UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2007.

o **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	31-0746871
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6200 S. Gilmore Road, Fairfield, Ohio	45014-5141
(Address of principal executive offices)	(Zip code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

o 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 o No

As of July 31, 2007, there were 171,830,691 shares of common stock outstanding.

CINCINNATI FINANCIAL CORPORATION
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2007

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Part I — Financial Information

Item 1. Financial Statements (unaudited)

Cincinnati Financial Corporation And Subsidiaries

Condensed Consolidated Balance Sheets

(Dollars in millions except per share data)	June 30, 2007	December 31, 2006
ASSETS		
Investments		
Fixed maturities, at fair value (amortized cost: 2007—$5,910; 2006—$5,739)	$ 5,891	$ 5,805
Equity securities, at fair value (cost: 2007—$2,944; 2006—$2,621)	7,650	7,799
Short-term investments, at fair value (amortized cost: 2007— $101; 2006 —$95)	101	95
Other invested assets	70	60
Total investments	13,712	13,759
Cash and cash equivalents	122	202
Securities lending collateral	976	0
Investment income receivable	124	121
Finance receivable	100	108
Premiums receivable	1,217	1,128
Reinsurance receivable	751	683
Prepaid reinsurance premiums	12	13
Deferred policy acquisition costs	479	453
Land, building and equipment, net, for company use (accumulated depreciation: 2007—$275; 2006—$261)	212	193
Other assets	51	58
Separate accounts	508	504
Total assets	$ 18,264	$ 17,222
LIABILITIES		
Insurance reserves		
Loss and loss expense reserves	$ 3,953	$ 3,896
Life policy reserves	1,446	1,409
Unearned premiums	1,662	1,579
Securities lending payable	976	0
Other liabilities	619	533
Deferred income tax	1,434	1,653
Note payable	49	49
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	508	504
Total liabilities	11,438	10,414
Commitments and contingent liabilities (Note 6)	—	—
SHAREHOLDERS' EQUITY		
Common stock, par value—$2 per share; (authorized: 2007—500 million shares, 2006—500 million shares; issued: 2007—196 million shares, 2006—196 million shares)	392	391
Paid-in capital	1,035	1,015
Retained earnings	3,213	2,786
Accumulated other comprehensive income	3,013	3,379
Treasury stock at cost (2007—24 million shares, 2006—23 million shares)	(827)	(763)
Total shareholders' equity	6,826	6,808
Total liabilities and shareholders' equity	$ 18,264	$ 17,222

Accompanying notes are an integral part of these statements.

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Cincinnati Financial Corporation And Subsidiaries

Condensed Consolidated Statements Of Income

(In millions except per share data)	Three months ended June 30, **2007**	Three months ended June 30, 2006	Six months ended June 30, **2007**	Six months ended June 30, 2006
REVENUES				
Earned premiums				
Property casualty	**$ 787**	$ 793	**$ 1,571**	$ 1,571
Life	**35**	29	**66**	56
Investment income, net of expenses	**150**	143	**298**	281
Realized investment gains and losses	**293**	11	**355**	671
Other income	**5**	5	**11**	9
Total revenues	**1,270**	981	**2,301**	2,588
BENEFITS AND EXPENSES				
Insurance losses and policyholder benefits	**490**	546	**974**	1,047
Commissions	**160**	156	**330**	322
Other operating expenses	**87**	84	**176**	167
Taxes, licenses and fees	**19**	14	**39**	39
Increase in deferred policy acquisition costs	**(7)**	(7)	**(23)**	(22)
Interest expense	**13**	13	**26**	26
Total benefits and expenses	**762**	806	**1,522**	1,579
INCOME BEFORE INCOME TAXES	**508**	175	**779**	1,009
PROVISION (BENEFIT) FOR INCOME TAXES				
Current	**156**	48	**233**	340
Deferred	**1**	(5)	**1**	(15)
Total provision for income taxes	**157**	43	**234**	325
NET INCOME	**$ 351**	$ 132	**$ 545**	$ 684
PER COMMON SHARE				
Net income—basic	**$ 2.04**	$ 0.77	**$ 3.16**	$ 3.94
Net income—diluted	**$ 2.02**	$ 0.76	**$ 3.13**	$ 3.90

Accompanying notes are an integral part of these statements.

Cincinnati Financial Corporation And Subsidiaries

Condensed Consolidated Statements Of Shareholders' Equity

(In millions)	Six months ended June 30, 2007	2006
COMMON STOCK		
Beginning of year	**$ 391**	$ 389
Stock options exercised	**1**	2
End of period	**392**	391
PAID-IN CAPITAL		
Beginning of year	**1,015**	969
Stock options exercised	**10**	17
Share-based compensation	**8**	11
Other	**2**	0
End of period	**1,035**	997
RETAINED EARNINGS		
Beginning of year	**2,786**	2,088
Cumulative effect of change in accounting for hybrid financial securities	**5**	0
Cumulative effect of change in accounting for uncertain tax positions	**(1)**	0
Adjusted beginning of year	**2,790**	2,088
Net income	**545**	684
Dividends declared	**(122)**	(116)
End of period	**3,213**	2,656
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Beginning of year	**3,379**	3,284
Cumulative effect of change in accounting for hybrid financial securities	**(5)**	0
Adjusted beginning of year	**3,374**	3,284
Other comprehensive income (loss), net	**(361)**	(531)
End of period	**3,013**	2,753
TREASURY STOCK		
Beginning of year	**(763)**	(644)
Purchase	**(64)**	(88)
End of period	**(827)**	(732)
Total shareholders' equity	**$ 6,826**	$ 6,065
COMMON STOCK — NUMBER OF SHARES OUTSTANDING		
Beginning of year	**173**	174
Stock options exercised	**0**	1
Purchase of treasury shares	**(1)**	(2)
End of period	**172**	173
COMPREHENSIVE INCOME		
Net income	**$ 545**	$ 684
Unrealized investment gains and losses during the period	**(561)**	(841)
Other	**4**	7
Taxes on other comprehensive income	**196**	303
Total comprehensive income	**$ 184**	$ 153

Accompanying notes are an integral part of these statements.

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CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Six months ended June 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 545	$ 684
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	16	16
Realized gains on investments	(355)	(671)
Share-based compensation	8	11
Interest credited to contract holders	16	14
Changes in:		
Investment income receivable	(3)	1
Premiums and reinsurance receivable	(156)	(85)
Deferred policy acquisition costs	(23)	(22)
Other assets	(8)	(11)
Loss and loss expense reserves	57	135
Life policy reserves	47	28
Unearned premiums	83	75
Other liabilities	19	(15)
Deferred income tax	1	(15)
Current income tax	88	94
Net cash provided by operating activities	335	239
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of fixed maturities	103	68
Call or maturity of fixed maturities	193	148
Sale of equity securities	565	835
Collection of finance receivables	20	18
Purchase of fixed maturities	(492)	(510)
Purchase of equity securities	(550)	(585)
Change in short-term investments, net	(5)	79
Investment in buildings and equipment, net	(34)	(28)
Investment in finance receivables	(12)	(21)
Change in other invested assets, net	(3)	(10)
Change in securities lending collateral	(976)	(898)
Net cash used in investing activities	(1,191)	(904)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of cash dividends to shareholders	(119)	(112)
Purchase of treasury shares	(64)	(88)
Increase in notes payable	0	49
Proceeds from stock options exercised	11	17
Contract holder funds deposited	11	19
Contract holder funds withdrawn	(37)	(35)
Change in securities lending payable	976	898
Other	(2)	1
Net cash provided by financing activities	776	749
Net increase (decrease) in cash and cash equivalents	(80)	84
Cash and cash equivalents at beginning of year	202	119
Cash and cash equivalents at end of period	$ 122	$ 203
Supplemental disclosures of cash flow information:		
Interest paid (net of capitalized interest: 2007—$2; 2006— $1)	$ 26	$ 26
Income taxes paid	143	248
Non-cash activities:		
Conversion of securities	$ 17	$ —
Equipment acquired under capital lease obligations	—	7

Accompanying notes are an integral part of these statements.

Notes To Condensed Consolidated Financial Statements (unaudited)

NOTE 1 — Accounting Policies

The condensed consolidated financial statements include the accounts of Cincinnati Financial Corporation and its consolidated subsidiaries, each of which is wholly owned, and are presented in conformity with accounting principles generally accepted in the United States of America (GAAP). All significant intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Our actual results could differ from those estimates. The December 31, 2006, consolidated balance sheet amounts are derived from the audited financial statements but do not include all disclosures required by accounting principles generally accepted in the United States of America.

Our June 30, 2007, condensed consolidated financial statements are unaudited. Certain financial information that is included in annual financial statements prepared in accordance with GAAP is not required for interim reporting and has been condensed or omitted. We believe that we have made all adjustments, consisting only of normal recurring accruals, that are necessary for fair presentation. The results of operations for interim periods do not necessarily indicate results to be expected for the full year.

Recent Accounting Pronouncements

Statements of Financial Accounting Standards (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of SFAS Nos. 133 and 140

Hybrid securities generally combine both debt and equity characteristics. The most common example is a convertible bond that has features of an ordinary bond but is heavily influenced by the price movements of the stock into which it is convertible.

Hybrid financial instruments are hybrid securities that contain embedded derivatives as defined under Statements of Financial Accounting Standards (SFAS) No. 133, “Accounting for Derivative Instruments and Hedging Activities.” We adopted SFAS No. 133 in 2001. Under SFAS No. 133, we bifurcated the embedded derivative and recorded it at fair value, with changes in value recognized in realized investment gains and losses. We continued to account for the remainder of the security at amortized cost, with changes in value recognized in other comprehensive income.

On January 1, 2007, we adopted SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments,” which allows us to account for the entire hybrid financial instrument at fair value, with changes in the fair value recognized in realized investment gains and losses rather than unrealized investment gains and losses. We elected the fair value option for hybrid financial instruments to simplify our reporting, to address cost-benefit considerations and to have a consistent and reliable fair value. Our transition adjustment increased retained earnings by $5 million, reducing accumulated other comprehensive income by the same amount. The transition adjustment was comprised of $12 million of gross realized investment gains and $4 million of gross realized investment losses before tax.

SFAS No. 157, Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We currently are evaluating the impact of this statement on our financial position.

SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We are currently evaluating the potential impact of this statement on our financial position.

Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109

We adopted the provisions of FIN 48 on January 1, 2007. As a result, we recorded a charge of approximately $300,000 to the January 1, 2007, retained earnings. As of the adoption date, we had a gross unrecognized tax benefit (FIN 48 liability) of $24.8 million. There was no change to the FIN 48 liability for the three and six months ended June 30, 2007. The FIN 48 liability is carried in other liabilities in the condensed consolidated balance sheet as of June 30, 2007. Of the total $24.8 million FIN 48 liability, an immaterial amount would affect 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. Any interest recognized is classified in the condensed consolidated statements of income as an offset to investment income. The accrued interest liability was $2.5 million and $3.2 million as of January 1, 2007, and June 30, 2007, respectively.

The Internal Revenue Service has concluded the examination phase of its audit for our 2002, 2003 and 2004 tax years. Unresolved issues for these years have been referred to the Appeals Office of the Internal Revenue Service. It is reasonably possible that a change in the unrecognized tax benefits may occur once settlement of issues has occurred. At this time, we can neither estimate a date for settlement nor quantify an estimated range for the change of unrecognized tax benefits.

In addition to filings with the Internal Revenue Service, we file income tax returns in various state jurisdictions. Ohio, Illinois and Florida are states where we pay a material amount of income tax. Our income tax filings currently are not under examination by any state although tax years 2003 and later remain open for examination.

SOP 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts

SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights or coverages that occurs by the exchange of a contract for a new contract; or by amendment, endorsement or rider to a contract; or by the election of a feature or coverage within a contract. Internal replacement contracts are those that are substantially changed from the replaced contract and are accounted for as an extinguishment of the replaced contract. Nonintegrated contract features are accounted for as separately issued contracts. Modifications resulting from the election of a feature or coverage within a contract or from an integrated contract feature generally do not result in an internal replacement contract subject to SOP 05-1 provided certain conditions are met. The provisions of SOP 05-1 were effective January 1, 2007, and did not have a material impact on our results of operations or financial position.

Subsequent Events

Credit line –On July 2, 2007, Cincinnati Financial Corporation entered into an unsecured revolving credit facility that is administered by The Huntington National Bank and matures on July 2, 2012. We intend to use the $150 million revolving line of credit for general corporate purposes. The line also 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 advance is adjusted LIBOR plus the applicable margin. Based on our current debt ratings, interest for Eurodollar rate advances is adjusted LIBOR plus 29 basis points, and for floating rate advances is adjusted LIBOR. Utilization and commitment fees based on our current debt rating are 5 basis points and 7 basis points, respectively. CFC Investment Company, a subsidiary of Cincinnati Financial Corporation, is a co-borrower under the agreement.

NOTE 2 — INVESTMENTS

Fixed maturities (bonds and redeemable preferred stocks), equity securities (common and non-redeemable preferred stocks) and short-term investments have been classified as available for sale and are stated at fair values at June 30, 2007, and December 31, 2006.

At June 30, 2007, unrealized investment gains before taxes in the investment portfolio totaled $4.809 billion and unrealized investment losses before taxes amounted to $122 million. The unrealized gains primarily were due to our long-term holdings of Fifth Third Bancorp (NASDAQ:FITB) common stock, which constituted 56.3 percent of total unrealized gains, and from our other common stock holdings, including ExxonMobil (NYSE:XOM), The Procter & Gamble Company (NYSE:PG) and PNC Financial Services Group (NYSE:PNC), each of which constituted at least 5 percent of total unrealized gains.

The change in unrealized gains and losses on investments, net of taxes, described in the following table, is included in shareholders' equity as accumulated other comprehensive income. During the three and six months ended June 30, 2007, we recognized $3 million and $4 million in realized investment gains and losses related to current period changes in valuation of our hybrid securities. At June 30, 2007, we had $192 million of hybrid securities included in fixed maturities that now are accounted for under SFAS No. 155.

The change in fixed maturities unrealized gains and losses for the three and six months ended June 30, 2007 and 2006, was due primarily to interest-rate driven fair value fluctuations in the fixed maturity portfolio.

Equity securities unrealized gains declined for the three and six months ended June 30, 2007, primarily because of the sale of common stock holdings.

Equity securities unrealized gains declined for the three months ended June 30, 2006, primarily because of the decline in Fifth Third's market value. Equity securities unrealized gains declined for the six months ended June 30, 2006, primarily because of the sale of our holdings of ALLTEL Corporation (NYSE:AT) common stock, which was completed in January 2006.

(In millions)	Three months ended June 30, **2007**	2006	Six months ended June 30, **2007**	2006
Change in unrealized investment gains and losses and other summary:				
Fixed maturities	**$ (100)**	$ (82)	**$ (90)**	$ (160)
Equity securities	**(178)**	(258)	**(471)**	(681)
Adjustment to deferred acquisition costs and life policy reserves	**3**	3	**2**	6
Pension funded status	**1**	0	**1**	0
Other	**(4)**	0	**1**	1
Income taxes on above	**98**	118	**196**	303
Total	**$ (180)**	$ (219)	**$ (361)**	$ (531)

Realized gains and losses on investments are recognized in net income on a specific identification basis. See our 2006 Annual Report on Form 10-K, Item 1, Investments Segment, Page 14, for additional discussion of the investment portfolio. Other-than-temporary declines in the fair value of investments are recognized in net income as realized investment losses at the time when facts and circumstances indicate such write-downs are warranted.

Securities Lending Program

We participate in a securities lending program under which certain fixed maturities from our investment portfolio are loaned to other institutions for short periods of time. We require cash collateral in excess of the market value of the loaned securities. The collateral is invested in accordance with our guidelines in high-quality, short-duration instruments to generate additional investment income. The market value of the loaned securities is monitored on a daily basis and additional collateral is added or refunded as the market value of the loaned securities changes. The securities lending collateral is recognized as an asset, and classified as securities lending collateral, with a corresponding liability for the obligation to return the collateral.

We maintain the right and ability to redeem the securities loaned on short notice and continue to earn interest on the securities. We maintain effective control over the securities loaned, which are classified as invested assets on our consolidated balance sheets. At June 30, 2007, we had fixed maturities with a market value of $957 million on loan, with collateral held of $976 million. Interest income on collateral, net of fees, was $301,000 and $543,000 in the three and six months ended June 30, 2007, versus $152,000 and $275,000 in the comparable 2006 periods.

NOTE 3 — Reinsurance

In the accompanying condensed consolidated statements of income, property casualty earned premiums and insurance losses consisted of the following:

(In millions)	Three months ended June 30, **2007**	2006	Six months ended June 30, **2007**	2006
Direct earned premiums	**$ 825**	$ 824	**$ 1,646**	$ 1,634
Assumed earned premiums	**5**	4	**11**	10
Ceded earned premiums	**(43)**	(35)	**(86)**	(73)
Net earned premiums	**$ 787**	$ 793	**$ 1,571**	$ 1,571
Direct incurred loss and loss expenses	**$ 501**	$ 544	**$ 978**	$ 1,034
Assumed incurred loss and loss expenses	**2**	3	**4**	7
Ceded incurred loss and loss expenses	**(48)**	(28)	**(69)**	(51)
Net incurred loss and loss expenses	**$ 455**	$ 519	**$ 913**	$ 990

For the three and six months ended June 30, 2007, direct earned premiums grew, while net earned premiums were flat or down slightly because the change in our reinsurance programs caused ceded earned premiums to increase. Direct losses and policyholder benefits declined because of the lower level of catastrophe losses. Ceded incurred loss and loss expenses were up from the comparable 2006 periods because of a single large commercial casualty loss.

