

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 September 30, 2007.

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

For the transition period from _____ to _____.

Commission file number 0-4604

CINCINNATI FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of
incorporation or organization)

31-0746871

(I.R.S. Employer Identification No.)

6200 S. Gilmore Road, Fairfield, Ohio

(Address of principal executive offices)

45014-5141

(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 ☐ Non-accelerated filer ☐

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

☐ Yes ☒ No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

As of October 30, 2007, there were 165,998,910 shares of common stock outstanding.

CINCINNATI FINANCIAL CORPORATION
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Part I – Financial Information

Item 1. Financial Statements (unaudited)

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2007	December 31, 2006
(Dollars in millions except per share data)		
ASSETS		
Investments		
Fixed maturities, at fair value (amortized cost: 2007—\$5,905; 2006—\$5,739) (includes securities pledged to creditors of \$754 at September 30, 2007)	\$ 5,939	\$ 5,805
Equity securities, at fair value (cost: 2007—\$3,006; 2006—\$2,621)	7,225	7,799
Short-term investments, at fair value (amortized cost: 2007—\$37; 2006—\$95)	37	95
Other invested assets	67	60
Total investments	13,268	13,759
Cash and cash equivalents	183	202
Securities lending collateral invested	768	0
Investment income receivable	123	121
Finance receivable	97	108
Premiums receivable	1,161	1,128
Reinsurance receivable	745	683
Prepaid reinsurance premiums	12	13
Deferred policy acquisition costs	471	453
Land, building and equipment, net, for company use (accumulated depreciation: 2007—\$281; 2006—\$261)	227	193
Other assets	46	58
Separate accounts	521	504
Total assets	\$ 17,622	\$ 17,222
LIABILITIES		
Insurance reserves		
Loss and loss expense reserves	\$ 4,031	\$ 3,896
Life policy reserves	1,459	1,409
Unearned premiums	1,619	1,579
Securities lending payable	768	0
Other liabilities	539	533
Deferred income tax	1,287	1,653
Note payable	69	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	521	504
Total liabilities	11,084	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	1,041	1,015
Retained earnings	3,277	2,786
Accumulated other comprehensive income	2,735	3,379
Treasury stock at cost (2007—26 million shares, 2006—23 million shares)	(907)	(763)
Total shareholders' equity	6,538	6,808
Total liabilities and shareholders' equity	\$ 17,622	\$ 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 September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
REVENUES				
Earned premiums				
Property casualty	\$ 777	\$ 791	\$ 2,348	\$ 2,362
Life	34	28	99	84
Investment income, net of expenses	152	144	451	425
Realized investment gains and losses	16	0	370	671
Other income	3	4	15	14
Total revenues	<u>982</u>	<u>967</u>	<u>3,283</u>	<u>3,556</u>
BENEFITS AND EXPENSES				
Insurance losses and policyholder benefits	559	549	1,533	1,596
Commissions	136	156	466	478
Other operating expenses	90	87	266	255
Taxes, licenses and fees	18	19	57	58
Increase in deferred policy acquisition costs	6	(5)	(17)	(27)
Interest expense	13	13	39	39
Total benefits and expenses	<u>822</u>	<u>819</u>	<u>2,344</u>	<u>2,399</u>
INCOME BEFORE INCOME TAXES	<u>160</u>	<u>148</u>	<u>939</u>	<u>1,157</u>
PROVISION (BENEFIT) FOR INCOME TAXES				
Current	32	23	265	363
Deferred	4	10	5	(6)
Total provision for income taxes	<u>36</u>	<u>33</u>	<u>270</u>	<u>357</u>
NET INCOME	<u>\$ 124</u>	<u>\$ 115</u>	<u>\$ 669</u>	<u>\$ 800</u>
PER COMMON SHARE				
Net income—basic	\$ 0.72	\$ 0.67	\$ 3.89	\$ 4.61
Net income—diluted	\$ 0.72	\$ 0.66	\$ 3.86	\$ 4.56

Accompanying notes are an integral part of these statements.

