Premium Audit Field

Senior Auditor – **Dawn Mundt**

Sales & Marketing

Senior Regional Director – **Doug Dukes, CIC**
Field Representative – **Perry Russo, CPCU, AIM**

Sales Field

Field Director – **Sean Givler, CIC**
Senior Regional Director – **Mike Wolfer, CPCU**
Regional Director – **Ryan Henry**
State Agents – **Timothy Jensen, AIC; Shane Skogland**

Special Investigations Field

Superintendent – **Stephen Pierce**
Associate Superintendent – **Mark Fulk**

Professional Development and Awards

We encourage and reward associates who continue their professional insurance education, earning credentials by meeting high academic, ethical and length-of-experience standards. Congratulations to the following associate who completed a series of courses to earn a designation:

Tim Ritzie, Chartered Property Casualty Underwriter (CPCU) The Above and Beyond the Call (ABC) Award recognizes exemplary productivity, service and quality in exceptional associates. Congratulations to quarterly ABC Award winners **Mike Allen, Programmer, IT P&C Administration** and **Debbie Egbert, Underwriting Assistant, CSU Underwriting.**

In July, we began training associates to use our commercial policy processing system, e-CLAS®. Underwriting teams that

serve Ohio and Indiana agencies were trained on the software to work with select test agencies. After the system goes live in October, agents may choose from three training formats:

- Online self-learning modules available anytime in a Show Me, Guide Me, Try Me format
 - Web conferencing training sessions deliver e-CLAS training to agents' computers along with the ability to interact live with an instructor
 - Hands-on training in classroom sessions at Cincinnati's Learning Center or near an agent's office using mobile labs
- While agency staff who are familiar with WinCPP® will find the system intuitive and easy to learn, these options provide each agency the ability to choose what best fits its needs.

Safe Harbor Statement

This is our “Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995. Our business is subject to certain risks and uncertainties that may cause actual results to differ materially from those suggested by the forward-looking statements in this report. Some of those risks and uncertainties are discussed in our 2008 Annual Report on Form 10-K, Item 1A, Risk Factors, Page 25. Although we often review or update our forward-looking statements when events warrant, we caution our readers that we undertake no obligation to do so.

Factors that could cause or contribute to such differences include, but are not limited to:

- Unusually high levels of catastrophe losses due to risk concentrations, changes in weather patterns, environmental events, terrorism incidents or other causes
 - Increased frequency and/or severity of claims
 - Inadequate estimates or assumptions used for critical accounting estimates
 - Recession or other economic conditions resulting in lower demand for insurance products or increased payment delinquencies
 - Delays in adoption and implementation of underwriting and pricing methods that could increase our pricing accuracy, underwriting profit and competitiveness
 - Inability to defer policy acquisition costs for our personal lines segment if pricing and loss trends would lead management to conclude this segment could not achieve sustainable profitability
 - Declines in overall stock market values negatively affecting the company’s equity portfolio and book value
 - Events, such as the credit crisis, followed by prolonged periods of economic instability, that lead to:
 - Significant or prolonged decline in the value of a particular security or group of securities and impairment of the asset(s)
 - Significant decline in investment income due to reduced or eliminated dividend payouts from a particular security or group of securities
 - Significant rise in losses from surety and director and officer policies written for financial institutions
 - Prolonged low interest rate environment or other factors that limit the company’s ability to generate growth in investment income or interest rate fluctuations that result in declining values of fixed-maturity investments, including declines in accounts in which we hold bank-owned life insurance contract assets
 - Increased competition that could result in a significant reduction in the company’s premium volume
 - Changing consumer insurance-buying habits and consolidation of independent insurance agencies that could alter our competitive advantages
 - Ability to obtain adequate reinsurance on acceptable terms, amount of reinsurance purchased, financial strength of reinsurers and the potential for non-payment or delay in payment by reinsurers
 - Events or conditions that could weaken or harm the company’s relationships with its independent agencies and hamper opportunities to add new agencies, resulting in limitations on the company’s opportunities for growth, such as:
 - Multi-notch downgrades of the company’s financial strength ratings
 - Concerns that doing business with the company is too difficult
 - Perceptions that the company’s level of service, particularly claims service, is no longer a distinguishing characteristic in the marketplace
 - Delays or inadequacies in the development, implementation, performance and benefits of technology projects and enhancements
 - Actions of insurance departments, state attorneys general or other regulatory agencies, including a change to a federal system of regulation from a state-based system, that:
 - Restrict our ability to exit or reduce writings of unprofitable coverages or lines of business
 - Place the insurance industry under greater regulatory scrutiny or result in new statutes, rules and regulations
 - Increase our expenses
 - Add assessments for guaranty funds, other insurance related assessments or mandatory reinsurance arrangements; or that impair our ability to recover such assessments through future surcharges or other rate changes
 - Limit our ability to set fair, adequate and reasonable rates
 - Place us at a disadvantage in the marketplace
 - Restrict our ability to execute our business model, including the way we compensate agents
 - Adverse outcomes from litigation or administrative proceedings
 - Events or actions, including unauthorized intentional circumvention of controls, that reduce the company’s future ability to maintain effective internal control over financial reporting under the Sarbanes-Oxley Act of 2002
 - Unforeseen departure of certain executive officers or other key employees due to retirement, health or other causes that could interrupt progress toward important strategic goals or diminish the effectiveness of certain longstanding relationships with insurance agents and others
 - Events, such as an epidemic, natural catastrophe or terrorism, that could hamper our ability to assemble our workforce at our headquarters location
- Further, the company’s insurance businesses are subject to the effects of changing social, economic and regulatory environments. Public and regulatory initiatives have included efforts to adversely influence and restrict premium rates, restrict the ability to cancel policies, impose underwriting standards and expand overall regulation. The company also is subject to public and regulatory initiatives that can affect the market value for its common stock, such as recent measures affecting corporate financial reporting and governance. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

Receive Our *Letter to Shareholders*

Please subscribe to CFC Reports to receive an e-mail notice that links you to our quarterly *Letter to Shareholders*.

Visit www.cinfin.com/investors and select e-Mail Alerts at the bottom of the page. To speed delivery, reflect changing shareholder preferences and capture expense savings, we no longer print and mail to shareholders, except by request to investor_inquiries@cinfin.com.

Contact Information

Communications directed to Steven J. Johnston, FCAS, MAAA, CFA, senior vice president, chief financial officer, treasurer and secretary, are shared with the appropriate individual(s). Or, you may directly access services:

Investors: Investor Relations responds to investor inquiries about Cincinnati Financial Corporation and its performance.