NOTE 4 — Pension Plan

The measurement date for the company's pension plan is December 31. The following summarizes the components of net periodic costs for our qualified and supplemental pension plans:

(In millions)	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Service cost	**$ 4**	$ 4	**$ 8**	$ 8
Interest cost	**4**	3	**8**	6
Expected return on plan assets	**(4)**	(3)	**(7)**	(6)
Amortization of actuarial gain, prior service cost and transition asset	**1**	1	**1**	1
Net periodic benefit cost	**$ 5**	$ 5	**$ 10**	$ 9

In the second quarter of 2007 we made a corrective contribution to the pension plan of $1 million, related to investment management fees and attributable earnings. We plan to contribute $9 million during the third quarter of 2007.

NOTE 5 — Equity Compensation Plans

We currently have six equity compensation plans that together permit us to grant incentive stock options, non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights and other stock-based awards. The 2006 Stock Compensation Plan also 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, restricted stock units and performance-based restricted stock units under our plans. One of our equity compensation plans permits us to grant common stock to our outside directors as discussed in our 2007 Proxy Statement.

A total of 22,237,750 shares is authorized to be granted under the plans. At June 30, 2007, 10,502,851 shares were available for future issuance under the plans. We currently issue new shares for option exercises.

Our pre-tax and after-tax share-based compensation costs are summarized below:

(In millions)	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Share-based compensation cost	**$ 3**	$ 4	**$ 8**	$ 11
Income tax benefit	**1**	1	**2**	3
Share-based compensation cost after tax	**$ 2**	$ 3	**$ 6**	$ 8

Stock Options

Stock options are granted to associates at an exercise price that is not less than fair market value on the date of grant 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 2007, the fair value of each option granted in 2007 was estimated on the date of grant using the binomial option-pricing model with the following weighted average assumptions used for grants in 2007:

	Six months ended June 30, 2007	Six months ended June 30, 2006
Weighted — average expected term	**5-7 years**	5-7 years
Expected volatility	**18.29- 24.14%**	20.25 - 27.12%
Dividend yield	**3.33%**	3.22%
Risk-free rates	**4.8-4.81%**	4.5-4.61%

As of June 30, 2007, there was $20 million of unrecognized compensation cost related to non-vested awards, which is expected to be recognized over a weighted average period of 2 years.

Here is a summary of option information:

(Dollars in millions, shares in thousands)	Shares	Weighted-average exercise price	Aggregate intrinsic value
2007			
Outstanding at beginning of year	**10,667**	**$36.03**	
Granted/reinstated	**582**	**44.79**	
Exercised	**(401)**	**27.52**	
Forfeited/revoked	**(73)**	**39.38**	
Outstanding at end of period	**10,775**	**36.79**	**$74**
Options exercisable at end of period	**8,875**	$**35.19**	**$74**
Weighted-average fair value of options granted during the period		**9.43**	

(Shares in thousands)

	Options outstanding			Options exercisable	
Range of exercise prices	Shares	Weighted-average remaining contractual life	Weighted-average exercise price	Shares	Weighted-average exercise price
$20.00 to $24.99	2	0.15 yrs	$24.14	2	$24.14
$25.00 to $29.99	870	2.53 yrs	27.06	870	27.06
$30.00 to $34.99	4,447	3.71 yrs	32.68	4,447	32.68
$35.00 to $39.99	1,906	4.85 yrs	38.45	1,906	38.45
$40.00 to $44.99	2,237	7.23 yrs	42.38	1,203	41.52
$45.00 to $49.99	1,313	8.55 yrs	45.26	447	45.26
Total	10,775	5.14 yrs	36.79	8,875	35.19

Restricted Stock Units

In January 2007, the compensation committee granted service-based and performance-based restricted stock units. The service-based restricted stock units will vest at the end of the three-year vesting period. The performance-based restricted stock units granted in 2007 will vest on March 1, 2010, if certain performance targets are attained. As of June 30, 2007, management assumed for accounting purposes that performance targets used for the 2007 awards would be met, which resulted in the inclusion of costs for these awards in share-based compensation for the three and six months ended June 30, 2007.

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 restricted stock units during the vesting period.

Restricted stock unit awards in 2007 were:

(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, 2007	0	$ 0.00	0	$ 0.00
Granted	168	40.74	35	40.74
Vested	0	0.00	0	0.00
Forfeited	(3)	40.74	0	0.00
Nonvested at June 30, 2007	165	40.74	35	40.74

NOTE 6 — Commitments And Contingent Liabilities

Legal issues are part of the normal course of business for all companies. As such, we have various litigation and claims against us in process and pending. Having analyzed our current understanding of the facts and circumstances of those claims with our legal counsel, we believe the outcomes of normal insurance matters will not have a material effect on our consolidated financial position, results of operations or cash flows. We further believe that the outcomes of non-insurance matters will be covered by insurance coverage or will not have a material effect on our consolidated financial position, results of operations or cash flows.

NOTE 7 — 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 insurance subsidiary. See our 2006 Annual Report on Form 10-K for a description of revenue, income or loss before income taxes and identifiable assets for each segment.

Segment information is summarized in the following table:

(In millions)	Three months ended June 30, 2007	2006	Six months ended June 30, 2007	2006
Revenues:				
Commercial lines insurance				
Commercial casualty	$ 209	$ 208	$ 418	$ 405
Commercial property	125	123	248	244
Commercial auto	110	112	223	224
Workers' compensation	95	90	187	178
Specialty packages	37	35	73	71
Surety and executive risk	24	24	47	45
Machinery and equipment	7	7	14	14
Total commercial lines insurance	607	599	1,210	1,181
Personal lines insurance				
Personal auto	86	98	174	199
Homeowner	72	74	144	146
Other personal lines	22	22	43	45
Total personal lines insurance	180	194	361	390
Life insurance	36	30	68	58
Investment operations	443	154	653	952
Other	4	4	9	7
Total	$ 1,270	$ 981	$ 2,301	$ 2,588
Income (loss) before income taxes:				
Insurance underwriting results:				
Commercial lines insurance	$ 90	$ 58	$ 157	$ 114
Personal lines insurance	0	(15)	14	(8)
Life insurance	0	2	5	2
Investment operations	429	141	625	925
Other	(11)	(11)	(22)	(24)
Total	$ 508	$ 175	$ 779	$ 1,009

	June 30, 2007	December 2006
Identifiable assets:		
Property casualty insurance	$ 2,288	$ 2,220
Life insurance	945	886
Investment operations	13,766	13,820
Other	1,265	296
Total	$ 18,264	$ 17,222

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion highlights significant factors influencing the consolidated results of operations and financial position of Cincinnati Financial Corporation (CFC). It should be read in conjunction with the consolidated financial statements and related notes included in our 2006 Annual Report on Form 10-K. Unless otherwise noted, A.M. Best Co., a leading insurance industry statistical, analytical and financial strength rating organization, is the source of industry data. Data 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 on a GAAP basis.

We present per share data on a diluted basis unless otherwise noted, adjusting those amounts for all stock splits and dividends. Dollar amounts are rounded to millions; calculations of percent changes are based on whole dollar amounts or dollar amounts rounded to the nearest thousand.

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 2006 Annual Report on Form 10-K, Item 1A, Risk Factors, Page 20. 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
- Inaccurate estimates or assumptions used for critical accounting estimates
- 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
- Changing consumer buying habits and consolidation of independent insurance agencies that could alter our competitive advantages
- 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:
    - Downgrade 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
- 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
- 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

  - o 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
  - o Limit our ability to set fair, adequate and reasonable rates
  - o Place us at a disadvantage in the marketplace or
  - o Restrict our ability to execute our business model, including the way we compensate agents
- Sustained decline in overall stock market values negatively affecting the company's equity portfolio and book value; in particular a sustained decline in the market value of Fifth Third shares, a significant equity holding
- Recession or other economic conditions or regulatory, accounting or tax changes resulting in lower demand for insurance products
- Events, such as the sub-prime mortgage lending crisis, that lead to a significant decline in the value of a particular security or group of securities and impairment of the asset(s)
- 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
- Adverse outcomes from litigation or administrative proceedings
- Investment activities or market value fluctuations that trigger restrictions applicable to the parent company under the Investment Company Act of 1940
- Events, such as an epidemic, natural catastrophe, terrorism or construction delays, 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.

Introduction

Corporate Financial Highlights

Income Statement and Per Share Data

(Dollars in millions except share data)	Three months ended June 30, 2007	2006	Change %	Six months ended June 30, 2007	2006	Change %
Income statement data						
Earned premiums	**$ 822**	$ 822	(0.1)	**$ 1,637**	$ 1,627	0.6
Investment income, net of expenses	**150**	143	5.0	**298**	281	6.1
Realized investment gains and losses (pretax)	**293**	11	2,482.0	**355**	671	(47.2)
Total revenues	**1,270**	981	29.4	**2,301**	2,588	(11.1)
Net income	**351**	132	164.7	**545**	684	(20.4)
Per share data (diluted)						
Net income	**2.02**	0.76	165.8	**3.13**	3.90	(19.7)
Cash dividends declared	**0.355**	0.335	6.0	**0.710**	0.670	6.0
Weighted average shares outstanding	**173,423,572**	175,022,367	(0.9)	**173,871,612**	175,615,017	(1.0)

For the three and six months ended June 30, 2007, two of the primary drivers of total revenues — consolidated property casualty written premiums and pretax investment income - were at levels that caused us to modestly lower our full-year 2007 targets for these measures. We discuss these changes in Measuring Our Success in 2007 and Beyond, Page 16. Below we discuss the third component of revenues, realized investment gains and losses.

For the three months ended June 30, 2007, the proceeds from the sale of certain significant equity holdings led to an increase in realized investment gains. Higher realized investment gains were the primary reason for the increase in revenues, net income and net income per share for the three month period. We discuss the equity sales in Investments Results of Operations, Page 30. Those sales raised realized investment gains and revenues for the three months ended June 30, 2007, by $283 million and net income and net income per share by $187 million, or $1.08 per share.

For the six months ended June 30, 2007, lower realized investment gains were the primary reason for the decline in revenues, net income and net income per share. Investment gains were below the year-ago period primarily because of the sale of our holdings of Alltel Corporation (NYSE:AT) common stock in the first three months of 2006. That sale raised realized investment gains and revenues for the six months ended June 30, 2006, by $647 million and net income and net income per share by $412 million, or $2.34 per share.

Realized investment gains and losses are integral to our financial results over the long term, but we have substantial discretion in the timing of investment sales and, therefore, the gains or losses that will be 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 without actual realization of those gains and losses.

Net income per share for the three and six months ended June 30, 2007, benefited from declines in diluted weighted average shares outstanding from the year-earlier periods. Weighted average shares outstanding may fluctuate from period to period because we regularly repurchase shares under board authorizations, and we issue shares when associates exercise stock options.

The board of directors is committed to steadily increasing cash dividends and periodically authorizing stock dividends and splits. Cash dividends declared per share rose 6.0 percent in the three and six months ended June 30, 2007. The board also is committed to share repurchase. Although no shares were repurchased in the three months ended June 30, 2007, we purchased 1.49 million shares at a total cost of $64 million in the three months ended March 31, 2007. In the first six months of 2006, we repurchased 2 million shares at a cost of $88 million.

Balance Sheet Data and Performance Measures

(Dollars in millions except share data)	**At June 30, 2007**	At December 31, 2006
Balance sheet data		
Invested assets	**$13,712**	$13,759
Total assets	**18,264**	17,222
Short-term debt	**49**	49
Long-term debt	**791**	791
Shareholders' equity	**6,826**	6,808
Book value per share	**39.74**	39.38
Debt-to-capital ratio	**11.0%**	11.0%

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	**2007**	2006
Performance measures				
Comprehensive income	$ **171**	$ (86)	$ **184**	$ 153
Return on equity, annualized	**20.7%**	8.6%	**16.0%**	22.5%
Return on equity, annualized, based on comprehensive income	**9.8**	(5.6)	**5.3**	5.1

Invested assets were slightly below the level at year-end 2006 primarily because of a decline in the market value of our equity portfolio. Total assets rose over the year-end 2006 level primarily because of the securities lending collateral asset of $976 million.

Comprehensive income is net income plus the year-over-year change in accumulated other comprehensive income. In the three months ended June 30, 2007, comprehensive income rose because of higher net income and reduced unrealized gains in the investment portfolio.

Return on equity was higher in the three months ended June 30, 2007, primarily because of the higher level of realized gains on investments. Return on equity was lower for the six-month period because realized gains on investments were lower. Return on equity based on comprehensive income was higher in the three months ended June 30, 2007, because of higher net income and reduced unrealized gains in the investment portfolio.

Our ratio of long-term debt to capital (long-term debt plus shareholders' equity) was essentially unchanged at June 30, 2007.

Property Casualty Highlights

	Three months ended June 30,			Six months ended June 30,		
(Dollars in millions)	**2007**	2006	Change %	**2007**	2006	Change %
Property casualty highlights						
Written premiums	**$ 810**	$ 814	(0.5)	**$1,656**	$1,643	0.8
Earned premiums	**787**	793	(0.8)	**1,571**	1,571	0.0
Underwriting profit	**90**	43	107.8	**171**	106	62.5
GAAP combined ratio	**88.6%**	94.5%		**89.1%**	93.3%	
Statutory combined ratio	**87.7**	93.7		**87.7**	91.7	

The trend in overall **written and earned premium** growth rates reflects the heightened competition as well as the competitive strategies we discussed in our 2006 Annual Report on Form 10-K, Item 1, Commercial Lines and Personal Lines Property Casualty Insurance Segments, Page 9 and Page 11.

Our consolidated property casualty insurance **underwriting profit** rose for the three and six months ended June 30, 2007, primarily due to lower catastrophe losses. Our combined ratio reflected those trends. (The combined ratio is the percentage of each premium dollar incurred for claims plus all expenses — the lower the ratio, the better the performance. An underwriting profit results when the combined ratio is under 100 percent. A combined ratio above 100 indicates that a carrier is paying out more in claims and expenses than it is collecting in premiums.)

Measuring Our Success in 2007 And Beyond

We use a variety of metrics to measure the success of our strategies:

- **Maintaining our strong relationships with our established agencies, writing a significant portion of each agency's business and attracting new agencies** – In 2007, we expect to continue to rank No. 1 or No. 2 by premium volume in approximately 75 percent or more of the locations that have marketed our products for more than five years.

  We expect to improve service to our agencies by subdividing or creating four field territories in 2007. At June 30, 2007, we had 104 field marketing territories, up from 102 at the end of 2006 and 100 at the end of 2005. We continually study the regulatory and competitive environment in states where we could decide to actively market our property casualty products. In June 2007, we made our first agency appointment in eastern Washington state. We expect to appoint our first agency in New Mexico in the third quarter. We anticipate that agencies in these states will begin actively marketing our products in the third quarter of 2007.

  At June 30, 2007, our 1,072 agency relationships had 1,297 reporting agency locations marketing our insurance products, compared with 1,066 agency relationships with 1,289 reporting agency locations at year-end 2006. We also seek to increase overall premiums by expanding our agency force within our current marketing territories. Our objective is to appoint approximately 55 to 60 additional sales offices, or points of distribution, each year. During the first six months of 2007, we had a net increase of eight reporting agency locations. We made 29 new agency appointments during the period, including 22 that were new relationships. These were offset by changes in agency structures and the cancellation of nine agency relationships. We are very careful to protect the franchise for current agencies when selecting and appointing new agencies.

  In 2007, we expect to make further progress in our efforts to improve service to and communication with our agencies through our expanding portfolio of software. We discuss our technology plans for 2007 in our 2006 Annual Report on Form 10-K, Item 1, Technology Solutions, Page 4. Recent activities include:

  - Commercial Lines Technology – WinCPP® is our commercial lines premium quoting system. WinCPP is available in all of our agency locations in 32 of the 33 states in which we actively market insurance and provides quoting capabilities for nearly 100 percent of our new and renewal commercial lines business. We have introduced agency interface technology for WinCPP: CinciBridge™ allows automated movement of key underwriting data from an agent's management system to WinCPP, reducing agents' data entry and allowing seamless quoting and rating capabilities.

    e-CLAS® is our Web-based policy processing system. e-CLAS now is available in 11 states representing 57 percent of our Businessowner Policies (BOP) and Dentist's Package Policies (DBOP) premiums, which are part of the Specialty Packages commercial line of business. During 2007, we expect to roll out e-CLAS to additional states for these policy types. CinciBridge agency interface technology also has been rolled out in all states using e-CLAS.

    To respond to agency needs, we have begun a project to allow agencies to select direct bill as an option for policyholders. Our first step will be to make the direct bill option available for policies issued through e-CLAS by year-end 2007.

    iView™ is our commercial lines policy imaging and workflow system. At June 30, 2007, 80 percent of non-workers' compensation commercial lines policy files are administered and stored electronically in iView. We expect more than 90 percent of non-workers' compensation commercial lines policy files to be stored in iView by year-end 2007.

  - Personal Lines Technology – Diamond, our personal lines policy processing system, now is available in 16 states representing approximately 97 percent of our personal lines premium volume. Roll out to Arkansas is planned for later this year and to additional states next year.

    In 2006, we introduced PL-efiles, a policy imaging system, to our personal lines operations. Through June 30, 2007, we had transitioned more than 45 percent of our Diamond personal lines files to PL-efiles.

  - Claims Technology – CMS is our claims file management system used by our claims associates. Agency access to selected CMS information is planned for 2007.

- o Surety and Executive Risk Technology – CinciBond® is an automated system to process license and permit surety bonds. It has been introduced to agents in 10 states representing 803 agency reporting locations. In 2007, we will roll out CinciBond to additional states and, in 2008, we will add other surety bond types.

Over the years, we have been able to increase our share of our agencies' business by making available insurance products that meet the needs of the individuals and businesses in their communities. In recent years, our agents have indicated their desire to have Cincinnati available as a market for commercial accounts that require the flexibility of excess and surplus lines coverage.

Generally, excess and surplus lines insurance carriers provide insurance that is unavailable to businesses in the standard market due to market conditions or due to characteristics of the insured that are caused by nature, the insured's history or the nature of the insured's business.