Cincinnati Financial Corporation
Form 10-Q for the quarterly period ended September 30, 2007

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CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions)	Nine months ended September 30,	
	2007	2006
COMMON STOCK		
Beginning of year	\$ 391	\$ 389
Stock options exercised	1	2
End of period	<u>392</u>	<u>391</u>
PAID-IN CAPITAL		
Beginning of year	1,015	969
Stock options exercised	13	22
Share-based compensation	11	14
Other	2	0
End of period	<u>1,041</u>	<u>1,005</u>
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	<u>2,790</u>	<u>2,088</u>
Net income	669	800
Dividends declared	<u>(182)</u>	<u>(174)</u>
End of period	<u>3,277</u>	<u>2,714</u>
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	<u>3,374</u>	<u>3,284</u>
Other comprehensive income (loss), net	<u>(639)</u>	<u>(191)</u>
End of period	<u>2,735</u>	<u>3,093</u>
TREASURY STOCK		
Beginning of year	(763)	(644)
Purchase	<u>(144)</u>	<u>(95)</u>
End of period	<u>(907)</u>	<u>(739)</u>
Total shareholders' equity	<u>\$ 6,538</u>	<u>\$ 6,464</u>
COMMON STOCK — NUMBER OF SHARES OUTSTANDING		
Beginning of year	173	174
Stock options exercised	0	1
Purchase of treasury shares	<u>(3)</u>	<u>(2)</u>
End of period	<u>170</u>	<u>173</u>
COMPREHENSIVE INCOME		
Net income	\$ 669	\$ 800
Unrealized investment gains and losses during the period	<u>(989)</u>	<u>(314)</u>
Other	4	5
Taxes on other comprehensive income	<u>346</u>	<u>118</u>
Total comprehensive income	<u>\$ 30</u>	<u>\$ 609</u>

Accompanying notes are an integral part of these statements.

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CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,	
(In millions)	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 669	\$ 800
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	26	26
Realized gains on investments	(370)	(671)
Share-based compensation	11	14
Interest credited to contract holders	25	22
Changes in:		
Investment income receivable	(2)	2
Premiums and reinsurance receivable	(94)	(69)
Deferred policy acquisition costs	(17)	(27)
Other assets	(6)	3
Loss and loss expense reserves	135	217
Life policy reserves	71	53
Unearned premiums	40	64
Other liabilities	28	(12)
Deferred income tax	5	(6)
Current income tax	(1)	4
Net cash provided by operating activities	520	420
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of fixed maturities	267	76
Call or maturity of fixed maturities	330	225
Sale of equity securities	602	850
Collection of finance receivables	28	26
Purchase of fixed maturities	(792)	(611)
Purchase of equity securities	(626)	(644)
Change in short-term investments, net	60	79
Investment in buildings and equipment, net	(51)	(37)
Investment in finance receivables	(18)	(30)
Change in other invested assets, net	1	(10)
Change in securities lending collateral invested	(768)	(1,016)
Net cash used in investing activities	(967)	(1,092)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of cash dividends to shareholders	(180)	(170)
Purchase of treasury shares	(144)	(95)
Increase in notes payable	20	49
Proceeds from stock options exercised	14	21
Contract holder funds deposited	12	28
Contract holder funds withdrawn	(59)	(57)
Change in securities lending payable	768	1,016
Excess tax benefits on share-based compensation	0	2
Other	(3)	(2)
Net cash provided by financing activities	428	792
Net increase (decrease) in cash and cash equivalents	(19)	120
Cash and cash equivalents at beginning of year	202	119
Cash and cash equivalents at end of period	\$ 183	\$ 239
Supplemental disclosures of cash flow information:		
Interest paid (net of capitalized interest: 2007—\$2; 2006—\$1)	\$ 26	\$ 26
Income taxes paid	264	360
Non-cash activities:		
Conversion of securities	\$ 108	\$ 50
Equipment acquired under capital lease obligations	7	7

Accompanying notes are an integral part of these statements.

Cincinnati Financial Corporation
Form 10-Q for the quarterly period ended September 30, 2007

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 September 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. These condensed consolidated financial statements should be read in conjunction with our consolidated financial statements included in our 2006 Annual Report on Form 10-K. 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 nine months ended September 30, 2007. The FIN 48 liability is carried in other liabilities in the condensed consolidated balance sheet as of September 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. Accrued interest expense 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 \$3.7 million as of January 1, 2007, and September 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

Investment asset sale – On October 24, 2007, we sold 5.5 million shares, or 7.6 percent, of the company's Fifth Third Bancorp (NASDAQ:FITB) common stock holding to largely fund an accelerated share repurchase agreement. The sale generated total proceeds of \$162 million, which will be reduced by capital gains taxes of approximately \$22 million. The sale was executed pursuant to Rule 144 under the Securities Act of 1933, as amended. The net after-tax gain of approximately \$42 million, or about 25 cents per share, will be included in net income for the three and 12 months ending December 31, 2007.

Fifth Third remains the company's largest equity holding and Cincinnati Financial remains Fifth Third's largest shareholder. After the transaction, Cincinnati Financial and its subsidiaries own 67.3 million shares of Fifth Third's common stock, or approximately 12.6 percent of the bank's total common shares outstanding as of September 30, 2007.