Dennis E. McDaniel, CPA, CMA, CFM, CPCU – Assistant Vice President, Investor Relations
513-870-2768 or investor_inquiries@cinfin.com

Shareholders: Shareholder Services provides stock transfer services, fulfills requests for shareholder materials and assists registered shareholders who wish to update account information or enroll in shareholder plans.

Jerry L. Litton – Assistant Vice President, Shareholder Services
513-870-2639 or shareholder_inquiries@cinfin.com

Media: Corporate Communications assists media representatives seeking information or comment from Cincinnati Financial Corporation or its subsidiaries.

Joan O. Shevchik, CPCU, CLU – Senior Vice President, Corporate Communications
513-603-5323 or media_inquiries@cinfin.com

CINCINNATI FINANCIAL CORPORATION

The Cincinnati Insurance Company
The Cincinnati Casualty Company
The Cincinnati Indemnity Company
The Cincinnati Specialty Underwriters Insurance Company

The Cincinnati Life Insurance Company
CSU Producer Resources Inc.
CFC Investment Company

Mailing Address:

P.O. Box 145496
Cincinnati, Ohio 45250-5496

Street Address:

6200 South Gilmore Road
Fairfield, Ohio 45014-5141

Phone: 513-870-2000

Fax: 513-870-2066

www.cinfin.com



Cincinnati Financial Corporation

Third-Quarter 2009 Letter to Shareholders

December 1, 2009

To Our Shareholders, Friends and Associates:

Your shareholders' equity in Cincinnati Financial Corporation rose \$444 million since year-end 2008, totaling \$4.626 billion, or \$28.44 on a book value per share basis, at September 30, 2009. Most of that increase took place during the third quarter as book value per share grew 11.6 percent. For the first time in several quarters, every major book value performance driver generated a positive contribution (shown after tax effects):

- 14 cents – Underwriting profit from property casualty insurance operations
- 4 cents – Life insurance earnings
- 41 cents – Investment income (other than life and reduced by non-insurance expenses)
- 46 cents – Realized investment gains
- \$1.63 – Unrealized investment gains on bonds
- 66 cents – Unrealized investment gains on stocks

The total increase for the quarter was \$2.95 per share, net of your 39.5 cent shareholder dividend declared in August. Your dividend includes a half-cent increase, marking the 49th consecutive year of dividend increases and keeping your company in the very elite ranks of companies with this long record of consistency.

We measure our value creation ratio, which combines book value growth plus shareholder dividend contributions. Historically, this measure strongly correlates over the long term with total shareholder return. Your company's 15.0 percent value creation ratio for the first nine months of 2009 is favorable for future shareholder returns.

We believe the adage that every challenge is an opportunity in disguise. In addressing the economic, market and business challenges that have arisen since 2008, we identified and acted on opportunities to become a stronger competitor, positioning your company for improved capital, profitability and growth over time. We are confident in our strategy and our ability to successfully execute on our plans over the coming quarters.

As milder third-quarter weather brought lower catastrophe losses, the clouds began to clear in other respects too. Income from our more diversified and balanced investment portfolio was up from the second quarter, and we expect by year-end to see a favorable trend for comparable quarters. Our new agencies appointed in 2008 or 2009 in Western states produced a healthy amount of our new business. Agents responded to our 2008-2009 product line expansions, including expansion of personal lines to several areas and introduction of excess and surplus lines. We continued applying predictive modeling techniques to refine our pricing of workers' compensation and homeowners policies, improving our ability to identify and attract higher quality accounts.

Our projects to develop new policy administration systems moved toward the deployment phase during the third quarter. Agents in five states began early in the fourth quarter to quote and issue commercial packages and auto policies from our new commercial system, which for the first time allows agents to choose company billing of the policyholder. We are in the testing phase for the next version of our Web-based personal lines administration system, with deployment planned for early 2010. Our real-time technology efforts, designed to increase transactional efficiency for our agents, recently qualified your company for the 2009 Interface Partner Award from insurance technology company Applied Systems.

We made good progress through the third quarter on all major initiatives, including steps to expand capabilities, achieve efficiencies and diversify risks. This work supports and increases the power of our agent-centered, relationship-based approach, increasing our financial and operational advantages. We are prepared to grow our business, and your shareholder value, as we respond to the challenges and opportunities that lie ahead.

Respectfully,

/S/ John J. Schiff, Jr.
John J. Schiff, Jr., CPCU
Chairman of the Board

/S/ Kenneth W. Stecher
Kenneth W. Stecher
President and Chief Executive Officer

About the Company

Cincinnati Financial Corporation stands among the 25 largest property casualty insurers in the nation, based on premium volume. A select group of agencies in 37 states actively markets our property casualty insurance within their communities. Standard market commercial lines policies are available in all of those states, while personal lines policies are available in 29 and surplus lines policies are available in 36 of the 37 states. Within this select group, we also seek to become the life insurance carrier of choice and to help agents and their clients – our policyholders – by offering leasing and financing services.

Three hallmarks distinguish our company, positioning us to build value and long-term success:

- Commitment to our network of professional independent insurance agencies and to their continued success
- Financial strength that lets us be a consistent market for our agents' business, supporting stability and confidence
- Operating structure that supports local decision making, showcasing our claims excellence and allowing us to balance growth with underwriting discipline

Learn more about where we are today and how we plan to create value for shareholders, agents, policyholders and associates by reviewing publications that we promptly post on www.cinfin.com/Investors as they are completed. Please refer to the most recent item for the timeliest information.

Stay Involved, Be Informed and Save Some Trees Too!

Thank you for your interest in Cincinnati Financial Corporation. We continue to make it easy to go green and get your information fast:

Investor E-mail Alerts	Electronic Delivery
Sign up for Investor E-mail Alerts by visiting www.cinfin.com/investors and selecting E-mail Alerts at the bottom of the page. This service sends shareholder communications links to the e-mail address of your choice as soon as new communications are posted on our Web site. E-mail alerts are the best way to make sure you see our interim reports such as the quarterly <i>Letter to Shareholders</i> . Unlike Electronic Delivery, E-mail alerts won't stop the paper versions of any required shareholder mailings. In addition to E-mail alerts, you'll want to enroll in Electronic Delivery to stop paper mailings.	Enroll your account(s) in Electronic Delivery by visiting www.cinfin.com/shareholder to stop the paper. In lieu of that paper, you'll receive e-mails with links to all required annual reports, other proxy materials and the proxy voting notice. With this transactional service, you can reduce your environmental footprint while preserving your option to request printed copies of any item.