We believe excess and surplus lines will contribute to our long-term objectives. Among the potential benefits, we would gain opportunities to compete for additional accounts by having more flexibility in pricing and policy terms and conditions.

In the first half of 2007, we completed the due diligence necessary to enter the excess and surplus lines market, meeting with business partners and regulators in various states. In the third quarter, we will be filing the necessary applications in Delaware for incorporation of a new subsidiary, to be named The Cincinnati Specialty Underwriters Insurance Company. At the same time, we will be forming a wholly owned brokerage subsidiary that will provide exclusive access for our independent agencies to our excess and surplus lines products. Our interdepartmental team is identifying the excess and surplus lines and classes of business that we will target, developing underwriting guidelines and establishing rate ranges for this business. The team also has selected a policy administration system and begun the process of hiring additional, experienced staff. We continue to target roll out to our independent agencies and the first contributions to premiums in 2008.

- **Achieving above-industry-average growth in property casualty statutory net written premiums and maintaining industry-leading profitability by leveraging our regional franchise and proven agency-centered business strategy** – Considering market conditions and results for the first six months of 2007, we are revising our full-year 2007 property casualty growth and profitability targets.

Written premiums – We now believe our 2007 consolidated property casualty written premiums may be unchanged from 2006. We had previously estimated that written premium growth would be in the low single digits in 2007. Net written premiums rose 0.8 percent in the first six months of 2007 and 3.3 percent for full-year 2006.

Legislative and regulatory developments continue in 2007 to add to the uncertainty that already exists for the insurance industry in Florida. We are not seeking new policyholder relationships from our Florida agencies. This status, which extends to most of our lines of property casualty insurance, may result in lower 2007 growth. We have resumed excluding wind coverage from policies located within the Florida wind pool area. This permits us to reduce our exposure to hurricane catastrophe losses for those risks located closest to the coast, in accordance with Florida rules and regulations. We hope the Florida insurance environment will improve so that we may resume writing all lines of new business from our Florida agencies. We will continue to monitor Florida's insurance environment for signs of improvement.

Overall industry premiums are projected to be flat in 2007. Net written premiums for the commercial lines industry are expected to decline 1.0 percent in 2007; the personal lines sector is expected to grow 1.2 percent; and the reinsurance sector is expected to grow 18.6 percent.

Combined ratio – We now believe that the full-year 2007 combined ratio could be at or below 95 percent on either a GAAP or statutory basis, below our previous estimate of a combined ratio at or below 97 percent. The GAAP combined ratio was 89.1 percent in the first six months of 2007 and 94.3 percent for full-year 2006. Our revised target reflects four assumptions:

- o Catastrophe losses contributing up to 4.5 percentage points to the combined ratio, down from our previous assumption of 5.0 percent. We think this is an appropriate estimate based on our reinsurance treaty retention and catastrophe loss experience in recent years. During July 2007, we had no material catastrophe loss activity.
- o Savings from favorable reserve development slightly above our historical norms. Savings from favorable development on prior period reserves averaged about 2 percentage points between 2000 and 2003. Between 2004 and 2006, the average rose to approximately 5 percentage points.
- o Loss ratio deterioration as pricing becomes even more competitive and loss severity increases.
- o Higher other underwriting expenses as we continue to invest in people and technology. We believe the consolidated property casualty 2007 underwriting expense ratio could be approximately 31.5 percent.

A.M. Best projected industry average 2007 combined ratio would be 96.8 percent. They estimated that the first-quarter commercial lines industry combined ratio was 90.4 percent, the personal lines sector ratio was 94.5 percent and the reinsurance sector ratio was 89.3 percent.

- **Pursuing a total return investment strategy that generates both strong investment income growth and capital appreciation** – Taking results for the first six months of 2007 into consideration, we also are revising our full-year 2007 investment income growth target. In 2007, we now are estimating pretax investment income growth of approximately 6 percent. We previously had estimated it would be in the range of 6.5 percent to 7.0 percent. We are lowering our target because of the mix of fixed-maturity investments we are purchasing. In recent years, a growing percentage of our fixed-maturity investments have been in tax-advantaged bonds, such as municipal bonds, which have a lower gross yield than taxable bonds.

  We do not establish annual capital appreciation targets. Over the long term, our target is to have the equity portfolio outperform the Standard & Poor's 500 Index, a common benchmark of market performance. In the first six months of 2007, our equity portfolio's total return was 0.3 percent compared with a 7.0 percent return for the Index. Over the five years ended June 30, 2007, our compound annual equity portfolio return was 1.4 percent compared with 10.7 percent for the Index. Our equity portfolio performance reflected the decline in the market value of our holdings of Fifth Third common stock, which generated a negative annualized return of 7.0 percent for the five-year period ended June 30, 2007.

- **Increasing the total return to shareholders through a combination of higher earnings per share, growth in book value and increasing dividends** – We do not announce annual targets for earnings per share or book value. Over the long term, we look for our earnings per share growth to outpace that of a peer group of national and regional property casualty insurance companies. Long-term book value growth should exceed that of our equity portfolio.

  The board of directors is committed to steadily increasing cash dividends and periodically authorizing stock dividends and splits. In February 2007, the board increased the indicated annual dividend rate 6.0 percent, marking the 47th consecutive year of increases in our indicated dividend rate. We believe our record of dividend increases is matched by only 11 other publicly traded corporations.

  Over the long term, we seek to increase earnings per share, book value and dividends at a rate that would allow total return to our shareholders to exceed that of the Standard & Poor's Composite 1500 Property Casualty Insurance Index. Over the 2002 to 2006 period, our total return to shareholders of 49.4 percent was below the 71.4 percent return for that Index.

- **Maintaining financial strength by keeping the ratio of debt to capital below 15 percent and purchasing reinsurance to provide investment flexibility** – Based on our present capital requirements, we do not anticipate a material increase in debt levels during 2007. As a result, we believe our debt-to-capital ratio will remain approximately 11 percent. We discuss our outstanding debt in Capital Resources, Page 33.

  In December 2006, we finalized our property casualty reinsurance program for 2007, updating it to maintain the balance between the cost of the program and the level of risk we retain. Under the new program, our 2007 reinsurance premiums are expected to be approximately $22 million higher than in 2006. We provide more detail on our reinsurance programs in our 2006 Annual Report on Form 10-K, Item 7, 2007 Reinsurance Programs, Page 69. For the first six months of 2007, the increase in premiums we are paying for reinsurance lowered consolidated property casualty written premium growth rate by approximately 0.5 percentage points.

  Our property casualty and life operations are awarded insurer financial strength ratings. These ratings assess an insurer's ability to meet its financial obligations to policyholders and do not necessarily address matters that may be important to shareholders.

  As of August 7, 2007, our financial strength ratings were unchanged from those reported in our 2006 Annual Report on Form 10-K.

	Parent Company Senior Debt Rating	Property Casualty Insurance Subsidiaries Financial Strength Ratings			Life Insurance Subsidiary Financial Strength Ratings			Outlook
				Rating Tier			Rating Tier	
A. M. Best Co.	aa-	A++	Superior	1 of 16	A+	Superior	2 of 16	Stable
Fitch Ratings	A+	AA	Very Strong	4 of 21	AA	Very Strong	4 of 21	Stable
Moody's Investors Services	A2	Aa3	Excellent	4 of 12	na	na	na	Stable
Standard & Poor's Ratings Services	A	AA-	Very Strong	4 of 21	AA-	Very Strong	4 of 21	Stable

Two of the ratings organizations affirmed the company's ratings since our Quarterly Report on Form 10-Q for the period ended March 31, 2007:

- o On May 21, 2007, A.M. Best affirmed its A++ (Superior) financial strength rating for The Cincinnati Insurance Companies' property casualty group and its A+ (Superior) rating for The Cincinnati Life Insurance Company. A.M. Best also affirmed its issuer credit ratings of aa+ for the property casualty group, aa- for senior debt of parent Cincinnati Financial Corporation and aa- for the life insurance subsidiary.
- o On July 23, 2007, Standard & Poor's Ratings Services affirmed the AA- (Very Strong) financial strength ratings of each of our insurance companies and Cincinnati Financial's counterparty credit rating of A (Strong), all with a stable outlook.

We believe that our property catastrophe reinsurance program provides adequate protection for large loss events. Our strong capital position would allow the payment of claims if an event exceeded our reinsurance program. Currently participating on our property per risk and casualty per-occurrence programs are Hannover Reinsurance Company, Munich Reinsurance America, Partner Reinsurance Company of the U.S. and Swiss Reinsurance America Corporation and its subsidiaries, all of which have A.M. Best insurer financial strength ratings of A (Excellent) or A+ (Superior).

Statutory surplus for our property casualty insurance subsidiary was $4.937 billion at June 30, 2007, compared with $4.750 billion at December 31, 2006. The ratio of the property casualty subsidiary's common stock to statutory surplus was 90.9 percent at June 30, 2007, compared with 96.7 percent at year-end. Life statutory surplus was $491 million at June 30, 2007, compared with $479 million at December 31, 2006. The ratio of the life insurance subsidiary's common stock to statutory adjusted capital and surplus was 77.4 percent at June 30, 2007, compared with 88.8 percent at year-end.

Factors supporting our outlook for 2007 are discussed below in the Results of Operations for each of the four business segments.

Results of Operations

The consolidated results of operations reflect the operating results of each of our four segments along with the parent company and other non-insurance activities. The four segments are:

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

See Item 1, Note 7 of the Condensed Consolidated Financial Statements, Page 11, for discussion of the calculations of segment data. The following sections review results of operations for each of the four segments.

Consolidated Property Casualty Insurance Results of Operations

(Dollars in millions)	Three months ended June 30, 2007	2006	Change %	Six months ended June 30, 2007	2006	Change %
Written premiums	**$ 810**	$ 814	(0.5)	**$ 1,656**	$ 1,643	0.8
Earned premiums	**$ 787**	$ 793	(0.8)	**$ 1,571**	$ 1,571	0.0
Loss and loss expenses excluding catastrophes	**444**	455	(2.3)	**898**	887	1.3
Catastrophe loss and loss expenses	**11**	64	(82.2)	**15**	103	(85.9)
Commission expenses	**151**	147	2.2	**312**	305	2.3
Underwriting expenses	**89**	79	11.5	**169**	162	4.1
Policyholder dividends	**2**	5	(50.3)	**6**	8	(31.4)
Underwriting profit	**$ 90**	$ 43	107.8	**$ 171**	$ 106	62.5
Ratios as a percent of earned premiums:						
Loss and loss expenses excluding catastrophes	**56.5%**	57.3%		**57.2%**	56.5%	
Catastrophe loss and loss expenses	**1.4**	8.0		**0.9**	6.5	
Loss and loss expenses	**57.9%**	65.3%		**58.1%**	63.0%	
Commission expenses	**19.2**	18.6		**19.8**	19.4	
Underwriting expenses	**11.2**	9.9		**10.8**	10.4	
Policyholder dividends	**0.3**	0.7		**0.4**	0.5	
Combined ratio	**88.6%**	94.5%		**89.1%**	93.3%	

In addition to the factors discussed in our 2006 Annual Report on Form 10-K, Item 7, Commercial Lines and Personal Lines Insurance Results of Operations, Page 42 and Page 49, growth and profitability for the property casualty insurance operations were affected by:

- New business written directly by agencies was $81 million in the three months ended June 30, 2007, compared with $94 million in the year ago period. New business written directly by agencies was $161 million in the six months ended June 30, 2007, compared with $170 million in the year ago period. New business levels reflected market conditions for commercial and personal lines as well as the advantages of our agency relationship strategy and changes made to our personal lines pricing in mid-2006.
- Catastrophe losses contributed 1.4 percentage points to the combined ratio in the three months ended June 30, 2007, compared with 8.0 points in the comparable 2006 period. Catastrophe losses contributed 0.9 percentage points in the six months ended June 30, 2007, compared with 6.5 points a year ago. In the first six months of 2007, we incurred $32 million of pretax catastrophe losses caused by nine weather events during the period, mitigated by $17 million of reduced catastrophe loss estimates for prior years, in particular an October 2006 hail storm. The following table shows catastrophe losses incurred, net of reinsurance, for these periods as well as the effect of development on prior period catastrophes.

(In millions)			Three months ended June 30,			Six months ended June 30,		
Dates	Cause of loss	Region	Commercial lines	Personal lines	Total	Commercial lines	Personal lines	Total
2007								
Jan. 12-15	Wind, hail, ice, snow	Midwest	**$ 0**	**$ 0**	**$ 0**	**$ 3**	**$ 0**	**$ 3**
Feb. 14-15	Wind, hail, ice, snow	Mid-Atlantic	**0**	**0**	**0**	**2**	**1**	**3**
Feb. 23-25	Wind, hail, ice, snow	Midwest	**0**	**0**	**0**	**3**	**0**	**3**
Mar. 1-2	Wind, hail, flood	South	**0**	**(1)**	**(1)**	**6**	**1**	**7**
Apr. 13-16	Wind, hail, flood	Northeast	**2**	**2**	**4**	**2**	**2**	**4**
May 4-8	Wind, hail, flood	Midwest	**3**	**0**	**3**	**3**	**0**	**3**
May 21-24	Wind, hail, flood	Midwest, South	**1**	**0**	**1**	**1**	**0**	**1**
Jun. 7-9	Wind, hail, flood	Midwest	**2**	**3**	**5**	**2**	**3**	**5**
Jun. 20-22	Wind, hail	Midwest	**0**	**3**	**3**	**0**	**3**	**3**
Development on 2006 and prior catastrophes			**(3)**	**(1)**	**(4)**	**(6)**	**(11)**	**(17)**
Calendar year incurred total			**$ 5**	**$ 6**	**$ 11**	**$ 16**	**$ (1)**	**$ 15**
2006								
Mar. 11-13	Wind, hail	Midwest, Mid-Atlantic	$ (1)	$ 0	$ (1)	$ 27	$ 10	$ 37
Apr. 2-3	Wind, hail	Midwest, South	13	6	19	13	6	19
Apr. 6-8	Wind, hail, tornados	Midwest, South	10	17	27	10	17	27
Apr. 13-15	Wind, hail, tornados	Midwest	5	6	11	5	6	11
Apr. 23-25	Wind, hail	Midwest, South	2	1	3	2	1	3
Jun. 18-22	Wind, hail, flood	Midwest	4	2	6	4	2	6
Jun. 25-28	Wind, flood	Northeast	2	0	2	2	0	2
Development on 2005 and prior catastrophes			(1)	(2)	(3)	0	(2)	(2)
Calendar year incurred total			$ 34	$ 30	$ 64	$ 63	$ 40	$ 103

- Savings from favorable development on prior period reserves reduced the combined ratio by a total of 5.6 percentage points in the three months ended June 30, 2007, and 4.8 percentage points in the six-month period, including 1.1 percentage points from $17 million of savings from favorable development on prior period catastrophe loss reserves. In the three months ended June 30, 2006, savings reduced the combined ratio by 2.2 percentage points, while reserve strengthening added 0.1 percentage points to the ratio in the six months ended June 30, 2006.

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

Commercial Lines Insurance Results of Operations

Overview

Performance highlights for the commercial lines segment include:

- Premiums – Our commercial lines written premiums rose 1.7 percent and 2.8 percent in the three and six months ended June 30, 2007, as competition in our markets continued to increase. We have been careful to maintain our underwriting discipline for both renewal and new business. Year-over-year premium comparisons also reflect higher reinsurance premiums. We believe that our written premium growth rate continues to exceed the average for the overall commercial lines industry.

  New commercial lines business written directly by agencies declined 16.9 percent for the three months ended June 30, 2007, to $71 million from $86 million. New business declined 8.1 percent for the six months ended June 30, 2007, to $143 million from $156 million.

A.M. Best estimated that industry commercial lines net written premiums would be flat in 2007 after rising approximately 1.0 percent in 2006. They estimated that industry commercial lines net written premiums declined 2.1 percent in the first three months of 2007.

- Combined ratio – Our commercial lines combined ratio improved in the three and six months ended June 30, 2007, primarily due to a significantly lower level of catastrophe losses. Savings from favorable development on prior period reserves rose in the three- and six-month periods. Higher commissions and other underwriting expenses offset a portion of the savings.

  We continue to focus on sound underwriting fundamentals and seek to obtain adequate premiums per policy. On an ongoing basis, we monitor loss patterns and structure our products and our pricing accordingly. We discuss large losses and other factors affecting the combined ratio beginning on Page 22. We discuss reserve development for commercial lines of business below.

  Our commercial lines statutory combined ratio was 84.4 percent and 85.4 percent in the three and six months ended June 30, 2007, compared with 89.6 percent and 90.8 percent in the comparable 2006 periods. Beginning in 2007, we are including stock option expense in the calculation of statutory income. By comparison, A.M. Best estimated the industry commercial lines combined ratio was 90.4 percent in the first three months of 2007. A.M. Best also estimated the industry commercial lines combined ratio would be approximately 98 percent in 2007, rising from approximately 94.3 percent in 2006.