Accelerated share repurchase agreement – On October 24, 2007, we entered into an accelerated share repurchase agreement with UBS AG. The 4 million accelerated share repurchase agreement is valued at \$160 million (based on a reference price of \$39.88). The final effective purchase price will be based on the volume weighted average price of the company's common stock through a contractually specified period expected to conclude no later than the first quarter of 2008.

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 September 30, 2007, and December 31, 2006.

At September 30, 2007, unrealized investment gains before taxes in the investment portfolio totaled \$4.357 billion and unrealized investment losses before taxes amounted to \$104 million. The unrealized gains primarily were due to our long-term holdings of Fifth Third common stock, which constituted 50.1 percent of total unrealized gains, and from our other common stock holdings, including AllianceBernstein Holding L.P. (NYSE:AB), ExxonMobil (NYSE:XOM), PNC Financial Services Group, Inc. (NYSE:PNC) and

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The Procter & Gamble Company (NYSE:PG), each of which constituted at least 5 percent of total unrealized gains. As noted above, we sold 5.5 million shares of our Fifth Third common stock holding on October 24, 2007, which will reduce unrealized gains from this position at year-end 2007 and beyond.

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 months ended September 30, 2007, we recognized \$3 million in realized investment losses related to current period changes in valuation of our hybrid securities. During the nine months, we recognized \$1 million in realized investment gains related to current period changes in valuation of our hybrid securities. At September 30, 2007, we had \$170 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 nine months ended September 30, 2007 and 2006, was due primarily to interest-rate driven fair value fluctuations in the fixed maturity portfolio.

Equity securities unrealized gains decreased for the three and nine months ended September 30, 2007, because of the sale of common stock holdings and declines in the market value of equity holdings.

Equity securities unrealized gains rose for the three months ended September 30, 2006, primarily due to gains in the market value of equity holdings. Equity securities unrealized gains declined for the nine months ended September 30, 2006, primarily because of the sale of our holdings of ALLTEL Corporation (NYSE:AT) common stock, which was completed in January 2006, partially offset by gains in the market values of our other equity holdings.

(In millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Change in unrealized investment gains and losses and other summary:				
Fixed maturities	\$ 60	\$ 142	\$ (30)	\$ (18)
Equity securities	(488)	385	(959)	(296)
Adjustment to deferred acquisition costs and life policy reserves	(1)	(4)	1	2
Pension funded status	1	0	2	0
Other	0	2	1	3
Income taxes on above	150	(184)	346	118
Total	<u>\$ (278)</u>	<u>\$ 341</u>	<u>\$ (639)</u>	<u>\$ (191)</u>

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 received 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. As this program is accounted for as a secured borrowing, the invested collateral is recognized as an asset, and classified as securities lending collateral invested, 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. Although the securities loaned have been pledged and effectively secure the cash collateral we received, we maintain effective control over such securities, which we continue to classify as invested assets on our consolidated balance sheets. At September 30, 2007, we had fixed maturities with a market value of \$754 million on loan, with collateral held of \$768 million. Interest income on collateral, net of fees, was \$452,000 and \$995,000 in the three and nine months ended September 30, 2007, versus \$252,000 and \$528,000 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 September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Direct earned premiums	\$ 815	\$ 826	\$ 2,462	\$ 2,459
Assumed earned premiums	6	6	16	17
Ceded earned premiums	(44)	(41)	(130)	(114)
Net earned premiums	<u>\$ 777</u>	<u>\$ 791</u>	<u>\$ 2,348</u>	<u>\$ 2,362</u>
Direct incurred loss and loss expenses	\$ 534	\$ 533	\$ 1,511	\$ 1,567
Assumed incurred loss and loss expenses	6	3	10	10
Ceded incurred loss and loss expenses	(16)	(20)	(86)	(72)
Net incurred loss and loss expenses	<u>\$ 524</u>	<u>\$ 516</u>	<u>\$ 1,435</u>	<u>\$ 1,505</u>

For the three and nine months ended September 30, 2007, assumed earned premiums were essentially unchanged while ceded earned premiums reflected the change in our reinsurance programs effective January 1, 2007.

For the three and nine months ended September 30, 2007, assumed incurred loss and loss expenses were essentially unchanged. Ceded incurred loss and loss expenses were essentially unchanged for the three-month period ended September 30, 2007. Ceded incurred loss and loss expenses rose in the nine month period due to a greater number and amount of losses above our per risk treaty retentions.