Recent News Releases

Cincinnati Financial Reports Third-Quarter 2009 Results

Cincinnati, October 29, 2009 – Cincinnati Financial Corporation (Nasdaq: CINF) today reported:

- Net income of \$171 million, or \$1.05 per share, in the third quarter of 2009, compared with \$247 million, or \$1.50 per share, in the 2008 third quarter. Net realized investment gains contributed \$75 million, or 46 cents per share, compared with \$173 million, or \$1.05 per share.
- Operating income* of \$96 million, or 59 cents per share, in the 2009 third quarter, compared with operating income of \$74 million, or 45 cents per share.
- Net income and operating income for the third-quarter of 2009 reflected a property casualty insurance underwriting profit, contributing 14 cents per share, compared with a third-quarter 2008 underwriting loss that decreased income by 4 cents per share. The property casualty contribution rose primarily on lower weather-related catastrophe losses.
- Book value per share of \$28.44 at September 30, 2009, up 11.6 percent during the quarter.
- Value creation ratio reached 13.1 percent for the third quarter and 15.0 percent for the first nine months of 2009.

Financial Highlights

(Dollars in millions except share data)

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	change %	2009	2008	change %
Revenue Highlights						
Earned premiums	\$ 766	\$ 781	(1.9)	\$ 2,301	\$ 2,355	(2.3)
Investment income	127	130	(2.4)	370	412	(10.3)
Total revenues	1,007	1,186	(15.1)	2,770	2,806	(1.3)
Income Statement Data						
Net income	\$ 171	\$ 247	(31.0)	\$ 187	\$ 268	(30.1)
Net realized investment gains and losses ...	75	173	(57.2)	58	16	263.8
Operating income*	\$ 96	\$ 74	30.7	\$ 129	\$ 252	(48.9)
Per Share Data (diluted)						
Net income	\$ 1.05	\$ 1.50	(30.0)	\$ 1.15	\$ 1.64	(29.9)
Net realized investment gains and losses ...	0.46	1.05	(56.2)	0.36	0.10	260.0
Operating income*	\$ 0.59	\$ 0.45	31.1	\$ 0.79	\$ 1.54	(48.7)
Book value				\$ 28.44	\$ 28.87	(1.5)
Cash dividend declared	0.395	0.39	1.3	1.175	1.17	0.4
Diluted weighted average shares outstanding	162,901,396	164,242,185	(0.8)	162,794,767	163,834,163	(0.6)

Insurance Operations Highlights

- 95.1 percent third-quarter 2009 property casualty combined ratio improved from 101.3 percent in the third quarter of 2008.
- Property casualty net written premiums grew \$3 million or 0.5 percent, with new business from growth initiatives and lower ceded premiums for reinsurance offsetting the negative premium effects of the slow economy and a disciplined underwriting response to lower market pricing.
- \$14 million increase in property casualty new business written by agencies in the third quarter of 2009, with \$9 million from standard market geographic expansion initiatives and \$4 million from surplus lines.
- 4 cents per share contribution from life insurance operations to third-quarter operating income, up from 3 cents per share.

Balance Sheet and Investment Highlights

- \$28.44 book value, up 10.4 percent from \$25.75 at December 31, 2008. Property casualty statutory surplus rose 3.3 percent to \$3.472 billion.
- Invested assets fair value increased 7.4 percent and 17.3 percent during the third quarter and first nine months of 2009.
- Investment income for the third quarter declined 2.4 percent and is approaching a growth pace following portfolio changes during 2008 and early 2009 to execute a capital preservation diversification strategy.
- Strong capital position includes financial flexibility from parent company cash and marketable securities of \$1.061 billion.

* The Definitions of Non-GAAP Information and Reconciliation to Comparable GAAP Measures on www.cinfin.com defines and reconciles measures presented in this release that are not based on Generally Accepted Accounting Principles or Statutory Accounting Principles.

** Forward-looking statements and related assumptions are subject to the risks outlined in the company's safe harbor statement (see Page 13).

Return to Profitability and Positive Direction

Kenneth W. Stecher, president and chief executive officer, commented, "While the economy and price competition continue to challenge our insurance business, the metrics we use to measure our success moved in a distinctly positive direction in the third quarter. Operating income of \$96 million or 59 cents per share surpassed the amounts reported since the first quarter of 2008. Pre-tax investment income nearly reached the level of the 2008 third quarter, on track to resume a growth trend by year-end 2009.

"Our property casualty insurance operations benefitted from atypically low catastrophe losses, strong reserves and some stabilization of pricing. We achieved \$36 million of pre-tax underwriting profit and a combined ratio of 95.1 percent for the third quarter, our best result since the fourth quarter of 2007. As expected, our workers' compensation and homeowner lines of business continued to underperform. For both of these lines, we are using predictive modeling techniques to improve the accuracy of our pricing for each account and to target best-of-class accounts. Early results show positive impacts on pricing and verify the trend to higher quality accounts, which should, over time, return these lines to profitability.

"We are satisfied with third-quarter results relative to other recent quarters, recognizing that we still have work to do. As we navigate through a difficult period for our company, our industry and economy, we continue to sharply focus on initiatives that have just begun to bear fruit and have strong potential to drive future profitable growth," Stecher said. "During the third quarter, we saw clear indications that these efforts are increasing current opportunities and opening new ones. Among those indications was a healthy amount of new business that directly resulted from our initiatives, helping offset lower premiums resulting from lower policyholder sales and payrolls used to calculate premiums. We continue to decline underpriced business, giving up short-term revenue to protect long-term profitability."

Current Progress and Potential for Profitable Growth

Stecher continued, "We are making good progress in expanding our product lines and pursuing geographic diversification. Our new surplus lines subsidiary has been well received by our independent agent representatives, and it is contributing steadily to new business. Our entry into additional states is going well, with business building at a good pace in Texas, New Mexico and eastern Washington. In September, we appointed our first Wyoming agency, expanding the marketing territory that includes northern Colorado. We're receiving rollover books of personal lines business in areas where we recently expanded that product line.

"Our technology initiatives also are proceeding on time and on budget. In October, we put our new policy administration system for commercial packages and auto policies into production in five states accounting for approximately 40 percent of our commercial lines premium. The system makes it easier for agents to serve the insurance needs of the businesses in their communities, offering efficiencies such as direct billing by the company and the ability to quote and issue policies in real time directly from their agency systems. We expect to have this system in six more states before year-end, with 19 additional states scheduled for 2010.