Commercial Lines Results

(Dollars in millions)	Three months ended June 30, 2007	Three months ended June 30, 2006	Change %	Six months ended June 30, 2007	Six months ended June 30, 2006	Change %
Written premiums	**$ 613**	$ 603	1.7	**$ 1,306**	$ 1,271	2.8
Earned premiums	**$ 607**	$ 599	1.3	**$ 1,210**	$ 1,181	2.5
Loss and loss expenses excluding catastrophes	**330**	334	(1.1)	**673**	658	2.3
Catastrophe loss and loss expenses	**5**	34	(84.9)	**16**	63	(75.0)
Commission expenses	**112**	105	6.2	**235**	222	5.9
Underwriting expenses	**68**	63	5.6	**123**	116	5.7
Policyholder dividends	**2**	5	(50.3)	**6**	8	(31.4)
Underwriting profit	**$ 90**	$ 58	54.8	**$ 157**	$ 114	38.5
Ratios as a percent of earned premiums:						
Loss and loss expenses excluding catastrophes	**54.5%**	55.7%		**55.7%**	55.8%	
Catastrophe loss and loss expenses	**0.8**	5.6		**1.3**	5.3	
Loss and loss expenses	**55.3%**	61.3%		**57.0%**	61.1%	
Commission expenses	**18.5**	17.6		**19.4**	18.8	
Underwriting expenses	**11.0**	10.5		**10.2**	9.8	
Policyholder dividends	**0.4**	0.9		**0.4**	0.7	
Combined ratio	**85.2%**	90.3%		**87.0%**	90.4%	

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 change in the loss and loss expense ratio in the three and six months ended June 30, 2007, was due to:

- Catastrophe losses – Catastrophe losses contributed 0.8 and 1.3 percentage points to the commercial lines loss and loss expense ratio in the three and six months ended June 30, 2007, compared with 5.6 and 5.3 points in the comparable three and six months of 2006. See Page 20 for details on catastrophe losses for the first six months of 2007 and 2006.
- Loss reserve development – Savings from favorable development on prior period reserves reduced the loss and loss expense ratio by 7.0 and 4.8 percentage points in the three and six months ended June 30, 2007, including 0.5 points in each period from favorable loss development on prior period catastrophe loss reserves. In the comparable three and six months of 2006, savings reduced the ratio by 2.9 and 0.1 percentage points, respectively.
- Market conditions – During the second quarter of 2007, agents reported that pricing pressure continued to increase on renewal business and that new business pricing was requiring even more flexibility and more careful risk selection. We continue to use credits more frequently than we did in 2006 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. Our field marketing representatives continue to report pricing down about 10 percent to 15 percent on average to write the same piece of new business we would have quoted a year ago. By comparison, 5 percent to 10 percent rate declines seem to be typical for renewal business.

- Loss severity – We continue to monitor loss severity data as various factors, such as higher initial reserve levels, normal loss cost inflation and higher settlement expenses, have resulted in higher new losses and case reserve increases greater than $250,000 in each of the past five quarters. In the three months ended June 30, 2007, however, these losses were below the year-ago level for all commercial business lines except commercial auto. In total, commercial lines new losses and reserve increases greater than $250,000 were 19.1 percent and 20.5 percent of earned premiums in the three and six months ended June 30, 2007, compared with 20.6 percent and 19.2 percent in the comparable three and six months of 2006.

  New losses greater than $1 million frequently are the result of severe injuries to individuals covered by our policies. We continue to analyze factors that could be contributing to a rise in severe injuries. Overall, our analysis continues to indicate no unexpected concentration of these losses and reserve increases by risk category, geographic region, policy inception, agency or field marketing territory.

Commercial Lines Losses by Size

(Dollars in millions)	Three months ended June 30, 2007	2006	Change %	Six months ended June 30, 2007	2006	Change %
Losses $1 million or more	**$ 36**	$ 40	(9.6)	**$ 81**	$ 70	15.7
Losses $250 thousand to $1 million	**34**	39	(13.9)	**71**	67	6.1
Development and case reserve increases of $250,000 or more	**46**	45	2.2	**95**	90	6.4
Other losses excluding catastrophes	**137**	146	(6.1)	**278**	300	(7.8)
Total losses incurred excluding catastrophe losses	**253**	270	(6.4)	**525**	527	(0.5)
Catastrophe losses	**5**	34	(84.9)	**16**	63	(75.0)
Total losses incurred	**$ 258**	$ 304	(15.0)	**$ 541**	$ 590	(8.4)
Ratios as a percent of earned premiums:						
Losses $1 million or more	**5.9%**	6.6%		**6.7%**	5.9%	
Losses $250 thousand to $1 million	**5.6**	6.5		**5.9**	5.7	
Development and case reserve increases of $250,000 or more	**7.6**	7.5		**7.9**	7.6	
Other losses excluding catastrophes	**22.7**	24.5		**22.9**	25.5	
Loss ratio excluding catastrophe losses	**41.8**	45.1		**43.4**	44.7	
Catastrophe losses	**0.8**	5.6		**1.3**	5.3	
Total loss ratio	**42.6%**	50.7%		**44.7%**	50.0%	

Commission Expenses

Commercial lines commission expense as a percent of earned premium rose in the three and six months ended June 30, 2007, largely due to higher contingent commissions compared with the year-ago periods. Profit-sharing, or contingent, commissions are calculated on the profitability of an agency's aggregate book of business, taking into account longer-term profit, with a percentage for prompt payment of premiums and other criteria, and reward the agency's efforts. These profit-based commissions generally fluctuate with our loss and loss expenses.

Underwriting Expenses

Non-commission underwriting and policyholder dividend expense growth for the three and six months ended June 30, 2007, was similar to that of earned premiums.

Line 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 our commercial lines experience 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:

(Dollars in millions)	Three months ended June 30, 2007	2006	Change %	Six months ended June 30, 2007	2006	Change %
Commercial casualty:						
Written premiums	**$ 218**	$ 209	3.9	**$ 462**	$ 437	5.7
Earned premiums	**209**	208	0.7	**418**	405	3.2
Loss and loss expenses incurred	**115**	108	6.9	**227**	209	8.6
Loss and loss expense ratio	**55.0%**	51.8%		**54.2%**	51.6%	
Loss and loss expense ratio excluding catastrophes	**55.0**	51.8		**54.2**	51.6	
Commercial property:						
Written premiums	**$ 125**	$ 122	2.8	**$ 263**	$ 256	2.9
Earned premiums	**125**	123	1.5	**248**	244	1.6
Loss and loss expenses incurred	**57**	68	(16.5)	**123**	156	(21.3)
Loss and loss expense ratio	**45.9%**	55.8%		**49.7%**	64.2%	
Loss and loss expense ratio excluding catastrophes	**42.7**	39.9		**44.7**	44.9	
Commercial auto:						
Written premiums	**$ 112**	$ 114	(1.8)	**$ 236**	$ 240	(1.6)
Earned premiums	**110**	112	(2.1)	**223**	224	(0.7)
Loss and loss expenses incurred	**68**	64	6.6	**141**	129	9.7
Loss and loss expense ratio	**62.0%**	57.0%		**63.4%**	57.4%	
Loss and loss expense ratio excluding catastrophes	**62.0**	53.9		**63.4**	55.5	
Workers' compensation:						
Written premiums	**$ 92**	$ 91	0.9	**$ 206**	$ 203	1.4
Earned premiums	**95**	90	5.1	**187**	178	4.8
Loss and loss expenses incurred	**63**	75	(15.5)	**134**	144	(7.3)
Loss and loss expense ratio	**66.8%**	83.1%		**71.5%**	80.8%	
Loss and loss expense ratio excluding catastrophes	**66.8**	83.1		**71.5**	80.8	
Specialty packages:						
Written premiums	**$ 36**	$ 34	4.6	**$ 77**	$ 74	3.9
Earned premiums	**37**	35	5.6	**73**	71	3.1
Loss and loss expenses incurred	**19**	29	(35.9)	**44**	52	(15.9)
Loss and loss expense ratio	**49.9%**	82.1%		**59.6%**	73.1%	
Loss and loss expense ratio excluding catastrophes	**47.3**	52.9		**54.9**	56.9	
Surety and executive risk:						
Written premiums	**$ 23**	$ 25	(3.2)	**$ 48**	$ 46	4.7
Earned premiums	**24**	24	0.2	**47**	45	5.6
Loss and loss expenses incurred	**12**	22	(45.0)	**17**	27	(35.4)
Loss and loss expense ratio	**49.2%**	89.6%		**36.7%**	60.1%	
Loss and loss expense ratio excluding catastrophes	**49.2**	89.6		**36.7**	60.1	
Machinery and equipment:						
Written premiums	**$ 7**	$ 8	(11.0)	**$ 14**	$ 15	(4.3)
Earned premiums	**7**	7	0.9	**14**	14	3.0
Loss and loss expenses incurred	**1**	2	(23.6)	**3**	4	(15.2)
Loss and loss expense ratio	**20.5%**	27.0%		**24.3%**	29.5%	
Loss and loss expense ratio excluding catastrophes	**20.5**	27.0		**25.1**	29.5	

Over the past several years, results for the business lines within the commercial lines segment have reflected our emphasis on underwriting and obtaining adequate pricing for covered risks, as discussed above.

Commercial Casualty

Commercial casualty written premiums rose in the three and six months ended June 30, 2007. Casualty pricing continued to become more competitive.

The commercial casualty loss and loss expense ratio rose in the three- and six-month periods. The ratio remained within the range we consider appropriate.

Commercial Property

Commercial property written premiums rose slightly in the three and six months ended June 30, 2007. Commercial property results reflect the competitive pricing environment in non-coastal markets. We continue to work to ensure we receive adequate premiums for covered risks. This ongoing effort helps offset more competitive market conditions.

The commercial property loss and loss expense ratio improved in the three- and six-month periods due to lower catastrophe losses. Generally, the loss and loss expense ratio remained within the range we consider appropriate.

Commercial Auto

Commercial auto written premiums declined for the three and six months ended June 30, 2007, due to lower pricing on new and renewal business.

Lower pricing also contributed to the rise in the commercial auto loss and loss expense ratio for both periods. 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 is generally one of the larger components of the typical package.

Normal loss cost inflation also contributed to the rise in the loss and loss expense ratio and led to the increase in large losses first observed in mid-2006. New losses greater than $1 million contributed $17 million and $15 million to loss and loss expenses in the in the first and second quarters of 2007, respectively, up from $10 million and $13 million in the comparable 2006 periods.

Workers' Compensation

Workers' compensation written premiums rose slightly in the three and six months ended June 30, 2007.

We pay a lower commission rate on workers' compensation business, which means this line has a higher loss and loss expense breakeven point than our other commercial business lines. The workers' compensation loss and loss expense ratio improved in the three- and six-month periods, benefiting from savings from favorable development on prior period reserves compared with reserve strengthening in the comparable 2006 periods.

Since mid-2006, we have established higher initial reserves for newly reported workers' compensation claims to reflect our best estimate of ultimate future payouts in light of medical cost and other trends in this market segment.

Specialty Packages

Specialty packages written premiums rose in the three and six months ended June 30, 2007. The rollout we have begun of e-CLAS, our commercial lines policy processing system, should help us meet changing agency needs and address pricing, technology and service systems other carriers have introduced for similar products in recent years. The specialty packages loss and loss expense ratio improved for the three- and six-month periods, primarily due to lower catastrophe losses.

Surety and Executive Risk

Surety and executive risk written premiums declined in the three months ended June 30, 2007, but rose for the six-month period, while the loss and loss expense ratio improved substantially for both periods. The 2006 periods included several large executive risk claims.

Machinery and Equipment

Machinery and equipment written premiums declined $1 million for the three and six months ended June 30, 2007, while the loss and loss expense ratio improved for both periods.

Commercial Lines Insurance Outlook

We anticipate that commercial lines pricing trends observed in the first six months of 2007 will persist through the remainder of the year.

We intend to continue to market our products to a broad range of business classes, price our products adequately and take 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 regarding rates, the use of three-year commercial policies, policy extensions and other policy terms on a case-by-case basis, even in lines and classes of business that are under competitive pressure. We expect new marketing territories created over the past several years and new agency appointments will contribute to commercial lines growth.

We believe our approach should allow us to continue to underwrite commercial lines business profitably in 2007 although we anticipate increases in the commercial lines combined ratio as ongoing soft market conditions lead to lower premium per exposure. In addition, we do not believe favorable reserve development will contribute to underwriting profits in 2007 as much as in the past three years. Further, underwriting expenses are rising. We discuss our overall outlook for our property casualty insurance operations in Measuring Our Success in 2007 and Beyond, Page 16.

Personal Lines Insurance Results Of Operations

Overview

Performance highlights for the personal lines segment include:

- Premiums – Personal lines written premiums declined in the three and six months ended June 30, 2007. Policyholder retention and new business levels 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. These credits incorporate insurance scores and are intended to improve our ability to compete for our agents' highest quality personal lines accounts, increasing the opportunity for our agents to market the advantages of our personal lines products and services to their clients. The credits lowered premiums for eligible new and renewal policyholders. Year-over-year premium comparisons also reflect our payment of higher reinsurance premiums.

  Policyholder retention has exceeded 90 percent for both personal auto and homeowner for the past three quarters. During the first three quarters of 2006, retention rates were below 90 percent.

  Personal lines new business premiums written directly by our agencies increased 26.5 percent to $10 million in the three months ended June 30, 2007, from $8 million in the year-ago period and increased 26.0 percent to $18 million in the first six months of 2007 from $14 million in the comparable 2006 period. New business premiums have risen for four consecutive quarters after declining for the 14 prior quarters.

  The effect of higher reinsurance premiums is seen in the lower rate of decline in agency direct written premiums, which are written premiums before reinsurance. Agency direct written premiums declined 4.6 percent in the first six months of 2007 compared with the year-ago period.

  A.M. Best estimated that industry personal lines net written premiums would rise approximately 1.2 percent in 2007 after rising approximately 2 percent in 2006. They estimated industry personal lines net written premiums declined 1.4 percent in the first three months of 2007.

- Combined ratio – The combined ratio improvement for the three- and six-month periods was due to the lower level of catastrophe losses in 2007. The benefit of the lower level of catastrophe losses was offset by an increase in the loss and loss expense ratio excluding catastrophe losses and higher non-commission expenses.

  Our personal lines statutory combined ratio was 98.6 percent and 95.8 percent in the three and six months ended June 30, 2007, versus 106.4 percent and 103.6 percent in the comparable 2006 periods. Beginning in 2007, we are including stock option expense in the calculation of statutory income. A.M. Best estimated the industry personal lines combined ratio was 94.5 percent in the first three months of 2007. A.M. Best also estimated the industry personal lines combined ratio would be approximately 95.4 percent in 2007, rising from approximately 92 percent in 2006.

Personal Lines Results

(Dollars in millions)	Three months ended June 30, 2007	2006	Change %	Six months ended June 30, 2007	2006	Change %
Written premiums	**$ 197**	$ 211	(6.8)	**$ 350**	$ 372	(6.1)
Earned premiums	**$ 180**	$ 194	(7.1)	**$ 361**	$ 390	(7.3)
Loss and loss expenses excluding catastrophes	**114**	121	(5.6)	**225**	229	(1.6)
Catastrophe loss and loss expenses	**6**	30	(79.2)	**(1)**	40	(102.8)
Commission expenses	**39**	42	(7.9)	**77**	83	(7.3)
Underwriting expenses	**21**	16	35.4	**46**	46	0.0
Underwriting profit (loss)	**$ 0**	$ (15)	n/a	**$ 14**	$ (8)	n/a
Ratios as a percent of earned premiums:						
Loss and loss expenses excluding catastrophes	**63.2%**	62.3%		**62.3%**	58.7%	
Catastrophe loss and loss expenses	**3.5**	15.6		**(0.3)**	10.3	
Loss and loss expenses	**66.7%**	77.9%		**62.0%**	69.0%	
Commission expenses	**21.5**	21.7		**21.2**	21.2	
Underwriting expenses	**11.7**	8.0		**12.8**	11.8	
Combined ratio	**99.9%**	107.6%		**96.0%**	102.0%	

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 change in the loss and loss expense ratio in the three and six months ended June 30, 2007, was due to:

- Market conditions – Lower pricing led to lower earned premium, which was a significant factor in the change in the loss and loss expense ratio excluding catastrophe losses.
- Catastrophe losses – Catastrophe losses contributed 3.5 percentage points to the personal lines loss and loss expense ratio in the three months ended June 30, 2007, compared with 15.6 percentage points in the same three months of 2006. Net favorable catastrophe loss development reduced the personal lines loss and loss expense ratio by 3.2 percentage points in the first six months of 2007. Catastrophe losses contributed 10.3 percentage points to the ratio in the first six months of 2006. See Page 20 for details on the catastrophe losses for the first six months of 2007 and 2006.
- Loss reserve development – Savings from favorable development on prior period reserves reduced the ratio by 0.3 and 4.7 percentage points in the three and six months ended June 30, 2007, including 0.3 and 3.2 points from favorable loss development on prior period catastrophe loss reserves. Development on prior periods reserves added 1.0 percentage points to the ratio in the six months ended June 30, 2006. Savings in the noted periods largely related to favorable development on losses in the other personal business line.
- Loss severity – We continue to monitor loss severity data as various factors, such as higher initial reserve levels, normal loss cost inflation and higher settlement expenses, have resulted in higher new losses and case reserve increases greater than $250,000 in recent quarters. In the three months ended June 30, 2007, these losses were above the year-ago level because of losses in the personal auto business line. In total, personal lines new losses and reserve increases greater than $250,000 were 11.7 percent and 11.1 percent of earned premiums in the three and six months ended June 30, 2007, compared with 11.4 percent and 10.3 percent in the three and six months of 2006.

  New losses greater than $1 million frequently are the result of severe injuries to individuals covered by our policies. We continue to analyze factors that could be contributing to a rise in severe injuries. Overall, our analysis continues to indicate no unexpected concentration of these losses and reserve increases by risk category, geographic region, policy inception, agency or field marketing territory.

Personal Lines Losses by Size

(Dollars in millions)	Three months ended June 30, 2007	Three months ended June 30, 2006	Change %	Six months ended June 30, 2007	Six months ended June 30, 2006	Change %
Losses $1 million or more	**$ 7**	$ 6	0.8	**$ 12**	$ 9	34.6
Losses $250 thousand to $1 million	**12**	9	35.3	**21**	19	12.9
Development and case reserve increases of $250,000 or more	**3**	7	(59.8)	**7**	12	(45.4)
Other losses excluding catastrophes	**78**	83	(6.2)	**155**	158	(1.7)
Total losses incurred excluding catastrophe losses	**100**	105	(5.7)	**195**	198	(1.3)
Catastrophe losses	**6**	30	(79.2)	**(1)**	40	(102.8)
Total losses incurred	**$ 106**	$ 135	(22.1)	**$ 194**	$ 238	(18.4)
Ratios as a percent of earned premiums:						
Losses $1 million or more	**3.8%**	3.5%		**3.4%**	2.3%	
Losses $250 thousand to $1 million	**6.4**	4.4		**5.9**	4.9	
Development and case reserve increases of $250,000 or more	**1.5**	3.5		**1.8**	3.1	
Other losses excluding catastrophes	**43.4**	43.0		**43.0**	40.5	
Loss ratio excluding catastrophe losses	**55.1**	54.4		**54.1**	50.8	
Catastrophe losses	**3.5**	15.6		**(0.3)**	10.3	
Total loss ratio	**58.6%**	70.0%		**53.8%**	61.1%	

Commission Expenses

Personal lines commission expense as a percent of earned premium was relatively stable for the three- and six-month periods. Profit-sharing, or contingent, commissions are calculated on the profitability of an agency's aggregate book of business, taking into account longer-term profit, with a percentage for prompt payment of premiums and other criteria, and reward the agency's efforts. These profit-based commissions generally fluctuate with our loss and loss expenses.

Underwriting Expenses

Non-commission underwriting expense rose 3.7 and 1.0 percentage points in the three and six months ended June 30, 2007. The increase was primarily due to the lower earned premiums and the normal fluctuations in operating expenses and the timing of certain items.

Line 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 our personal lines experience is best measured and evaluated on a segment basis. However, we provide line of business data to summarize growth and profitability trends separately for the three business lines.

(Dollars in millions)	Three months ended June 30, 2007	2006	Change %	Six months ended June 30, 2007	2006	Change %
Personal auto:						
Written premiums	**$ 93**	$ 104	(11.3)	**$ 165**	$ 184	(10.6)
Earned premiums	**86**	98	(12.3)	**174**	199	(12.4)
Loss and loss expenses incurred	**58**	65	(9.9)	**117**	125	(6.6)
Loss and loss expense ratio	**67.6%**	65.8%		**67.1%**	62.9%	
Loss and loss expense ratio excluding catastrophes	**67.9**	62.2		**68.4**	60.7	
Homeowner:						
Written premiums	**$ 80**	$ 83	(2.8)	**$ 141**	$ 144	(2.1)
Earned premiums	**72**	74	(1.4)	**143**	146	(1.9)
Loss and loss expenses incurred	**48**	68	(29.2)	**84**	115	(27.0)
Loss and loss expense ratio	**66.8%**	93.1%		**58.5%**	78.6%	
Loss and loss expense ratio excluding catastrophes	**58.6**	60.0		**58.1**	56.5	
Other personal:						
Written premiums	**$ 24**	$ 24	(1.2)	**$ 44**	$ 44	(0.4)
Earned premiums	**22**	22	(2.4)	**44**	45	(2.6)
Loss and loss expenses incurred	**14**	18	(24.2)	**23**	29	(19.4)
Loss and loss expense ratio	**62.8%**	80.9%		**53.1%**	64.2%	
Loss and loss expense ratio excluding catastrophes	**60.2**	70.1		**51.9**	56.8	

Personal Auto

Written and earned premiums for the personal auto business line declined for the three and six months ended June 30, 2007. The decline was partially due to policy credits adopted in mid-2006 that improved our position in the market by lowering premiums for eligible new and renewal policyholders. The new policy credits have had a positive effect on policyholder retention and new business activity. New business, however, has not yet returned to a level that would allow us to replace lower renewal policy premiums and normal attrition. We continue to monitor and modify selected rates and credits to address our competitive position. In recent years, we have seen generally higher costs for liability claims, including severe injuries, and we are seeking rate increases for liability coverages that partially offset the more dramatic decline in rates for physical damage coverages.

Net favorable catastrophe loss development improved the personal auto loss and loss expense ratio by 0.4 and 1.5 percentage points in the three and six months ended June 30, 2007. The personal auto loss and loss expense ratio excluding catastrophe losses rose 5.7 and 7.7 percentage points for the three and six months ended June 30, 2007, largely because of pricing reductions and normal loss cost trends. We also believe that a higher frequency of winter weather-related claims in the first three months of 2007 contributed to the higher six-month ratio.

Homeowner

Written and earned premiums for the homeowner business line declined slightly for the three and six months ended June 30, 2007. As discussed above, policy credits adopted in mid-2006 improved our competitive position, lowering rates for eligible new and renewal policyholders. The new policy credits 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. Year-over-year premium comparisons also reflect our payment of higher reinsurance premiums.

Catastrophe losses raised the homeowner loss and loss expense ratio by 8.2 and 0.4 percentage points for the three and six months ended June 30, 2007. The savings from favorable development on prior period catastrophe losses in the first quarter of 2007 reduced the impact of catastrophe losses for the six-month period. In the three and six months of 2006, catastrophe losses raised the loss and loss expense ratio by 33.1 and 22.1 percentage points, respectively.

We began a strategic shift in 2004 to a more conventional one-year homeowner policy term from our traditional three-year policy term. We are nearing completion of our transition to one-year policies in conjunction with the state-by-state deployment of Diamond, our personal lines policy processing system. One-year policies allow us to modify rates, terms and conditions more promptly in response to market changes. At June 30, 2007, approximately 92 percent of all homeowner policies had been converted to a one-year term, up from approximately 85 percent at year-end 2006. We are continuing to renew homeowner policies for three-year terms in five states that account for less than 1 percent of total personal lines premiums.

Although the full benefit of pricing and underwriting actions taken between 2004 and 2006 is reflected in homeowner results, this line is not yet at breakeven performance when a normalized level of catastrophe losses is included. Rate changes we made to keep our retention rate and new business at acceptable levels, along with higher reinsurance costs, have interrupted our progress toward consistent breakeven performance for the homeowner business line. Two other factors also contribute to our ability to achieve acceptable homeowner results:

- Non-commission expenses – Since we generally do not allocate non-commission expenses to individual business lines, to measure homeowner profitability, we use a total commission and underwriting expense allocation of approximately 33 percentage points to determine an estimated homeowner combined ratio. Lower levels of premium growth affected our expense ratio in 2006 and may affect our ability to attain our expense ratio target in the future.
- Catastrophe losses – To measure our progress toward homeowner profitability, we use a normalized catastrophe loss ratio (as a percent of homeowner earned premium) in the range of 17 percent. Between 2004 and 2006, catastrophe losses averaged 22.2 percent of homeowner earned premiums. We have not changed our catastrophe loss assumption because the geographic concentration of losses in recent years has been unusual.

Other Personal

Other personal written premiums were flat in the three and six months ended June 30, 2007, and the loss and loss expense ratios declined, primarily due to higher savings from favorable development on prior period reserves.

Personal Lines Insurance Outlook

While the rise in new business levels and policy retention rates since mid-2006 are positive indications for our personal lines business, we believe our full-year 2007 growth rate will be below that of the industry and that full-year personal lines results are likely to reflect a more normal level of catastrophe losses than we saw in the first half.

We also are aware that personal lines pricing and loss activity are at levels that could put pressure on our future consolidated combined ratio, if those trends continue. We are pursuing a number of strategies in our personal lines business to achieve our long-term objectives for this segment:

- Competitive rates – In mid-2006, we introduced insurance scores into our program of policy credits for homeowner and personal auto pricing. That action led to the increased new business for both personal auto and homeowner in the last three quarters. It also led to improved retention of renewal business. While these pricing refinements have reduced premiums per policy, we believe they present an opportunity to attract more business from our agents.
- Product development – To provide our agents with additional features to differentiate our products, we plan several new offerings in 2007 and 2008. We have already introduced an expanded identity theft coverage that includes advocacy services to assist a policyholder in the event of a claim. In the first half of 2007, we rolled out a new coverage endorsement – Replacement Cost Auto – in most of our personal lines states. This optional coverage provides for replacement of a totaled auto with a new auto, if the accident occurs in the first three years after the policyholder purchased the vehicle.

  In the third quarter of 2007, we plan to begin offering an optional endorsement for our personal auto policy that bundles eight additional coverages. These coverages increase towing and rental limits, pay for lock replacement if the policyholder's keys are lost or stolen and pay for accidental deployment of an airbag, among others.
- Diamond – The Diamond system now is in use by agencies writing approximately 97 percent of personal lines premium volume. The system is making it easier for our agents to place personal auto, homeowner and other personal lines business with us, while greatly increasing policy-issuance and policy-renewal efficiencies and providing direct-bill capabilities.
- New agencies – The availability of Diamond should help us increase the number of agencies that offer our personal lines products, potentially contributing to increased scale and geographic diversity for our personal lines business. We currently market both homeowner and personal auto insurance products through 793 of our 1,297 reporting agency locations in 22 of the 33 states where we market commercial lines insurance. We market homeowner products through 22 locations in three additional states (Maryland, North Carolina and West Virginia).

  During 2007, we plan to add personal lines agency locations that currently market only our commercial lines products. Expanding into these agencies would provide additional sources of premiums and help geographically diversify our personal lines portfolio. During the fourth quarter of 2006 and the first half of 2007, our field teams and personal lines associates began contacting the commercial lines-only agencies we have identified in the 16 states in which Diamond is in use, introducing them to our enhanced personal lines products and technology. Over the past nine months, we have added personal lines in 32 of our commercial lines agencies and hope to add approximately 10 to 15 additional commercial lines agencies during the remainder of the year.

We identify several other factors that may affect the personal lines combined ratio in 2007 and beyond. Personal lines underwriters continue to focus on insurance-to-value initiatives to verify that policyholders are buying the correct level of coverage for the value of the insured risk, and they are carefully maintaining underwriting standards. However, if premiums decline more than we expect, the 2007 personal lines expense ratio may be higher than the 2006 level, because some of our costs are relatively fixed, such as our planned investments in technology. We discuss our overall outlook for our property casualty insurance operations in Measuring Our Success in 2007 and Beyond, Page 16.

Life Insurance Results Of Operations

Overview

Performance highlights for the life insurance segment include:

- Revenues – Revenues rose for the three and six months ended June 30, 2007, because of higher premiums and realized investment gains as discussed in the Investments Results of Operations, Page 30. Total statutory life insurance net written premiums were $45 million and $87 million in the three and six months ended June 30, 2007, compared with $41 million and $81 million in the comparable 2006 periods. Total statutory written premiums for life insurance operations include life insurance, annuity and accident and health premiums. The changes primarily were due to:

  o Statutory written premiums for term and other life insurance products rose $4 million, or 13.6 percent, to $37 million for the three months ended June 30, 2007, and $8 million, or 13.3 percent, to $70 million for the six-month period.

  o Statutory written annuity premiums declined less than $1 million, or 6.5 percent, to $7 million in the three months ended June 30, 2007, and $2 million, or 12.4 percent, to $15 million in the six-month period. Since late 2005, we have de-emphasized annuities because of an unfavorable interest rate environment.

  Fee income from universal life products, which is included in earned premiums, increased 26.8 percent to $8 million in the three months ended June 30, 2007, and 23.2 percent to $15 million for the six-month period. Separate account investment management fee income contributed $1.0 million and $1.1 million to total revenues in the three months ended June 30, 2007 and 2006, and $2.3 million and $1.8 million to total revenues in the six-month periods.

  Gross in-force policy face amounts increased 5.2 percent to $59.934 billion at June 30, 2007, from $56.971 billion at year-end 2006. For the first six months of 2007, the life insurance segment experienced a 9.7 percent decline in life applications submitted compared with the first six months of 2006 although segment premiums rose. The decline reflected our marketing focus on competitive whole and universal life products with a higher average premium per policy. At the same time, we have de-emphasized annuities, as discussed above.

  Distribution expansion within our property casualty insurance agencies remains a high priority. We have 28 life field marketing representatives calling on the agencies that market our life insurance products, including a representative added in the southeast in recent months.

- Profitability – The life insurance segment reports a small GAAP gain or loss because its investment income is included in investment segment results, except investment income credited to contract holders (interest assumed in life insurance policy reserve calculations). The segment operating profit declined by $2 million for the three months ended June 30, 2007, primarily due to higher contract benefits; however, the segment operating profit rose by $3 million for the six-month period due to favorable mortality experience and persistency as well as earned premium growth.

  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 the performance of our life insurance subsidiary by including the contribution of all investment activities related to assets associated with the life insurance operations. Including those amounts, net income for our life insurance subsidiary was $38 million and $56 million in the three and six months ended June 30, 2007, compared with $10 million and $45 million in the comparable 2006 period.

Life Insurance Results

(In millions)	Three months ended June 30, 2007	2006	Change %	Six months ended June 30, 2007	2006	Change %
Written premiums	**$ 45**	$ 41	9.6	**$ 87**	$ 81	7.6
Earned premiums	**$ 35**	$ 29	18.9	**$ 66**	$ 56	17.4
Separate account investment management fees	**1**	1	(9.8)	**2**	2	28.6
Total revenues	**36**	30	17.9	**68**	58	17.8
Contract holders benefits incurred	**34**	28	22.1	**62**	59	5.6
Investment interest credited to contract holders	**(14)**	(13)	6.2	**(28)**	(27)	4.5
Operating expenses incurred	**16**	13	14.3	**29**	24	20.5
Total benefits and expenses	**36**	28	25.7	**63**	56	12.7
Life insurance segment profit	**$ 0**	$ 2	(90.9)	**$ 5**	$ 2	152.6

Life Insurance Outlook

As the life insurance company seeks to improve penetration of our property casualty agencies, our objective is to increase premiums and contain expenses. Term insurance is our largest life insurance product line. We continue to enhance our term products and introduce features our agents indicate are important. In addition, we introduced new universal life products including cash value accumulation products for adults and children.

In the future, we expect that assets under management, capital appreciation and investment income, which are reported in investment segment results, will continue to be integral to our evaluation of the success of the life insurance operations. While life insurance segment profit may continue to fluctuate near break-even, when we also consider life insurance investment activities, we believe the life insurance operations will continue to provide a steady income stream, which helps offset the fluctuations of the property casualty insurance business.

Investments Results of Operations

Overview

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 – Growth in pretax investment income has been driven by strong cash flow for new investments and increased dividend income from the common stock portfolio. Pretax interest income trends have been affected by the mix of fixed-maturity investments we are purchasing. In recent years, our fixed-maturity purchases have been weighted toward tax-advantaged bonds, such as municipal bonds, which have a lower gross yield than taxable bonds.

  The changing mix of the fixed-maturity portfolio along with higher dividends from our common stock holdings resulted in a higher percentage of pretax investment income from dividends in 2007 than the comparable 2006 period. Fifth Third, our largest equity holding, contributed 42.5 percent of total dividend income in the first six months of 2007. We discuss our Fifth Third investment in Quantitative and Qualitative Disclosures About Market Risk, Page 36, and our 2006 Annual Report on Form 10-K, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, Page 72.

  Net realized gains and losses – We reported realized investment gains in the three and six month periods of 2007 and 2006 primarily due to the sale of selected equity securities. Securities were sold because either they no longer met our investment parameters or we determined we could improve yield prospects while maintaining potential for long-term appreciation. We discuss investments made with the proceeds in Investing Activities, Page 32.

  o Realized gains in the three months ended June 30, 2007, reflected equity sales, including:

    – Sale of 3,072,206 shares of our ExxonMobil holding, which reduced our holdings to 5,164,860 shares with a market value of $440 million at the close of business on July 31, 2007. The sale contributed $184 million to our pretax realized gains for the second quarter. After-tax proceeds totaled approximately $118 million.

    – Sales of selected common stock holdings that no longer met our investment parameters, including FirstMerit Corporation and the majority of our holdings in real estate investment trusts (REITs). These sales contributed $104 million to our pretax realized gains for the second quarter. After-tax proceeds totaled approximately $67 million.

  o Realized gains in the six months ended June 30, 2007, in addition to the gains in the second quarter, also included the first-quarter sale of 725,000 shares of our holdings of ExxonMobil Corporation (NYSE:XOM) common stock. The sale contributed $33 million to our pretax realized gains for the first three months of 2007. After-tax proceeds totaled approximately $21 million.

- o Realized investment gains in the six months ended June 30, 2006, reflected the sale of our Alltel common stock holding, which contributed $647 million (pretax) of the gain. After-tax proceeds totaled approximately $412 million. Realized gains for the three months ended June 30, 2006, reflected a more typical level of investment dispositions.

The effect of changes in the fair value of convertible securities and of other-than-temporary impairment charges was insignificant in both periods.

Investment Results

(In millions)	Three months ended June 30, 2007	2006	Change %	Six months ended June 30, 2007	2006	Change %
Investment income:						
Interest	**$ 76**	$ 77	(0.7)	**$ 152**	$ 151	0.7
Dividends	**72**	65	9.7	**144**	127	13.1
Other	**4**	3	37.9	**7**	7	5.7
Investment expenses	**(2)**	(2)	14.4	**(5)**	(4)	(30.3)
Total net investment income	**150**	143	5.0	**298**	281	6.1
Investment interest credited to contract holders	**(14)**	(13)	(6.2)	**(28)**	(27)	(4.5)
Net realized investment gains and losses:						
Realized investment gains and losses	**290**	10	2,737.8	**351**	669	(47.6)
Change in valuation of derivatives	**3**	1	138.3	**4**	3	6.4
Other-than-temporary impairment charges	**0**	0	nm	**0**	(1)	100.0
Net realized investment gains	**293**	11	2,482.0	**355**	671	(47.2)
Investment operations income	**$ 429**	$ 141	204.3	**$ 625**	$ 925	(32.5)

Investments Outlook

We now believe investment income growth for full-year 2007 could be approximately 6 percent. This outlook is based on the higher anticipated level of dividend income from equity holdings, the investment of insurance operations cash flow and the current portfolio attributes. In 2007, we are allocating a higher proportion of cash available for investment to equity securities, taking into consideration insurance department regulations and ratings agency comments. We continue to identify companies with the potential for revenue, earnings and dividend growth, a strong management team and favorable outlook. These equities offer the potential for steadily increasing dividend income along with capital appreciation. Dividend increases within the last 12 months by Fifth Third and another 33 of our 41 publicly traded common stock holdings should add $17 million to annualized investment income.