"Our expansion and technology initiatives support our long-term strategies. First, we are working to improve profitability by introducing more efficient systems and enhancing our underwriting capabilities. Second, we are driving premium growth by making it more attractive for agents to do business with us and by moving toward a larger footprint that also reduces volatility of our results associated with weather-related catastrophes. We also continue to make progress with the third part of our long-term strategy, to preserve capital. Our investment portfolio is actively managed, with an eye toward the appropriate balance between current income and the potential for capital appreciation that benefits shareholders."

Shareholder Rewards

Stecher concluded, "Significantly exceeding year-end 2008 levels, shareholders' equity rose to \$4.626 billion and book value per share rose to \$28.44 at the end of the third quarter. The increase helped take our value creation ratio for the year-to-date period to the 15 percent level earlier than anticipated. Our target for this measure is a 12 percent to 15 percent average for the five-year period of 2010 through 2014. The value creation ratio is the sum of our rate of growth in book value per share plus the ratio of dividends declared per share to beginning book value. It captures the contribution of our insurance operations, the success of our investment strategy and the importance we place on paying cash dividends to shareholders.

"During the third quarter, our board of directors increased the indicated annual dividend for a 49th consecutive year, raising the quarterly dividend paid October 15 by a half cent to 39.5 cents. This gesture signaled their confidence that we are moving steadily in the right direction, as verified by underwriting profit in the third quarter. We are eager to further pursue the new opportunities we have just begun to tap."

Consolidated Property Casualty Insurance Operations

(Dollars in millions; percent change given for dollar amounts and point change given for ratios)

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	change %	2009	2008	change %
Earned premiums	\$ 733	\$ 751	(2.4)	\$ 2,198	\$ 2,262	(2.9)
Loss and loss expenses before catastrophe losses	453	460	(1.5)	1,446	1,362	6.1
Loss and loss expenses from catastrophe losses	6	63	(89.7)	177	219	(19.2)
Total loss and loss expenses	459	523	(12.2)	1,623	1,581	2.6
Underwriting expenses	238	237	0.2	716	707	1.4
Underwriting profit (loss)	\$ 36	\$ (9)	nm	\$ (141)	\$ (26)	(449.3)
Other premium metrics:						
Agency renewal written premiums	\$ 669	\$ 687	(2.7)	\$ 2,030	\$ 2,159	(6.0)
Agency new business written premiums ...	107	93	15.4	311	268	16.0
Net written premiums	730	727	0.5	2,231	2,292	(2.7)
Ratios as a percent of earned premiums:			Points			Points
Loss and loss expenses	62.7%	69.7%	(7.0)	73.8%	69.9%	3.9
Underwriting expenses	32.4	31.6	0.8	32.6	31.2	1.4
Combined ratio	95.1%	101.3%	(6.2)	106.4%	101.1%	5.3
Other metrics within combined ratio:						
Contribution from catastrophe losses	0.9	8.4	(7.5)	8.1	9.7	(1.6)
Contribution from prior period reserve development	(12.4)	(13.6)	1.2	(5.2)	(8.9)	3.7

- \$3 million or 0.5 percent increase in third-quarter property casualty net written premiums as the effects of insured exposure decreases, soft pricing and disciplined renewal underwriting were offset by growth in new business and lower ceded premiums on reinsurance, including \$8 million less for reinstatement premiums on catastrophe reinsurance.
- \$14 million increase in third-quarter 2009 new business written by agencies includes a \$4 million increase from surplus lines operations that began in 2008 and a \$10 million increase from personal lines operations.
- 1,174 agency relationships with 1,455 reporting locations marketing standard market property casualty insurance products at September 30, 2009, up from 1,133 agency relationships with 1,387 reporting locations at year-end 2008.
- Third-quarter 2009 GAAP combined ratio decreased primarily due to lower catastrophe losses.
- Underwriting results benefitted from the impact of favorable prior accident year reserve development of \$91 million for the third quarter of 2009 and \$102 million for the third quarter of 2008.

Catastrophe Losses Incurred

(In millions, net of reinsurance)			Three months ended September 30,			Nine months ended September 30,		
Dates	Cause of loss	Region	Commercial lines	Personal lines	Total	Commercial lines	Personal lines	Total
2009								
	First quarter catastrophes		(1)	1	–	20	47	67
	Second quarter catastrophes		(10)	1	(9)	42	45	87
Sep. 18-22	Flood, hail, wind	South	1	4	5	1	4	5
	All other 2009 catastrophes		6	6	12	11	13	24
	Development on 2008 and prior catastrophes		(3)	1	(2)	(10)	4	(6)
	Calendar year incurred total		<u>\$ (7)</u>	<u>\$ 13</u>	<u>\$ 6</u>	<u>\$ 64</u>	<u>\$ 113</u>	<u>\$ 177</u>
2008								
	First quarter catastrophes		(1)	–	(1)	21	21	42
	Second quarter catastrophes		(2)	(10)	(12)	66	34	100
Jul. 19	Wind, hail, flood	Midwest	3	3	6	3	3	6
Jul. 26	Wind, hail, flood	Midwest	1	8	9	1	8	9
Sep. 12-14	Hurricane Ike	South, Midwest	20	37	57	20	37	57
	All other 2008 catastrophes		1	–	1	3	3	6
	Development on 2007 and prior catastrophes		1	2	3	(2)	1	(1)
	Calendar year incurred total		<u>\$ 23</u>	<u>\$ 40</u>	<u>\$ 63</u>	<u>\$ 112</u>	<u>\$ 107</u>	<u>\$ 219</u>

Insurance Segments Highlights

Commercial Lines Insurance Operations

(Dollars in millions; percent change given for dollar amounts and point change given for ratios)

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	change %	2009	2008	change %
Earned premiums	\$ 555	\$ 582	(4.7)	\$ 1,667	\$ 1,743	(4.4)
Loss and loss expenses before catastrophe losses	336	348	(3.6)	1,095	1,034	5.9
Loss and loss expenses from catastrophe losses	(7)	23	nm	64	112	(42.8)
Total loss and loss expenses	329	371	(11.5)	1,159	1,146	1.2
Underwriting expenses	184	181	1.6	539	538	0.2
Underwriting profit (loss)	<u>\$ 42</u>	<u>\$ 30</u>	41.5	<u>\$ (31)</u>	<u>\$ 59</u>	(152.1)
Other premium metrics:						
Agency renewal written premiums	\$ 489	\$ 502	(2.5)	\$ 1,535	\$ 1,642	(6.5)
Agency new business written premiums	76	77	(0.4)	231	229	0.8
Net written premiums	528	538	(1.8)	1,678	1,759	(4.7)
Ratios as a percent of earned premiums:						
			Points			Points
Loss and loss expenses	59.3%	63.8%	(4.5)	69.6%	65.7%	3.9
Underwriting expenses	33.1	31.1	2.0	32.3	30.9	1.4
Combined ratio	<u>92.4%</u>	<u>94.9%</u>	(2.5)	<u>101.9%</u>	<u>96.6%</u>	5.3
Other metrics within combined ratio:						
Contribution from catastrophe losses	(1.2)	4.0	(5.2)	3.8	6.4	(2.6)
Contribution from prior period reserve development	(13.4)	(15.0)	1.6	(5.2)	(10.1)	4.9

- \$10 million or 1.8 percent decrease in third-quarter commercial lines net written premiums. Lower renewal premiums reflected modest pricing declines and lower insured exposure levels such as business sales or payroll volume, due to the weak economy. Lower new business premiums reflected decisions to decline business considered underpriced, partially offset by growth initiatives including \$4 million from Texas, a market we entered in December 2008.
- 2.5 percentage-point improvement in third-quarter combined ratio due primarily to lower weather-related catastrophe losses.
- Favorable prior accident year reserve development benefitted third-quarter underwriting results by \$74 million for 2009 compared with \$88 million for 2008, with umbrella liability coverages driving the majority of the 2009 benefit.

Personal Lines Insurance Operations

(Dollars in millions; percent change given for dollar amounts and point change given for ratios)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	change %	2009	2008	change %
Earned premiums	\$ 170	\$ 167	1.8	\$ 513	\$ 518	(0.9)
Loss and loss expenses before catastrophe losses	112	111	0.3	337	328	2.7
Loss and loss expenses from catastrophe losses	13	40	(66.2)	113	107	5.3
Total loss and loss expenses	125	151	(17.2)	450	435	3.3
Underwriting expenses	49	54	(8.8)	159	165	(3.2)
Underwriting loss	<u>\$ (4)</u>	<u>\$ (38)</u>	89.8	<u>\$ (96)</u>	<u>\$ (82)</u>	(16.6)
Other premium metrics:						
Agency renewal direct written premiums	\$ 177	\$ 185	(4.7)	\$ 490	\$ 517	(5.3)
Agency new business direct written premiums	21	11	90.9	55	30	82.0
Net written premiums	190	184	3.2	524	525	(0.1)
Ratios as a percent of earned premiums:			Points			Points
Loss and loss expenses	73.3%	90.1%	(16.8)	87.5%	84.0%	3.5
Underwriting expenses	29.0	32.4	(3.4)	31.2	31.9	(0.7)
Combined ratio	<u>102.3%</u>	<u>122.5%</u>	(20.2)	<u>118.7%</u>	<u>115.9%</u>	2.8
Other metrics within combined ratio:						
Contribution from catastrophe losses	7.9	23.8	(15.9)	22.0	20.7	1.3
Contribution from prior period reserve development	(10.1)	(9.1)	(1.0)	(5.0)	(5.2)	0.2

- \$6 million or 3.2 percent increase in third-quarter personal lines net written premiums, including \$6 million lower catastrophe reinsurance reinstatement premiums. Lower renewal premiums were offset by higher new business premiums.
- \$10 million increase in third-quarter personal lines new business including \$4 million from seven states where we began in 2008 to market personal lines or significantly expanded our personal lines product offerings and automation capabilities.
- 20.2 percentage-point decrease in the combined ratio largely due to a 15.9 percentage-point decrease in catastrophe losses.
- Favorable prior accident year reserve development benefitted third-quarter underwriting results by \$17 million for 2009 compared with \$15 million for 2008, with umbrella liability coverages driving the majority of the 2009 benefit.

Life Insurance Operations

(In millions)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	change %	2009	2008	change %
Written premiums	<u>\$ 110</u>	<u>\$ 44</u>	150.1	<u>\$ 233</u>	<u>\$ 135</u>	73.2
Earned premiums	<u>\$ 33</u>	<u>\$ 30</u>	10.7	<u>\$ 103</u>	<u>\$ 93</u>	11.0
Investment income, net of expenses	<u>31</u>	<u>30</u>	3.4	<u>90</u>	<u>89</u>	2.0
Other income	<u>-</u>	<u>-</u>	942.9	<u>1</u>	<u>1</u>	(56.3)
Total revenues, excluding realized investment gains and losses	<u>64</u>	<u>60</u>	7.7	<u>194</u>	<u>183</u>	6.1
Contract holders benefits	<u>40</u>	<u>41</u>	(1.0)	<u>118</u>	<u>115</u>	3.1
Underwriting expenses	<u>9</u>	<u>11</u>	(16.7)	<u>34</u>	<u>33</u>	4.6
Total benefits and expenses	<u>49</u>	<u>52</u>	(4.4)	<u>152</u>	<u>148</u>	3.4
Net income before income tax and realized investment gains and losses	<u>15</u>	<u>8</u>	90.1	<u>42</u>	<u>35</u>	17.6
Income tax	<u>8</u>	<u>3</u>	175.8	<u>15</u>	<u>12</u>	23.5
Net income before realized investment gains and losses	<u>\$ 7</u>	<u>\$ 5</u>	43.2	<u>\$ 27</u>	<u>\$ 23</u>	14.6

- \$66 million three-month and \$98 million nine-month growth in 2009 life insurance segment net written premiums primarily due to increased fixed annuity sales. Written premiums include life insurance, annuity and accident and health premiums.
- Net written premiums from life insurance products grew 10.1 percent during the third quarter of 2009 and 8.5 percent to \$117 million for the first nine months of 2009.
- 12.0 percent rise to \$65 million in term life insurance written premiums for the first nine months of 2009, reflecting marketing advantages of competitive, up to date products, close personal attention and policies backed by financial strength and stability.
- Growth in earned premiums drove improved profitability for the third quarter and first nine months of 2009 as life insurance operations continue to provide a steady contribution to overall earnings. Reduced underwriting expenses also contributed to higher profitability for the third quarter of 2009.
- 4.6 percent rise in face amount of life policies in force to \$68.895 billion at September 30, 2009, from \$65.888 billion at year-end 2008.