We believe impairments in 2007 should be limited to securities that were to be identified for sale or that have experienced a sharp decline in fair value with little or no warning because of issuer-specific events. All securities in the portfolio were trading at or above 70 percent of book value at June 30, 2007. Our asset impairment committee continues to monitor the investment portfolio. The current asset impairment policy is in our 2006 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Asset Impairment, Page 37.

Other

Other income of the insurance subsidiaries, parent company operations and non-investment operations of CFC Investment Company and CinFin Capital Management Company resulted in $4 million and $9 million in revenues in the three and six months ended June 30, 2007, compared with $4 and $7 million for the three and six months of 2006. Losses before income taxes of $11 million and $22 million for the three and six months ended June 30, 2007, were primarily due to $12 million and $25 million, respectively, in interest expense from debt of the parent company.

Taxes

Income tax expense was $157 million and $234 million in the three and six months ended June 30, 2007, compared with $43 million and $325 million in the comparable prior periods. The effective tax rates for the three and six months ended June 30, 2007, was 30.9 percent and 30.0 percent compared with 24.5 percent and 32.2 percent in the comparable prior periods.

The primary reason for the change in the effective tax rate was the level and timing of realized gains. In the first six months of 2007, we had a pretax realized gain of $355 million, including $293 million in the three months ended June 30. In the first six months of 2006, we had a pretax realized gain of $671 million, largely due to the first-quarter 2006 sale of our Alltel common stock holdings, which contributed $647 million. The pretax realized gain in the three months ended June 30, 2006, was only $11 million. Growth in the tax-exempt municipal bond portfolio, higher investment income from dividends and higher operating earnings also contributed to the change in the effective tax rate for 2007.

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 calculations. Our non-insurance subsidiaries own no tax-advantaged fixed-maturity investments. For our insurance subsidiaries, the dividend received deduction exempts approximately 60 percent of dividends from qualified equities from federal tax calculations. The dividend received deduction exempts 70 percent of dividends from qualified equities for our non-insurance subsidiaries. Details regarding our effective tax rate are found in our 2006 Annual Report on Form 10-K, Item 8, Note 10 to the Consolidated Financial Statements, Page 95.

Liquidity and Capital Resources

At June 30, 2007, we had shareholders' equity of $6.826 billion compared with $6.808 billion at year-end 2006. Total debt was unchanged at $840 million.

Sources Of Liquidity

Subsidiary Dividends

Our insurance subsidiary declared a dividend to the parent company of $70 million in the first six months of 2007 compared with $125 million in the first six months of 2006. State of Ohio regulatory requirements restrict the dividends insurance subsidiaries can pay. During 2007, total dividends that our lead insurance subsidiary can pay to our parent company without regulatory approval are approximately $572 million.

Insurance Underwriting

Our property casualty and life insurance operations provide liquidity because premiums generally are received before losses are paid under the policies purchased with those premiums. After satisfying our cash requirements, excess cash flows are used for investment, increasing future investment income.

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

	Six months ended June 30,	
(In millions)	**2007**	2006
Premiums collected	**$ 1,631**	$ 1,625
Loss and loss expenses paid	**(944)**	(913)
Commissions and other underwriting expenses paid	**(579)**	(562)
Insurance subsidiary cash flow from underwriting	**108**	150
Investment income received	**248**	233
Insurance subsidiary operating cash flow	**$ 356**	$ 383

Historically, 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. While first-year life insurance expenses normally exceed first-year premiums, subsequent premiums are used to generate investment income until the time the policy benefits are paid.

After paying claims and operating expenses, cash flows from underwriting declined slightly in the first six months of 2007. We discuss our future obligations for claims payments in our Annual Report on Form 10-K, Item 7, Contractual Obligations, Page 61, and our future obligations for underwriting expenses in our Annual Report on Form 10-K, Item 7, Commissions and Other Underwriting Expenses, Page 62.

Based on our outlook for commercial lines, personal lines and life insurance, we believe that 2007 full-year cash flows from underwriting could decline compared with 2006. A lower level of cash flow available for investment could lead to lower growth rate for investment income and less cash available for investment, leading to reduced potential for capital gains.

Investing Activities

Investment income is a primary source of liquidity for both the parent company and insurance subsidiary as we discuss in our 2006 Annual Report on Form 10-K, Investments Results of Operations, Page 56.

Realized gains also can provide liquidity, although we follow a buy-and-hold investment philosophy seeking to compound cash flows over the long term. When we dispose of investments, we generally reinvest the gains in new investment securities.

- Fixed maturities – Including calls, maturities and sales, fixed-maturity dispositions were approximately $297 million in the first six months of 2007 compared with $215 million in the first six months of 2006.
- Equity securities – In the first six months of 2007, we sold equity holdings resulting in $561 million in proceeds. In the first six months of 2006, total equity sales were $833 million.

We generally have substantial discretion in the timing of investment sales and, therefore, the resulting gains or losses recognized in any period. That discretion generally is independent of the insurance underwriting process. In general, we limit the disposition of investments to those that no longer meet our investment parameters or those that reach maturity or are called by the issuer. The sale of equity investments that no longer meet our investment criteria can provide cash for investment in common stocks that we perceive to have greater potential for dividend growth and capital appreciation.

Capital Resources

As a long-term investor, we historically have followed a buy-and-hold investing strategy. This policy has generated a significant amount of unrealized appreciation on equity investments. Unrealized appreciation on equity investments, before deferred income taxes, was $4.706 billion at June 30, 2007, compared with $5.178 billion at year-end 2006. On an after-tax basis, equity investments constituted 44.8 percent of total shareholders' equity at June 30, 2007.

At June 30, 2007, our debt-to-capital ratio was 11.0 percent, with $791 million in long-term debt and $49 million in borrowings on our short-term line of credit. We generally have minimized our reliance on debt financing although we may utilize lines of credit to fund short-term cash needs. Based on our present capital requirements, we do not anticipate a material increase in debt levels during 2007. As a result, we believe our debt-to-capital ratio will remain approximately 11 percent.

On June 29, 2007, we renewed our unsecured line of credit with PNC Bank, N.A. effective June 30, 2007, for a one-year term to expire on June 30, 2008. Effective June 30, 2007, we reduced the line of credit to $50 million from $75 million. Subsidiary CFC Investment Company also is a borrower under this line of credit. There currently is $49 million outstanding on that line at a rate of 90 day LIBOR plus 30 basis points. Our unsecured $50 million line of credit from Fifth Third expired in May 2007.

As discussed in Note 1, Page 8, on July 2, 2007, we entered into an unsecured revolving credit facility administered by The Huntington National Bank for a $150 million revolving line of credit.

We provide details of our three long-term notes in our Annual Report on Form 10-K, Item 8, Note 7 of the Consolidated Financial Statements, Page 93. None of the notes are encumbered by rating triggers. As of August 7, 2007, our debt ratings, summarized in Measuring our Success in 2007 and Beyond, Page 16, were unchanged from those reported in our 2006 Annual Report on Form 10-K.

Off-balance Sheet Arrangements

We do not utilize 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.

Uses of Liquidity

Our parent company and insurance subsidiary have contractual obligations and other commitments. In addition, one of our primary uses of cash is to enhance shareholder return.

Contractual Obligations

In our 2006 Annual Report on Form 10-K, Item 7, Contractual Obligations, Page 61, we estimated our future contractual obligations as of December 31, 2006.

Other Commitments

In addition to our contractual obligations, we have other operational commitments.

Commissions and Other Underwriting Expenses

As discussed above, commissions and non-commission underwriting expenses paid rose in the first six months of 2007. Commission payments also include contingent, or profit-sharing, commissions, which are paid to agencies using a formula that takes into account agency profitability and other factors. Commission payments generally track with loss and loss expenses. Contingent commission payments in 2007 were influenced by the decline in profitability we experienced in 2006.

Many of our operating expenses are not contractual obligations, but reflect the ongoing expenses of our business. Staffing is the largest component of our operating expenses and is expected to rise again in 2007, reflecting the 2.9 percent average annual growth in our associate base over the past three years. Our associate base has grown as we focus on enhancing service to our agencies and staffing additional field territories. Other expenses should rise in line with our growth.

In addition to contractual obligations for hardware and software, we anticipate investing a total of approximately $35 million in key technology initiatives in 2007, of which approximately $10 million will be capitalized. Technology costs for our planned excess and surplus lines business have not been determined and are not included in these amounts. Technology projects for 2007 include continued spending on our personal lines policy processing system and investment in the development and rollout of our commercial lines policy processing system discussed in our Annual Report on Form 10-K, Item 1, Technology Solutions, Page 4.

Capitalized development costs related to key technology initiatives are conducted at our discretion and we have no material contractual obligations for activities planned as part of these projects.

Qualified Pension Plan

Effective in 2008, the Pension Protection Act of 2006 changes the manner in which pension funding is determined. We currently are assessing the impact of this Act but do not expect it to have a material effect on our results of operations or financial position. In the second quarter of 2007, we made a corrective contribution to the pension plan of $1 million, related to investment management fees and attributable earnings. We plan to contribute $9 million during the third quarter of 2007. We contributed $10 million to the plan in 2006.

Investing Activities

After fulfilling operating requirements, cash flows from underwriting, investment and other corporate activities are invested in fixed maturity and equity securities on an ongoing basis to help achieve our portfolio objectives. In the six months ended June 30, 2007, we invested available cash flow and after-tax proceeds from the sale of equity investments. Our equity investments were concentrated in financials sector opportunities that meet our investment parameters and currently offer above-average dividend yields. As a result of the changes in our equity portfolio and dividend increases made by current holdings during the first six months of 2007, our common stock portfolio yield (to market) was 3.6 percent at June 30, 2007, compared with 1.8 percent for the Standard & Poor's 500 Index.

See our Annual Report on Form 10-K, Item 1, Investments Segment, Page 14, for a discussion of our investment strategy, portfolio allocation and quality.

Uses of Capital

Uses of cash to enhance shareholder return include:

- Dividends to shareholders – In February 2007, the board of directors authorized a 6.0 percent increase in the regular quarterly cash dividend to an indicated annual rate of $1.42 per share. During the first six months of 2007, $119 million was used for cash dividends to shareholders.
- Common stock repurchase program – During the first six months of 2007, we used $64 million to repurchase 1.49 million shares of our common stock at an average price of $43.07. The details of the 2007 repurchase activity and repurchase authorizations are described in Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, Page 41. At June 30, 2007, 5.33 million shares remained authorized for repurchase. We do not adjust number of shares repurchased and average price per repurchased share for stock dividends.

Property Casualty Insurance Reserves

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 was partially due to our growth. The increase also reflects higher loss expense reserves due to higher legal fees and the costs of a claims mediation process that promotes earlier liability settlement resolution. In addition, commercial casualty reserves rose because of an increase in large losses. Lower reserves related to catastrophe events offset some of these increases. Reserve practices discussed in our 2006 Annual Report on Form 10-K, Property Casualty Insurance Loss and Loss Expense Reserves, Page 35, also contributed.

(In millions)	Loss reserves Case reserves	IBNR reserves	Loss expense reserves	Total gross reserves	Percent of total
At June 30, 2007					
Commercial casualty	**$ 991**	**$ 440**	**$ 501**	**$ 1,932**	**55.4%**
Commercial property	**122**	**13**	**37**	**172**	**4.9**
Commercial auto	**277**	**52**	**66**	**395**	**11.3**
Workers' compensation	**412**	**283**	**103**	**798**	**22.9**
Specialty packages	**79**	**2**	**4**	**85**	**2.5**
Surety and executive risk	**62**	**1**	**35**	**98**	**2.8**
Machinery and equipment	**4**	**3**	**1**	**8**	**0.2**
Total	**$ 1,947**	**$ 794**	**$ 747**	**$ 3,488**	**100.0%**
At December 31, 2006					
Commercial casualty	$ 923	$ 437	$ 483	$ 1,843	54.0%
Commercial property	132	31	36	199	5.8
Commercial auto	274	52	64	390	11.4
Workers' compensation	411	277	99	787	23.1
Specialty packages	80	1	5	86	2.5
Surety and executive risk	67	1	32	100	2.9
Machinery and equipment	5	3	1	9	0.3
Total	$ 1,892	$ 802	$ 720	$ 3,414	100.0%

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 2006 due to the decline in premiums in this business segment and a reduction in reserves related to catastrophe events.

(In millions)	Loss reserves Case reserves	IBNR reserves	Loss expense reserves	Total gross reserves	Percent of total
At June 30, 2007					
Personal auto	**$ 166**	**$ 2**	**$ 32**	**$ 200**	**47.3%**
Homeowners	**70**	**12**	**16**	**98**	**23.1**
Other personal	**52**	**61**	**14**	**127**	**29.6**
Total	**$ 288**	**$ 75**	**$ 62**	**$ 425**	**100.0%**
At December 31, 2006					
Personal auto	$ 169	$ 5	$ 32	$ 206	46.2%
Homeowners	69	24	17	110	24.7
Other personal	55	61	14	130	29.1
Total	$ 293	$ 90	$ 63	$ 446	100.0%

Life Insurance Reserves

Gross life policy reserves were $1.446 billion at June 30, 2007, compared with $1.409 billion at year-end 2006, reflecting continued growth in life insurance policies in-force. We discuss our life insurance reserving practices in our 2006 Annual Report on Form 10-K, Life Insurance Reserves, Page 69.

Other Matters

Significant Accounting Policies

Our significant accounting policies are discussed in Note 1 to the Consolidated Financial Statements in the company's 2006 Annual Report on Form 10-K and updated in Note 1 to the Condensed Consolidated Financial Statements beginning on Page 7.

In conjunction with those discussions, in the Management's Discussion and Analysis in the 2006 Annual Report on Form 10-K, management reviewed the estimates and assumptions used to develop reported amounts related to the most significant policies. Management discussed the development and selection of those accounting estimates with the audit committee of the board of directors.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential for a decrease in 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. Our view of potential risks and its sensitivity to such risks is discussed in our 2006 Annual Report on Form 10-K, Quantitative and Qualitative Disclosures about Market Risk, Page 72.

The fair value (market value) of our investment portfolio was $13.642 billion at June 30, 2007, compared with $13.699 billion at year-end 2006. Thirty-two of our securities are accounted for as hybrid financial instruments under SFAS No. 155, which we adopted effective January 1, 2007, as discussed in Item 1, Note 1, Page 7. The book value of these securities has been adjusted to market value and recognized in retained earnings and the income statement. In the table below, book value is shown at their original purchase price.

	At June 30, 2007		At December 31, 2006	
(In millions)	**Book value**	**Fair value**	Book value	Fair value
Taxable fixed maturities	**$ 3,353**	**$ 3,348**	$ 3,357	$ 3,389
Tax-exempt fixed maturities	**2,557**	**2,543**	2,382	2,416
Common equities	**2,694**	**7,401**	2,400	7,564
Preferred equities	**250**	**249**	221	235
Short-term investments	**101**	**101**	95	95
Total	**$ 8,955**	**$13,642**	$ 8,455	$13,699

The ratio of investment assets to total assets for the parent company was 31.3 percent at June 30, 2007, compared with 31.5 percent at year-end 2006. At June 30, 2007, the parent company held 33.3 percent of our common stock holdings (measured by fair value).

Fixed-Maturity Investments

By continuously investing in the bond market, we build a broad, diversified portfolio that we believe mitigates the impact of adverse economic factors. In recent years, we have taken into account the trend toward a flatter corporate yield curve by purchasing higher-quality corporate bonds with intermediate maturities as well as tax-exempt municipal bonds and U.S. agency paper. Our focus on long-term total return may result in variability in the levels of realized and unrealized investment gains or losses from one period to the next.

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 to minimize our corporate taxes. At June 30, 2007, tax-exempt fixed maturities accounted for 43.2 percent of the total fair value of the fixed-maturity portfolio, compared with 41.6 percent at year-end 2006. Overall credit risk is reduced by diversifying the fixed-income portfolio among approximately 1,980 securities. Within our portfolio, we do not own any sub-prime mortgage-backed securities.

Interest Rate Sensitivity Analysis

Because of our strong surplus, long-term investment horizon and ability to hold most fixed-maturity investments until 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.

A dynamic financial planning model developed during 2002 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 June 30, 2007	**$5,891**	**$6,193**	**$5,590**
At December 31, 2006	5,805	6,099	5,511

The effective duration of the fixed maturity portfolio was 5.1 years at June 30, 2007, unchanged from year-end 2006. A 100 basis point movement in interest rates would result in an approximately 5.1 percent change in the market value of the fixed maturity portfolio. Generally speaking, the higher a bond is rated, the more directly correlated movements in its market value will be 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 our 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 June 30, 2007, we had $101 million in short-term investments.

Equity Investments

We believe our equity investment style – centered on companies that pay and increase dividends to shareholders – is an appropriate long-term strategy. While our long-term financial position would be affected by prolonged changes in the market valuation of our investments, we believe our strong surplus position and cash flow provide a cushion against short-term fluctuations in valuation. We believe that the continued payment of cash dividends by the issuers of the common equities we hold also should provide a floor to their valuation.

Our common stock investments generally are securities with annual dividend yields ranging from 1.5 percent to 4.0 percent and with histories of dividend increases. Other criteria we evaluate include increasing sales and earnings, proven management and a favorable outlook. When investing in common stock, we seek to identify some companies in which we can accumulate more than 5 percent of their outstanding shares. At June 30, 2007, we held more than 5 percent of two companies: Fifth Third and Piedmont Natural Gas Company.

There are 15 common stocks in which we hold a fair value of at least $100 million each.