Investment and Balance Sheet Highlights

Investment Operations

(In millions)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change %	2009	2008	Change %
Investment income:						
Interest	\$ 104	\$ 83	26.0	\$ 296	\$ 238	24.5
Dividends	24	46	(48.0)	74	169	(56.2)
Other	1	3	(70.4)	6	10	(47.3)
Investment expenses	(2)	(2)	(18.0)	(6)	(5)	(11.3)
Total investment income, net of expenses	<u>127</u>	<u>130</u>	(2.4)	<u>370</u>	<u>412</u>	(10.3)
Investment interest credited to contract holders	<u>(17)</u>	<u>(16)</u>	(10.1)	<u>(50)</u>	<u>(47)</u>	(7.6)
Realized investment gains and losses summary:						
Realized investment gains and losses, net ..	106	401	(73.6)	180	441	(59.1)
Change in fair value of securities with embedded derivatives	15	(8)	296.0	23	(13)	268.0
Other-than-temporary impairment charges	<u>(11)</u>	<u>(121)</u>	90.8	<u>(113)</u>	<u>(400)</u>	71.7
Total realized investment gains and losses, net	<u>110</u>	<u>272</u>	(59.6)	<u>90</u>	<u>28</u>	218.1
Investment operations income	<u>\$ 220</u>	<u>\$ 386</u>	(43.2)	<u>\$ 410</u>	<u>\$ 393</u>	4.0

- 2.4 percent decline in third-quarter 2009 net investment income, as higher interest income only partially offset dividend reductions by equity security holdings. Those dividend reductions occurred primarily during late 2008 and early 2009.
- \$572 million third-quarter 2009 increase in pre-tax

- unrealized investment gains, including \$407 million for the fixed maturities portfolio.
- Pre-tax realized investment gain for the first nine months of 2009 included \$205 million in net gains from sales of equity securities as the company actively managed sector and issue diversification.

(Dollars in millions except share data)

	At September 30, 2009	At December 31, 2008
Balance sheet data		
Invested assets	\$ 10,428	\$ 8,890
Total assets	14,226	13,369
Short-term debt	49	49
Long-term debt	790	791
Shareholders' equity	4,626	4,182
Book value per share	28.44	25.75
Debt-to-capital ratio	15.3%	16.7%
	Nine months ended September 30,	
	2009	2008
Performance measures		
Value creation ratio	15.0%	(15.9)%

- \$10.876 billion in cash and invested assets at September 30, 2009, up from \$9.899 billion at December 31, 2008. Cash and equivalents of \$448 million at September 30, 2009, compared with \$1.009 billion at December 31, 2008.
- \$7.668 billion bond portfolio at September 30, 2009, with an average rating of A2/A and with a 7.6 percent rise in fair value during the third quarter of 2009.
- \$2.669 billion equity portfolio was 25.6 percent of invested assets, including \$697 million in pre-tax unrealized gains at September 30, 2009. Fair value of the equity portfolio rose 7.1 percent during the third quarter of 2009.
- \$3.472 billion of statutory surplus for the property casualty insurance group at September 30, 2009, up from \$3.360 billion at December 31, 2008. Ratio of net written premiums to property casualty statutory surplus for the 12 months ended September 30, 2009, of 0.85-to-1, further improved from 0.89-to-1 for the 12 months ended December 31, 2008.
- Value creation ratio for the first nine months of 2009 includes 4.6 percent from shareholder dividends and 10.4 percent growth in book value per share.

For additional information or to hear a replay of the October 29 conference call webcast, please visit www.cinfin.com/investors.

Cincinnati Financial Corporation

Condensed Balance Sheets and Statements of Income (unaudited)

(Dollars in millions)	September 30, 2009	December 31, 2008
Assets		
Investments	\$ 10,428	\$ 8,890
Cash and cash equivalents	448	1,009
Premiums receivable	1,046	1,059
Reinsurance receivable	707	759
Other assets	1,597	1,652
Total assets	<u>\$ 14,226</u>	<u>\$ 13,369</u>
Liabilities		
Insurance reserves	\$ 5,893	\$ 5,637
Unearned premiums	1,557	1,544
6.125% senior notes due 2034	371	371
6.9% senior debentures due 2028	28	28
6.92% senior debentures due 2028	391	392
Other liabilities	1,360	1,215
Total liabilities	<u>9,600</u>	<u>9,187</u>
Shareholders' Equity		
Common stock and paid-in capital	1,471	1,462
Retained earnings	3,681	3,579
Accumulated other comprehensive income	675	347
Treasury stock	(1,201)	(1,206)
Total shareholders' equity	<u>4,626</u>	<u>4,182</u>
Total liabilities and shareholders' equity	<u>\$ 14,226</u>	<u>\$ 13,369</u>

(Dollars in millions except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenues				
Earned premiums	\$ 766	\$ 781	\$ 2,301	\$ 2,355
Investment income, net of expenses	127	130	370	412
Realized investment gains and losses	110	272	90	28
Other income	4	3	9	11
Total revenues	<u>1,007</u>	<u>1,186</u>	<u>2,770</u>	<u>2,806</u>
Benefits and Expenses				
Insurance losses and policyholder benefits	498	563	1,737	1,693
Underwriting, acquisition and insurance expenses	247	248	750	738
Other operating expenses	4	5	14	16
Interest expense	14	14	42	39
Total benefits and expenses	<u>763</u>	<u>830</u>	<u>2,543</u>	<u>2,486</u>
Income before Income Taxes	244	356	227	320
Provision for Income Taxes	73	109	40	52
Net Income	<u>\$ 171</u>	<u>\$ 247</u>	<u>\$ 187</u>	<u>\$ 268</u>
Per Common Share:				
Net income-basic	\$ 1.05	\$ 1.51	\$ 1.15	\$ 1.64
Net income-diluted	\$ 1.05	\$ 1.50	\$ 1.15	\$ 1.64

Other News Releases

Cincinnati Financial Board Acts to Comply with Nasdaq Rule on Audit Committee Composition

Cincinnati, September 24, 2009 – Cincinnati Financial Corporation (Nasdaq: CINF) on September 22 received The Nasdaq Stock Market's notice of noncompliance with Rule 5605(c)(2)(A)– Audit Committee Composition. In the same letter, Nasdaq indicated that the company's board actions on September 18 corrected the deficiency, regaining compliance to close the matter.

On September 18, the board accepted the resignation from the audit committee and from the compensation committee of Gregory T. Bier, CPA (ret.). The audit committee has five continuing independent directors, and the compensation committee has three continuing independent directors. Bier had served on the audit committee since April 2007 and the compensation committee since May 2009. A director since November 2006, Bier continues to serve on the board and its investment committee.

Nasdaq requires that all directors who serve on audit and compensation committees be classified as independent per Nasdaq rules. The board re-evaluated Bier's classification at his request after his recent discovery of facts that he believed might preclude him from being deemed independent, making him technically ineligible to serve on those committees.