(Dollars in millions)	As of and for the three months ended June 30, 2007 Actual cost	Fair value	Percent of fair value	Earned dividend income
Fifth Third Bancorp	$ 283	$ 2,894	39.1%	$ 61
The Procter & Gamble Company	206	460	6.2	5
Exxon Mobil Corporation	58	433	5.9	5
PNC Financial Services Group, Inc.	62	337	4.6	5
AllianceBernstein Holding L.P.	100	328	4.4	8
National City Corporation	172	327	4.4	8
U.S. Bancorp	253	326	4.4	7
Wyeth	62	254	3.4	2
Johnson & Johnson	218	247	3.3	3
Wells Fargo & Company	107	201	2.7	3
Huntington Bancshares Inc. (combined with Sky Financial Group)*	140	168	2.3	3
Piedmont Natural Gas Company, Inc.	64	139	1.9	3
Wachovia Corporation	146	137	1.9	2
General Electric Co.	106	120	1.6	2
Chevron Corporation	56	112	1.5	1
All other common stock holdings	661	917	12.4	15
Total	$ 2,694	$ 7,400	100.0%	$ 133

* As of June 30, 2007, we held 2,288,203 shares of Huntington Bancshares Incorporated (NASDAQ: HBAN) and 4,661,018 shares of Sky Financial Group, Inc. (Nasdaq: SKYF). On July 1, 2007, Huntington completed its merger with Sky Financial. Under the terms of the agreement, we received 1.098 shares of Huntington common stock and a cash payment of $3.023 for each share of Sky Financial we owned on June 29, 2007.

Our investments are heavily weighted toward the financials sector, which represented 66.3 percent of the total fair value of the common stock portfolio at June 30, 2007. Financials typically underperform the overall market during periods when interest rates are expected to rise. We historically have seen these types of short-term fluctuations in market value of our holdings as potential buying opportunities but are cognizant that a prolonged downturn in this sector could create a negative effect on the portfolio. We believe the financial institutions we own have relatively minor exposure to the sub-prime mortgage area. We discuss the longer-term performance of our equity portfolio in Measuring our Success, Page 16.

Fifth Third Bancorp Holding

The market value of one of our common stock holdings, Fifth Third, accounted for 42.4 percent of our shareholders' equity at June 30, 2007, and dividends earned from our Fifth Third investment were 20.5 percent of our investment income in the first six months of 2007.

(In millions except market price data)	Six months ended June 30, 2007	2006
Fifth Third Bancorp common stock holding:		
Dividends earned	**$ 61**	$ 57
Percent of total net investment income	**20.5%**	20.2%

	At June 30, 2007	At December 31, 2006
Shares held	**73**	73
Closing market price of Fifth Third	**$39.77**	$40.93
Book value of holding	**283**	283
Fair value of holding	**2,894**	2,979
After-tax unrealized gain	**1,697**	1,752
Market value as a percent of total equity investments	**37.8%**	38.2%
Market value as a percent of invested assets	**21.1**	21.7
Market value as a percent of total shareholders' equity	**42.4**	43.8
After-tax unrealized gain as a percent of total shareholders' equity	**24.9**	25.7

Based on the number of shares of Fifth Third that we owned at June 30, 2007, a 10 percent change in its currently stated quarterly dividend on an annual basis would result in a $6 million change in our annualized pretax investment income and a $5 million change in after-tax earnings.

Every $1.00 change in the market price of Fifth Third's common stock has approximately a 28 cent impact on our book value per share. A 20 percent change in the market price of Fifth Third's common stock from its June 30, 2007, closing price would result in a $579 million change in assets and a $376 million change in after-tax unrealized gains.

Unrealized Investment Gains and Losses

At June 30, 2007, unrealized investment gains before taxes totaled $4.809 billion and unrealized investment losses in the investment portfolio amounted to $122 million.

Unrealized Investment Gains

The unrealized gains at June 30, 2007, were due to long-term gains from our holdings of Fifth Third common stock, which constituted 56.3 percent of the gains, and from our other common stock holdings, including ExxonMobil Corporation, The Procter & Gamble Company and PNC Financial Services Group, each of which constituted at least 5 percent of the gains. Reflecting the company's long-term investment philosophy, of the 818 securities trading at or above book value, 578, or 70.7 percent, have shown unrealized gains for more than 24 months.

Unrealized Investment Losses – Potential Other-than-temporary Impairments

At June 30, 2007, 1,246 of the 2,064 securities we owned were trading below 100 percent of book value compared with 679 of the 1,973 securities we owned at December 31, 2006. Ten of the 1,246 securities are accounted for as hybrid financial instruments. We have included them with securities trading below 100 percent of book value because they are trading below 100 percent of our original purchase price.

- 1,233 of these holdings were trading between 90 percent and 100 percent of book value, including seven that are hybrid financial instruments. After adjustments for SFAS No. 155, the fair value of these 1,233 holdings was $4.235 billion, and they accounted for $112 million in unrealized losses. The value of these securities fluctuates primarily because of changes in interest rates.
- 13 of these holdings were trading below 90 percent of book value, including three that are hybrid financial instruments. After adjustments for SFAS No. 155, the fair value of the 13 holdings was $46 million, and they accounted for $5 million in unrealized losses. These holdings are being monitored for

credit- and industry-related risk factors, but we believe the changes in value primarily are due to normal fluctuations and economic factors.

- No holdings were trading below 70 percent of book value at June 30, 2007.

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 investment income potential of these investments.

In the two tables below, our 32 hybrid securities are classified based on the relationships of fair value to our original purchase price, even though their book value has been appropriately adjusted under SFAS No. 155 on our financial statements.

The following table summarizes the investment portfolio by period of time:

	6 Months or less		> 6 — 12 Months		> 12 — 24 Months		> 24 — 36 Months	
(Dollars in millions)	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 June 30, 2007								
Taxable fixed maturities:								
Trading below 70% of book value	0	$ 0	0	$ 0	0	$ 0	0	$ 0
Trading at 70% to less than 100% of book value	156	(11)	10	(1)	162	(36)	72	(22)
Trading at 100% and above of book value	30	1	63	8	14	3	229	53
Total	186	(10)	73	7	176	(33)	301	31
Tax-exempt fixed maturities:								
Trading below 70% of book value	0	0	0	0	0	0	0	0
Trading at 70% to less than 100% of book value	527	(16)	49	(3)	181	(11)	63	(7)
Trading at 100% and above of book value	3	0	77	1	15	0	318	22
Total	530	(16)	126	(2)	196	(11)	381	15
Common equities:								
Trading below 70% of book value	0	0	0	0	0	0	0	0
Trading at 70% to less than 100% of book value	3	(10)	0	0	1	0	0	0
Trading at 100% and above of book value	4	23	4	7	6	276	27	4,411
Total	7	13	4	7	7	276	27	4,411
Preferred equities:								
Trading below 70% of book value	0	0	0	0	0	0	0	0
Trading at 70% to less than 100% of book value	12	(4)	0	0	1	(1)	1	0
Trading at 100% and above of book value	4	0	16	4	2	0	4	0
Total	16	(4)	16	4	3	(1)	5	0
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	8	0	0	0	0	0	0	0
Trading at 100% and above of book value	2	0	0	0	0	0	0	0
Total	10	0	0	0	0	0	0	0
Summary:								
Trading below 70% of book value	0	0	0	0	0	0	0	0
Trading at 70% to less than 100% of book value	706	(41)	59	(4)	345	(48)	136	(29)
Trading at 100% and above of book value	43	24	160	20	37	279	578	4,486
Total	749	$ (17)	219	$ 16	382	$ 231	714	$ 4,457

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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 June 30, 2007					
Portfolio summary:					
Trading below 70% of book value	**0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**
Trading at 70% to less than 100% of book value	**1,246**	**4,403**	**4,281**	**(122)**	**97**
Trading at 100% and above of book value	**818**	**4,552**	**9,361**	**4,809**	**192**
Investment income on securities sold in current year	**0**	**0**	**0**	**0**	**7**
Total	**2,064**	**$ 8,955**	**$13,642**	**$ 4,687**	**$ 296**
At December 31, 2006					
Portfolio summary:					
Trading below 70% of book value	0	$ 0	$ 0	$ 0	$ 0
Trading at 70% to less than 100% of book value	679	2,787	2,728	(59)	127
Trading at 100% and above of book value	1,294	5,668	10,971	5,303	416
Investment income on securities sold in current year	0	0	0	0	19
Total	1,973	$ 8,455	$13,699	$ 5,244	$ 562

Item 4. 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 June 30, 2007. 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
- that 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 June 30, 2007, 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.

Part II – Other Information

Item 1. 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 1A. Risk Factors

There have been no material changes to our risk factors since our 2006 Annual Report on Form 10-K was filed on February 28, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The board of directors has authorized share repurchase programs (see our 2006 Annual Report on Form 10-K, Item 5, Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, Page 26, for information on the historical programs). In the first six months of 2007, repurchases were made as follows:

Month	Total number of shares purchased(1)	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, 2007	0	$ 0.00	0	6,819,248
February 1-28, 2007	478,267	43.82	478,267	6,340,981
March 1-31, 2007	1,012,808	42.64	1,012,317	5,328,664
April 1-30, 2007	0	0.00	0	5,328,664
May 1-31, 2007	0	0.00	0	5,328,664
June 1-30, 2007	0	0.00	0	5,328,664
Totals	1,491,075	43.02	1,490,584	

Shares and share prices on this table are not adjusted for stock dividends.

(1) Includes 491 shares acquired in the first six months of 2007, primarily in satisfaction of withholding taxes due upon exercise of stock options.

The current repurchase program was announced on August 19, 2005, and became effective on September 1, 2005. It replaced 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 repurchases reported in the table above were repurchased under our 2005 program, which was approved for 10 million shares. Neither the 2005 nor 1999 program had an expiration date but no further repurchases will occur under the 1999 program.

Item 3. Defaults upon Senior Securities

We have not defaulted on any interest or principal payment, and no arrearage in the payment of dividends has occurred.

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

The registrant held its Annual Meeting of Shareholders on May 5, 2007, for which the board of directors solicited proxies. All nominees named in the registrant's Proxy Statement were elected for terms expiring in 2010.

	Shares (in millions)	
	For	Withheld
Gregory T. Bier, CPA (Ret.)	147	1
Dirk J. Debbink	147	1
Douglas S. Skidmore	146	2

Directors whose term of office as a director continues after the 2007 Annual Meeting of Shareholders and their respective term expirations are as follows:

Term Expires in 2008:
- Kenneth C. Lichtendahl
- W. Rodney McMullen
- Thomas R. Schiff
- John F. Steele, Jr.
- Larry R. Webb, CPCU

Term Expires in 2009:
- William F. Bahl, CFA
- James E. Benoski
- Gretchen W. Price
- John J. Schiff, Jr., CPCU
- E. Anthony Woods

Shareholders ratified the selection of Deloitte & Touche LLP as the company's independent registered public accounting firm for 2007.

Shares (in millions)

For	Against	Abstain
146	1	1

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Exhibit Description
3.1A	Amended Articles of Incorporation of Cincinnati Financial Corporation (1)
3.1B	Amendment to Article Fourth of Amended Articles of Incorporation of Cincinnati Financial Corporation (2)
3.2	Regulations of Cincinnati Financial Corporation (3)
4.1	Indenture with The Bank of New York Trust Company (4)
4.2	Supplemental Indenture with The Bank of New York Trust Company (4)
4.3	Second Supplemental Indenture with The Bank of New York Trust Company (5)
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) (6)
4.7	Form of 6.90% Debentures Due 2028 (included in Exhibit 4.6)
10.1	Agreement with Messer Construction (7)
10.2	2003 Non-Employee Directors' Stock Plan (8)
10.3	Cincinnati Financial Corporation Stock Option Plan No. VI (9)
10.4	Cincinnati Financial Corporation Stock Option Plan No. VII (10)
10.5	Standard Form of Nonqualified and Incentive Option Agreements for Stock Option Plan No. VI (7)
10.6	Cincinnati Financial Corporation Incentive Compensation Plan (11)
10.7	Cincinnati Financial Corporation 2006 Stock Compensation Plan (11)
10.8	Standard Form of Combined Incentive/Nonqualified Stock Option for Stock Option Plan VI (12)
10.9	364-Day Credit Agreement by and among Cincinnati Financial Corporation and CFC Investment Company, as Borrowers, and Fifth Third Bank, as Lender (13)
10.10	Director and Named Executive Officer Compensation Summary (11)
10.11	Executive Compensation Plan (14)
10.12	Amendment No. 1 to Credit Agreement by and among Cincinnati Financial Corporation and CFC investment Company, as Borrower, and Fifth Third Bank, as lender. (15)
10.13	Cincinnati Financial Corporation Supplemental Retirement Plan (16)
10.14	Standard Form of Incentive Stock Option Agreement for Stock Option Plan VII (17)
10.15	Standard Form of Nonqualified Stock Option Agreement for Stock Option Plan VII (18)
10.16	Standard Form of Incentive Stock Option Agreement for the 2006 Stock Compensation Plan (19)
10.17	Standard Form of Nonqualified Stock Option Agreement for the 2006 Stock Compensation Plan (20)
10.18	Restricted Stock Unit Agreement for John J. Schiff, Jr., dated January 31, 2007 (21)
10.19	Restricted Stock Unit Agreement for James E. Benoski, dated January 31, 2007 (22)
10.20	Restricted Stock Unit Agreement for Jacob F. Scherer, Jr., dated January 31, 2007 (23)
10.21	Restricted Stock Unit Agreement for Kenneth W. Stecher, dated January 31, 2007 (24)
10.22	Restricted Stock Unit Agreement for Thomas A. Joseph, dated January 31, 2007 (25)

(1) Incorporated by reference to the company's 1999 Annual Report on Form 10-K dated March 23, 2000 (File No. 000-04604).

(2) Incorporated by reference to Exhibit 3(i) filed with the company's Current Report on Form 8-K dated July 15, 2005.

(3) Incorporated by reference to the company's Definitive Proxy Statement dated March 2, 1992, Exhibit 2 (File No. 000-04604).

(4) 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.

(5)

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.

(6) Incorporated by reference to the company's registration statement on Form S-3 effective May 22, 1998 (File No. 333-51677).

(7) Incorporated by reference to the company's 2004 Annual Report on Form 10-K dated March 11, 2005.

(8) Incorporated by reference to the company's Definitive Proxy Statement dated March 21, 2005.

(9) Incorporated by reference to the company's Definitive Proxy Statement dated March 1, 1999 (File No. 000-04604).

(10) Incorporated by reference to the company's Definitive Proxy Statement dated March 8, 2002 (File No. 000-04604).

(11) Incorporated by reference to the company's Definitive Proxy Statement to be filed no later than April 13, 2007.

(12) Incorporated by reference to Exhibit 10.3 filed with the company's Current Report on Form 8-K dated July 15, 2005.

(13) Incorporated by reference to Exhibit 10.1 filed with the company's Current Report on Form 8-K dated May 31, 2005.

(14) Incorporated by reference to Exhibit 10.2 filed with the company's Current Report on Form 8-K dated November 23, 2005.

(15) Incorporated by reference to Exhibit 10.01 filed with the company's Current Report on Form 8-K dated May 26, 2006.

Exhibit No.	Exhibit Description (continued)
10.23	Form of Restricted Stock Unit Agreement for use under the Cincinnati Financial Corporation 2006 Stock Purchase Incentive Plan (service-based)(26)
10.24	Form of Restricted Stock Unit Agreement for use under the Cincinnati Financial Corporation 2006 Stock Purchase Incentive Plan (performance-based)(27)
10.25	Form of Incentive Compensation Agreement for use under the Cincinnati Financial Corporation 2006 Stock Purchase Incentive Plan (performance-based)(28)
10.26	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 (29)
10.27	Second Amended and Restated Discretionary Line of Credit Note with PNC Bank, National Association dated July 12, 2007.
11	Statement re: Computation of per share earnings for the three and six months ended June 30, 2007 and 2006, contained in Exhibit 11 of this report, Page 46
31A	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002 – Chief Executive Officer, Page 47
31B	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002 – Chief Financial Officer, Page 48
32	Certification pursuant to Section 906 of the Sarbanes Oxley Act of 2002, Page 49

(16) 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.

(17) Incorporated by reference to Exhibit 10.1 filed with the company's Current Report on Form 8-K dated October 20, 2006.

(18) Incorporated by reference to Exhibit 10.2 filed with the company's Current Report on Form 8-K dated October 20, 2006.

(19) Incorporated by reference to Exhibit 10.3 filed with the company's Current Report on Form 8-K dated October 20, 2006.

(20) Incorporated by reference to Exhibit 10.4 filed with the company's Current Report on Form 8-K dated October 20, 2006.

(21) Incorporated by reference to Exhibit 10.1 filed with the company's Current Report on Form 8-K dated January 31, 2007.

(22) Incorporated by reference to Exhibit 10.2 filed with the company's Current Report on Form 8-K dated January 31, 2007.

(23) Incorporated by reference to Exhibit 10.3 filed with the company's Current Report on Form 8-K dated January 31, 2007.

(24) Incorporated by reference to Exhibit 10.4 filed with the company's Current Report on Form 8-K dated January 31, 2007.

(25) Incorporated by reference to Exhibit 10.5 filed with the company's Current Report on Form 8-K dated January 31, 2007.

(26) Incorporated by reference to Exhibit 10.6 filed with the company's Current Report on Form 8-K dated January 31, 2007, as amended.

(27) Incorporated by reference to Exhibit 10.7 filed with the company's Current Report on Form 8-K dated January 31, 2007, as amended.

(28) Incorporated by reference to Exhibit 10.1 filed with the company's Current Report on Form 8-K dated March 19, 2007.

(29) Incorporated by reference to Exhibit 10.01 filed with the company's Current Report on Form 8-K dated June 30, 2007.