Nasdaq's notice followed the company's report to Nasdaq on September 18, 2009, of its discovery of relevant facts and its corrective actions. In 2007, the company paid a private construction firm for its work constructing an office building at the company's Fairfield, Ohio headquarters. The payments related to a contract entered in March 2005, before November 2006, when Bier became a director, and before April 2006, when his brother-in-law was promoted to vice president of one of the construction firm's principal divisions, operating in Tennessee. While neither Bier nor his relative influenced or benefitted from the 2005 contract, the 2007 payments totaled more than 5 percent of the construction firm's 2007 consolidated gross revenues, crossing the revenue threshold under Listing Rule 5605(a)(2)(D) and technically disallowing Bier's classification as an independent director.

Cincinnati Financial's board of directors continues to have 13 members, including a majority classified as independent per Nasdaq rules.

Inside Cincinnati

Since our August *Letter to Shareholders*, these associates merited promotions:

Agency Bill Accounting

Manager – **Betsy Pittman**

Agency Service & Field Support

Accounting Systems Analyst – **Steve Draper, AIM**

Bond & Executive Risk

Underwriting Manager – **Ed Hehn, AFSB**

Underwriting Superintendent – **Nicholas Wright**

Commercial Lines

Associate Territory Manager – **Christopher Barger,**

CPCU, AIM

Underwriting Manager – **Jennifer Byrne, AIM**

Underwriting Director – **Truitt Graue, AIM**

Chief Underwriting Specialists – **Shelley Hass, AIM;**

Marilyn Kreke, CPCU; Brian Rowe, AIM, API

Underwriting Superintendents – **Mike Czanik, CPCU, ARM;**

Charles Harrison, AIS; Kathryn Horn, AU;
Alex Wehrum

Underwriting Specialists – **Traci Elgie, AIS; Heather Feck;**

Mary Henson; Scott Sullivan

Senior Underwriters – **Katie Campbell, AIS;**

Benjamin Haines, AIS; Jeana Hammon, AIS;

Chris Koepfer; Christopher LaTulippe; Brad McGraw;

Desiree Ramirez; Gregory Stern; Nicholas Vance;

Terry Vanden Bosch; Jason Walsh

Corporate Accounting

Manager – **Scott Holderbach**

Senior Accountant – **Jeff Lagedrost**

Field Claims

Regional Field Claims Managers – **Mark Davidson, CPCU,**

AIC, AIM; Jim Guth, AIC, AIM;

Jeff Kohout, CPCU, AIC

Field Claims Manager – **Kim Kramer, AIM**

Field Claims Superintendents – **Rodger Knight, AIC;**

Tim May, AIC, CIC; Russ McCormack, AIC

Senior Claims Representatives – **Jarrold Gay, AIC;**

Glenn Greer II, AIC; John Lucas III, AIC;

Kimberly Morin; Kevin O'Donnell, AIC, AIM;

Dan Panepinto, AIC; Sandy Theisen

Senior Claims Specialists – **Kerri Fosenburg, AIC;**

Greg Houseknecht, AIM; Sherri McGee;

Mike Woytovich

Claims Specialists – **Lynne Battaglia; Paul Braden;**

Sherman Calkins; Aaron Day, AIC; Bill Halberg, Jr.;

Carrie Mishler, AIC; Mary Newman, AIC; Carla Piersol;

Christine Snyder

Headquarters Claims

Manager, Agency & Regulatory Services – **Denise Palmer, AIM**

Superintendent – **Joe Pentecost, AIC**

Superintendent, Workers' Compensation Claims –

Pete Bond, AIC

Information Technology

Group Managers – **Christopher Keebaugh;**

Doug Nordhausen; Joseph Plair; Richard Wheeler

Systems Engineer – **Brian Stout**

Systems Analyst – **Gary Meyer, AIT**

Senior Programmer Analysts – **Chris Huentelman, AIT;**

Tracy Woyat, ACS, ARA

Senior IT Developer – **Wes Grollmus**

Senior Test Analyst – **Kevin Fragassi**

Programmer Analysts – **Tracie Bruns; Frank Mize**

Programmer – **Natasha Carter**

Life Policy Issue

Senior Business Analyst – **Tammy Lutterbie, AIAA,**

AIRC, FLMI

Loss Control Field

Loss Control Field Director – **Paul Courtney**

Senior Loss Control Consultant – **David Fritz**

Personal Lines

Senior Underwriting Manager – **Steve Holt, CPCU, AIM, API**

Underwriting Superintendents – **Melissa Kamp, AIS, API;**

Lisa Lattarulo, AIS, API; Maria Sinnard, API

Underwriting Specialist – **Sarah Girten, API**

Senior Underwriters – **Dallas Mount; Lori Petrunaro, API;**

Mike Schaefer

Senior Diamond Support Analyst – **Kim Fellingner**

Premium Audit Field

Field Audit Superintendents – **Linda Hutchinson, APA, CIC;**

Michelle Olson, CPCU, APA, CIC

Senior Field Auditor – **Jonathan Millson, CPCU**

Sales Field

Senior Regional Director – **Kent Miller, CPCU, AU, CIC**

State Agent – **Todd Ward**

Special Investigations Field

Superintendent – **Larry Wickert, AIC**

Associate Superintendent – **Tobey Kelley**

Staff Underwriting

Senior Actuarial Analyst – **Nathan Miller**

Professional Development

More than 1,500 agents have enrolled for classroom training sessions for our new commercial policy processing system. Classes are conducted locally in Georgia, Illinois, Indiana, Ohio and Wisconsin using a mobile training lab that offers agents hands-on practice to familiarize them with the system. We also are offering agents online courses and Web conferences, so they can learn at their convenience and without leaving their office. Agents can choose to use the computer-based training as their introduction to the system or as additional learning following a classroom session.

We encourage and reward associates who continue their professional insurance education, earning credentials by meeting high academic, ethical and length-of-experience standards. Congratulations to the following associates who completed a series of courses to earn a designation: **Jerome Braun, Chad Dowdy, Dan Guarasci, Christine Horton** and **Jason Stofel**, Chartered Property Casualty Underwriter

(CPCU); **Brenda Bush** and **Gayathri Vijayasathy**, Fellow, Life Management Institute (FLMI); **Mark McPheron**, Chartered Life Underwriter (CLU); **Jody Reisch, Rob Rupinski** and **Meg Shumaker**, Certified Insurance Counselor (CIC).

The Above and Beyond the Call (ABC) Award recognizes exemplary productivity, service and quality in exceptional associates. Congratulations to quarterly ABC Award winners **Georgi Charlton**, Policy Service Superintendent, Commercial Technical Support and **Cindy Traurig, API**, Senior Filings Specialist, Staff Underwriting. At the Queen City Club on November 10, Georgi was named ABC of the Year. This honor is awarded annually to just one of the quarterly winners. Georgi mentors associates new to the company or to the e-CLAS® CPP project. She actively plans for success by mapping out team goals and possible obstacles. Georgi was instrumental in the timely launch of e-CLAS CPP

Public Responsibility

Federal law makers continue to debate federal regulation of the insurance industry. Proposed legislation that could have the most impact includes: creating a consumer financial protection agency; giving the Treasury Department limited preemptive authority over state insurance regulation; creating a federal systemic risk regulator; and creating a federal resolution authority for nonbank financial institutions. Our stance remains in favor of the current state-based regulatory system:

- State insurance regulators have a proven track record of protecting the interests of consumers which vary from state to state because of diverse geographic, legal, climatic and economic conditions.

- Granting any preemptive authority over state insurance regulation to the Treasury Department would subject the insurance industry to the anti-competitive forces of dual regulation.
- The insurance industry is not prone to systemic risk; our unique nature actually protects against the risk of a systemic failure.
- State insurance guaranty funds provide an efficient system for resolving and winding down insolvent insurers. A federal resolution authority would subject insurers to dual assessments and impose cross-subsidies for failures in other industries.

Safe Harbor Statement

This is our “Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995. Our business is subject to certain risks and uncertainties that may cause actual results to differ materially from those suggested by the forward-looking statements in this report. Some of those risks and uncertainties are discussed in our 2008 Annual Report on Form 10-K, Item 1A, Risk Factors, Page 25. Although we often review or update our forward-looking statements when events warrant, we caution our readers that we undertake no obligation to do so.

Factors that could cause or contribute to such differences include, but are not limited to:

- Unusually high levels of catastrophe losses due to risk concentrations, changes in weather patterns, environmental events, terrorism incidents or other causes
- Increased frequency and/or severity of claims
- Inadequate estimates or assumptions used for critical accounting estimates
- Recession or other economic conditions resulting in lower demand for insurance products or increased payment delinquencies
- Delays in adoption and implementation of underwriting and pricing methods that could increase our pricing accuracy, underwriting profit and competitiveness
- Inability to defer policy acquisition costs for our personal lines segment if pricing and loss trends would lead management to conclude this segment could not achieve sustainable profitability
- Declines in overall stock market values negatively affecting the company's equity portfolio and book value
- Events, such as the credit crisis, followed by prolonged periods of economic instability or recession, that lead to:
 - Significant or prolonged decline in the value of a particular security or group of securities and impairment of the asset(s)
 - Significant decline in investment income due to reduced or eliminated dividend payouts from a particular security or group of securities
 - Significant rise in losses from surety and director and officer policies written for financial institutions
- Prolonged low interest rate environment or other factors that limit the company's ability to generate growth in investment income or interest rate fluctuations that result in declining values of fixed-maturity investments, including declines in accounts in which we hold bank-owned life insurance contract assets
- Increased competition that could result in a significant reduction in the company's premium volume
- Changing consumer insurance-buying habits and consolidation of independent insurance agencies that could alter our competitive advantages
- Ability to obtain adequate reinsurance on acceptable terms, amount of reinsurance purchased, financial strength of reinsurers and the potential for non-payment or delay in payment by reinsurers
- Events or conditions that could weaken or harm the company's relationships with its independent agencies and hamper opportunities to add new agencies, resulting in limitations on the company's opportunities for growth, such as:
 - Multi-notch downgrades of the company's financial strength ratings
 - Concerns that doing business with the company is too difficult
 - Perceptions that the company's level of service, particularly claims service, is no longer a distinguishing characteristic in the marketplace
 - Delays or inadequacies in the development, implementation, performance and benefits of technology projects and enhancements
- Actions of insurance departments, state attorneys general or other regulatory agencies, including a change to a federal system of regulation from a state-based system, that:
 - Restrict our ability to exit or reduce writings of unprofitable coverages or lines of business
 - Place the insurance industry under greater regulatory scrutiny or result in new statutes, rules and regulations
 - Increase our expenses
 - Add assessments for guaranty funds, other insurance related assessments or mandatory reinsurance arrangements; or that impair our ability to recover such assessments through future surcharges or other rate changes
 - Limit our ability to set fair, adequate and reasonable rates
 - Place us at a disadvantage in the marketplace
 - Restrict our ability to execute our business model, including the way we compensate agents
- Adverse outcomes from litigation or administrative proceedings
- Events or actions, including unauthorized intentional circumvention of controls, that reduce the company's future ability to maintain effective internal control over financial reporting under the Sarbanes-Oxley Act of 2002
- Unforeseen departure of certain executive officers or other key employees due to retirement, health or other causes that could interrupt progress toward important strategic goals or diminish the effectiveness of certain longstanding relationships with insurance agents and others
- Events, such as an epidemic, natural catastrophe or terrorism, that could hamper our ability to assemble our workforce at our headquarters location

Further, the company's insurance businesses are subject to the effects of changing social, economic and regulatory environments. Public and regulatory initiatives have included efforts to adversely influence and restrict premium rates, restrict the ability to cancel policies, impose underwriting standards and expand overall regulation. The company also is subject to public and regulatory initiatives that can affect the market value for its common stock, such as recent measures affecting corporate financial reporting and governance. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

Contact Information

Communications directed to Steven J. Johnston, FCAS, MAAA, CFA, senior vice president, chief financial officer, treasurer and secretary, are shared with the appropriate individual(s). Or, you may directly access services:

Investors: Investor Relations responds to investor inquiries about Cincinnati Financial Corporation and its performance.

Dennis E. McDaniel, CPA, CMA, CFM, CPCU – Assistant Vice President, Investor Relations
513-870-2768 or investor_inquiries@cinfin.com

Shareholders: Shareholder Services provides stock transfer services, fulfills requests for shareholder materials and assists registered shareholders who wish to update account information or enroll in shareholder plans.

Jerry L. Litton – Assistant Vice President, Shareholder Services
513-870-2639 or shareholder_inquiries@cinfin.com

Media: Corporate Communications assists media representatives seeking information or comment from Cincinnati Financial Corporation or its subsidiaries.

Joan O. Shevchik, CPCU, CLU – Senior Vice President, Corporate Communications
513-603-5323 or media_inquiries@cinfin.com

CINCINNATI FINANCIAL CORPORATION

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The Cincinnati Specialty Underwriters Insurance Company

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CFC Investment Company

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