Signature

Pursuant to the requirements 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
Date: August 7, 2007

/S/ Kenneth W. Stecher

Kenneth W. Stecher
Chief Financial Officer, Executive Vice President, Secretary and Treasurer
(Principal Accounting Officer)

Exhibit 10.27

Second Amended and Restated Discretionary Line of Credit Note

$50,000,000.00 **July 12, 2007**

FOR VALUE RECEIVED, **CINCINNATI FINANCIAL CORPORATION** and **CFC INVESTMENT COMPANY** (collectively, the **"Borrower"**), with an address at P.O. Box 145496, Cincinnati, Ohio 45250, promises to pay to the order of **PNC BANK, NATIONAL ASSOCIATION** (the **"Bank"**), in lawful money of the United States of America in immediately available funds at its offices located at 201 East Fifth Street, Cincinnati, Ohio 45202, or at such other location as the Bank may designate from time to time, the principal sum of **FIFTY MILLION DOLLARS AND NO/100 ($50,000,000.00)** (the **"Facility"**) or such lesser amount as may be advanced to or for the benefit of the Borrower hereunder, together with interest accruing on the outstanding principal balance from the date hereof, as provided below.

1. Rate of Interest. Each advance outstanding under this Note will bear interest at a rate per annum as offered to the Borrower by the Bank in its sole discretion as the rate at which the Bank would advance funds to the Borrower for the interest period requested in the principal amount requested, each as agreed upon in writing between the Borrower and the Bank. Interest will be calculated based on the actual number of days that principal is outstanding over a year of 360 days. In no event will the rate of interest hereunder exceed the maximum rate allowed by law.

2. Discretionary Advances. **This is not a committed line of credit and advances under this Note, if any, shall be made by the Bank in its sole discretion. Nothing contained in this Note or any other Loan Documents shall be construed to obligate the Bank to make any advances. The Bank shall have the right to refuse to make any advances at any time without prior notice to the Borrower.**

The Borrower may request advances, repay and request additional advances hereunder, subject to the terms and conditions of this Note and the Loan Documents (as defined herein). In no event shall the aggregate unpaid principal amount of advances under this Note exceed the face amount of this Note.

3. Advance Procedures. A request for advance made by telephone must be promptly confirmed in writing by such method as the Bank may require. The Borrower authorizes the Bank to accept telephonic requests for advances, and the Bank shall be entitled to rely upon the authority of any person providing such instructions. The Borrower hereby indemnifies and holds the Bank harmless from and against any and all damages, losses, liabilities, costs and expenses (including reasonable attorneys' fees and expenses) which may arise or be created by the acceptance of such telephone requests or making such advances. The Bank will enter on its books and records, which entry when made will be presumed correct, the date and amount of each advance, the interest rate and interest period applicable thereto, as well as the date and amount of each payment made by the Borrower.

4. Payment Terms. The principal amount of each advance and interest accrued thereon shall be due and payable on the earlier of (a) the last day of the applicable interest period for such advance (provided if any interest period is longer than three (3) months, then interest shall be due and payable also on the three (3) month anniversary of such interest period and every three (3) months thereafter) and (b) the Expiration Date (as defined in the Loan Documents); provided, however, that if no interest period is specified for an advance, interest shall be due and payable monthly in arrears.

If any payment under this Note shall become due on a Saturday, Sunday or public holiday under the laws of the State where the Bank's office indicated above is located, such payment shall be made on the next succeeding business day and such extension of time shall be included in computing interest in connection with such payment. The Borrower hereby authorizes the Bank to charge the Borrower's deposit account at the Bank for any payment when due hereunder. Payments received will be applied to charges, fees and expenses (including attorneys' fees), accrued interest and principal in any order the Bank may choose, in its sole discretion.

5. <u>Late Payments; Default Rate</u>. If the Borrower fails to make any payment of principal, interest or other amount coming due pursuant to the provisions of this Note within fifteen (15) calendar days of the date due and payable, the Borrower also shall pay to the Bank a late charge equal to the lesser of five percent (5%) of the amount of such payment or $100.00 (the **"Late Charge"**). Such fifteen (15) day period shall not be construed in any way to extend the due date of any such payment. Upon maturity, whether by acceleration, demand or otherwise, and at the Bank's option upon the occurrence of any Event of Default (as hereinafter defined) and during the continuance thereof, each advance outstanding under this Note shall bear interest at a rate per annum (based on the actual number of days that principal is outstanding over a year of 360 days) which shall be four percentage points (4%) in excess of the Prime Rate but not more than the maximum rate allowed by law (the **"Default Rate"**). As used herein, **"Prime Rate"** shall mean the rate publicly announced by the Bank from time to time as its prime rate. The Prime Rate is determined from time to time by the Bank as a means of pricing some loans to its borrowers. The Prime Rate is not tied to any external rate of interest or index, and does not necessarily reflect the lowest rate of interest actually charged by the Bank to any particular class or category of customers. If and when the Prime Rate changes, the rate of interest on this Note will change automatically without notice to the Borrower, effective on the date of any such change. The Default Rate shall continue to apply whether or not judgment shall be entered on this Note. Both the Late Charge and the Default Rate are imposed as liquidated damages for the purpose of defraying the Bank's expenses incident to the handling of delinquent payments, but are in addition to, and not in lieu of, the Bank's exercise of any rights and remedies hereunder, under the other Loan Documents or under applicable law, and any fees and expenses of any agents or attorneys which the Bank may employ. In addition, the Default Rate reflects the increased credit risk to the Bank of carrying a loan that is in default. The Borrower agrees that the Late Charge and Default Rate are reasonable forecasts of just compensation for anticipated and actual harm incurred by the Bank, and that the actual harm incurred by the Bank cannot be estimated with certainty and without difficulty.

6. <u>Prepayment</u>. The Borrower shall have the right to prepay any advance hereunder at any time and from time to time, in whole or in part; subject, however, to payment of any break funding indemnification amounts owing pursuant to paragraph 7 below.

7. <u>Yield Protection; Break Funding Indemnification</u>. The Borrower shall pay to the Bank, on written demand therefor, together with the written evidence of the justification therefor, all direct costs incurred, losses suffered or payments made by Bank by reason of any change in law or regulation or its interpretation imposing any reserve, deposit, allocation of capital, or similar requirement (including without limitation, Regulation D of the Board of Governors of the Federal Reserve System) on the Bank, its holding company or any of their respective assets. In addition, the Borrower agrees to indemnify the Bank against any liabilities, losses or expenses (including, without limitation, loss of margin, any loss or expense sustained or incurred in liquidating or employing deposits from third parties, and any loss or expense incurred in connection with funds acquired to effect, fund or maintain any advance (or any part thereof) bearing interest based upon a fixed rate) which the Bank sustains or incurs as a consequence of either (i) the Borrower's failure to make a payment on the due date thereof, (ii) the Borrower's revocation (expressly, by later inconsistent notices or otherwise) in whole or in part of any notice given to Bank to request, convert, renew or prepay any advance bearing interest based upon a fixed rate, or (iii) the Borrower's payment or prepayment (whether voluntary, after acceleration of the maturity of this Note or otherwise) or conversion of any advance bearing interest based upon a fixed rate on a day other than the last day of the applicable interest period. A notice as to any amounts payable pursuant to this paragraph given to the Borrower by the Bank shall, in the absence of manifest error, be conclusive and shall be payable upon demand. The Borrower's indemnification obligations hereunder shall survive the payment in full of the advances and all other amounts payable hereunder.

8. <u>Other Loan Documents</u>. This Note is issued pursuant to the confirmation letter between the Bank and the Borrower dated on or before the date hereof, and the other agreements and documents executed and/or delivered in connection therewith or referred to therein, the terms of which are incorporated herein by reference (as amended, modified or renewed from time to time, collectively the **"Loan Documents"**), and is secured by the property (if any) described in the Loan Documents and by such other collateral as previously may have been or may in the future be granted to the Bank to secure this Note.

9. Events of Default. The occurrence of any of the following events will be deemed to be an **"Event of Default"** under this Note: (i) the nonpayment of any principal, interest or other indebtedness under this Note when due; (ii) the occurrence of any event of default or any default and the lapse of any notice or cure period, or any Obligor's failure to observe or perform any covenant or other agreement, under or contained in any Loan Document or any other document now or in the future evidencing or securing any debt, liability or obligation of any Obligor to the Bank; (iii) the filing by or against any Obligor of any proceeding in bankruptcy, receivership, insolvency, reorganization, liquidation, conservatorship or similar proceeding (and, in the case of any such proceeding instituted against any Obligor, such proceeding is not dismissed or stayed within 30 days of the commencement thereof); (iv) any assignment by any Obligor for the benefit of creditors, or any levy, garnishment, attachment or similar proceeding is instituted against any property of any Obligor held by or deposited with the Bank; (v) a default with respect to any other indebtedness of any Obligor for borrowed money, if the effect of such default is to cause or permit the acceleration of such debt; (vi) the commencement of any foreclosure or forfeiture proceeding, execution or attachment against any collateral securing the obligations of any Obligor to the Bank; (vii) the entry of a final judgment against any Obligor and the failure of such Obligor to discharge the judgment within forty-five (45) days of the entry thereof; (viii) any material adverse change in any Obligor's business, assets, operations, financial condition or results of operations; (ix) any Obligor ceases doing business as a going concern; (x) any representation or warranty made by any Obligor to the Bank in any Loan Document or any other documents now or in the future evidencing or securing the obligations of any Obligor to the Bank, is false, erroneous or misleading in any material respect; (xi) if this Note or any guarantee executed by any Obligor is secured, the failure of any Obligor to provide the Bank with additional collateral if in the Bank's opinion at any time or times, the market value of any of the collateral securing this Note or any guarantee has depreciated below that required pursuant to the Loan Documents or, if no specific value is so required, then in an amount deemed material by the Bank; (xii) the revocation or attempted revocation, in whole or in part, of any guarantee by any Obligor; or (xiii) the death, incarceration, indictment or legal incompetency of any individual Obligor or, if any Obligor is a partnership or limited liability company, the death, incarceration, indictment or legal incompetency of any individual general partner or member. As used herein, the term **"Obligor"** means any Borrower and any guarantor of, or any pledgor, mortgagor, or other person or entity providing collateral support for, the Borrower's obligations to the Bank existing on the date of this Note or arising in the future.

Upon the occurrence of an Event of Default: (a) if an Event of Default specified in clause (iii) or (iv) above shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder shall be immediately due and payable without demand or notice of any kind; (b) if any other Event of Default shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder, at the Bank's option and without demand or notice of any kind, may be accelerated and become immediately due and payable; (c) at the Bank's option, this Note will bear interest at the Default Rate from the date of the occurrence of the Event of Default; and (d) the Bank may exercise from time to time any of the rights and remedies available under the Loan Documents or under applicable law.

10. Right of Setoff. In addition to all liens upon and rights of setoff against the Borrower's money, securities or other property given to the Bank by law, the Bank shall have, with respect to the Borrower's obligations to the Bank under this Note and to the extent permitted by law, a contractual possessory security interest in and a contractual right of setoff against, and the Borrower hereby grants the Bank a security interest in, and hereby assigns, conveys, delivers, pledges and transfers to the Bank, all of the Borrower's right, title and interest in and to, all of the Borrower's deposits, moneys, securities and other property now or hereafter in the possession of or on deposit with, or in transit to, the Bank or any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., whether held in a general or special account or deposit, whether held jointly with someone else, or whether held for safekeeping or otherwise, excluding, however, all IRA, Keogh, and trust accounts. Every such security interest and right of setoff may be exercised without demand upon or notice to the Borrower. Every such right of setoff shall be deemed to have been exercised immediately upon the occurrence of an Event of Default hereunder without any action of the Bank, although the Bank may enter such setoff on its books and records at a later time.

11. Indemnity. The Borrower agrees to indemnify each of the Bank, each legal entity, if any, who controls, is controlled by or is under common control with the Bank, and each of their respective directors, officers and employees (the "**Indemnified Parties"**), and to hold each Indemnified Party harmless from and against any and all claims, damages, losses, liabilities and expenses (including all fees and charges of internal or external counsel with whom any Indemnified Party may consult and all expenses of litigation and preparation therefor) which any Indemnified Party may incur or which may be asserted against any Indemnified Party by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Borrower), in connection with or arising out of or relating to the matters referred to in this Note or in the other Loan Documents or the use of any advance hereunder, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Borrower, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority; provided, however, that the foregoing indemnity agreement shall not apply to any claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Note, payment of any advance hereunder and the assignment of any rights hereunder. The Borrower may participate at its expense in the defense of any such action or claim.

12. Miscellaneous. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder ("**Notices**") must be in writing (except as may be agreed otherwise above with respect to borrowing requests) and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party's address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this paragraph. No delay or omission on the Bank's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Bank's action or inaction impair any such right or power. The Bank's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity. No modification, amendment or waiver of, or consent to any departure by the Borrower from, any provision of this Note will be effective unless made in a writing signed by the Bank, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. The Borrower agrees to pay on demand, to the extent permitted by law, all costs and expenses incurred by the Bank in the enforcement of its rights in this Note and in any security therefor, including without limitation reasonable fees and expenses of the Bank's counsel. If any provision of this Note is found to be invalid by a court, all the other provisions of this Note will remain in full force and effect. The Borrower and all other makers and indorsers of this Note hereby forever waive presentment, protest, notice of dishonor and notice of non-payment. The Borrower also waives all defenses based on suretyship or impairment of collateral. If this Note is executed by more than one Borrower, the obligations of such persons or entities hereunder will be joint and several. This Note shall bind the Borrower and its heirs, executors, administrators, successors and assigns, and the benefits hereof shall inure to the benefit of the Bank and its successors and assigns; provided, however, that the Borrower may not assign this Note in whole or in part without the Bank's written consent and the Bank at any time may assign this Note in whole or in part.

This Note has been delivered to and accepted by the Bank and will be deemed to be made in the State where the Bank's office indicated above is located. **This Note will be interpreted and the rights and liabilities of the Bank and the Borrower determined in accordance with the laws of the State where the Bank's office indicated above is located, excluding its conflict of laws rules.** The Borrower hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the county or judicial district where the Bank's office indicated above is located; provided that nothing contained in this Note will prevent the Bank from bringing any action, enforcing any award or judgment or exercising any rights against the Borrower individually, against any security or against any property of the Borrower within any other county, state or other foreign or domestic jurisdiction. The Borrower acknowledges and agrees that the venue provided above is the most convenient forum for both the Bank and the Borrower. The Borrower waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Note.

13. Amendment and Restatement. This Note amends and restates, and is in substitution for, that certain Amended and Restated Discretionary Line of Credit Note in the original principal amount of $75,000,000.00 payable to the order of the Bank and dated May 8, 2006 (the "Existing Note"). However, without duplication, this Note shall in no way extinguish, cancel or satisfy the Borrower's unconditional obligation to repay all indebtedness evidenced by the Existing Note or constitute a novation of the Existing Note. Nothing herein is intended to extinguish, cancel or impair the lien priority or effect of any security agreement, pledge agreement or mortgage with respect to any Obligor's obligations hereunder and under any other document relating hereto

14. WAIVER OF JURY TRIAL. The Borrower irrevocably waives any and all rights the Borrower may have to a trial by jury in any action, proceeding or claim of any nature relating to this Note, any documents executed in connection with this Note or any transaction contemplated in any of such documents. The Borrower acknowledges that the foregoing waiver is knowing and voluntary.

The Borrower acknowledges that it has read and understood all the provisions of this Note, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.

WITNESS the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

WITNESS / ATTEST:	CINCINNATI FINANCIAL CORPORATION
/S/ Linda L. Campbell	By: /S/ Kenneth W. Stecher
Print Name: Linda L. Campbell	Print Name: Kenneth W. Stecher (SEAL)
Title:	Title: Chief Financial Officer
(Include title only if an officer of entity signing to the right)	
	CFC INVESTMENT COMPANY
	By: /S/ Kenneth W. Stecher
Print Name:	Print Name: Kenneth W. Stecher (SEAL)
Title:	Title: Secretary
(Include title only if an officer of entity signing to the right)	

Exhibit 11

Statements Re: Computation Of Per Share Earnings

(Dollars in millions except per share data)	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Numerator:				
Net income—basic and diluted	**$ 351**	$ 132	**$ 545**	$ 684
Denominator:				
Weighted-average common shares outstanding	**171,712,547**	173,275,927	**172,178,180**	173,724,517
Effect of stock options and nonvested shares	**1,711,025**	1,746,440	**1,693,432**	1,890,500
Adjusted weighted-average shares	**173,423,572**	175,022,367	**173,871,612**	175,615,017
Earnings per share:				
Basic	**$ 2.04**	$ 0.77	**$ 3.16**	$ 3.94
Diluted	**2.02**	0.76	**3.13**	3.90

Anti -Dilutive Securities

Certain option shares were not included in the computation of diluted earnings per share for the six-month period ended June 30, 2007, since inclusion of these option shares would have anti-dilutive effects.

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Number of anti-dilutive nonvested shares	**—**	—	**199,100**	—
Number of anti-dilutive option shares	**1,889,148**	2,800,589	**1,889,148**	2,800,589
Exercise price range of anti-dilutive option shares	**$44.79-45.26**	$41.62-45.26	**$44.79-45.26**	$41.62-45.26

Exhibit 31A

Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002

I, John J. Schiff, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 principles;
   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 the 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 control 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: August 7, 2007

/S/ John J. Schiff, Jr.

John J. Schiff, Jr.
Chairman and Chief Executive Officer

Exhibit 31B

Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002

I, Kenneth W. Stecher, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 principles;
    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 the 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 control 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: August 7, 2007

/S/ Kenneth W. Stecher

____

Kenneth W. Stecher
Chief Financial Officer, Executive Vice President, Secretary and Treasurer
(Principal Accounting Officer)

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-Q for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.

John J. Schiff, Jr., the chief executive officer, and Kenneth W. Stecher, 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: August 7, 2007

/S/ John J. Schiff, Jr.

John J. Schiff, Jr.
Chairman and Chief Executive Officer

/S/ Kenneth W. Stecher

Kenneth W. Stecher
Chief Financial Officer, Executive Vice President, Secretary and Treasurer
(Principal Accounting Officer)