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 September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Service cost	\$ 6	\$ 4	\$ 15	\$ 12
Interest cost	4	4	12	10
Expected return on plan assets	(4)	(3)	(11)	(9)
Amortization of actuarial gain, prior service cost and transition asset	1	1	2	2
Net periodic benefit cost	<u>\$ 7</u>	<u>\$ 6</u>	<u>\$ 18</u>	<u>\$ 15</u>

We contributed \$10 million to the pension plan during the nine months ended September 30, 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 are authorized to be granted under the shareholder-approved plans. At September 30, 2007, 10,546,728 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 September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Share-based compensation cost	\$ 3	\$ 3	\$ 11	\$ 14
Income tax benefit	0	0	2	3
Share-based compensation cost after tax	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 9</u>	<u>\$ 11</u>

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:

	Nine months ended September 30, 2007	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 September 30, 2007, there was \$17 million of unrecognized compensation cost related to non-vested awards that is expected to be recognized over a weighted average period of 1.8 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	(489)	28.70	
Forfeited/revoked/expired	(113)	39.39	
Outstanding at end of period	10,647	36.80	\$74
Options exercisable at end of period	8,761	\$35.20	\$73
Weighted-average fair value of options granted during the period		9.43	

(Shares in thousands)	Options outstanding			Options exercisable	
	Shares	Weighted-average remaining contractual life	Weighted- average exercise price	Shares	Weighted- average exercise price
Range of exercise prices					
\$25.00 to \$29.99	865	2.28 yrs	\$27.04	865	\$27.04
\$30.00 to \$34.99	4,387	3.47 yrs	32.68	4,387	32.68
\$35.00 to \$39.99	1,868	4.65 yrs	38.45	1,868	38.45
\$40.00 to \$44.99	2,224	6.97 yrs	42.38	1,198	41.51
\$45.00 to \$49.99	1,303	8.30 yrs	45.26	443	45.26
Total	10,647	4.90 yrs	36.80	8,761	35.20

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 September 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 nine months ended September 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	(5)	40.74	0	0.00
Nonvested at September 30, 2007	163	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 September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues:				
Commercial lines insurance				
Commercial casualty	\$ 205	\$ 207	\$ 623	\$ 613
Commercial property	125	123	373	367
Commercial auto	108	113	331	337
Workers' compensation	94	93	280	271
Specialty packages	36	35	109	106
Surety and executive risk	25	24	73	69
Machinery and equipment	7	7	21	20
Total commercial lines insurance	<u>600</u>	<u>602</u>	<u>1,810</u>	<u>1,783</u>
Personal lines insurance				
Personal auto	85	95	259	294
Homeowner	70	72	214	219
Other personal lines	22	22	65	66
Total personal lines insurance	<u>177</u>	<u>189</u>	<u>538</u>	<u>579</u>
Life insurance	35	28	103	86
Investment operations	168	144	821	1,096
Other	2	4	11	12
Total	<u>\$ 982</u>	<u>\$ 967</u>	<u>\$ 3,283</u>	<u>\$ 3,556</u>
Income (loss) before income taxes:				
Insurance underwriting results:				
Commercial lines insurance	\$ 28	\$ 39	\$ 184	\$ 153
Personal lines insurance	(7)	(8)	8	(16)
Life insurance	(2)	0	4	2
Investment operations	154	130	778	1,056
Other	(13)	(13)	(35)	(38)
Total	<u>\$ 160</u>	<u>\$ 148</u>	<u>\$ 939</u>	<u>\$ 1,157</u>
Identifiable assets:				
Property casualty insurance			\$ 2,316	\$ 2,220
Life insurance			918	886
Investment operations			13,323	13,820
Other			1,065	296
Total			<u>\$ 17,622</u>	<u>\$ 17,222</u>

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:
 - o Downgrade of the company's financial strength ratings
 - o Concerns that doing business with the company is too difficult or
 - o 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:
 - o Restrict our ability to exit or reduce writings of unprofitable coverages or lines of business
 - o Place the insurance industry under greater regulatory scrutiny or result in new statutes, rules and regulations
 - o Increase our expenses

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- 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
- Securities laws that could limit the manner and timing of our investment transactions
- 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 September 30,			Nine months ended September 30,		
	2007	2006	Change %	2007	2006	Change %
Income statement data						
Earned premiums	\$ 811	\$ 819	(1.0)	\$ 2,447	\$ 2,446	0.1
Investment income, net of expenses	152	144	5.8	451	425	6.0
Realized investment gains and losses (pretax)	16	0	nm	370	671	nm
Total revenues	982	967	1.5	3,283	3,556	(7.7)
Net income	124	115	7.4	669	800	(16.4)
Per share data (diluted)						
Net income	0.72	0.66	9.1	3.86	4.56	(15.4)
Cash dividends declared	0.355	0.335	6.0	1.065	1.005	6.0
Weighted average shares outstanding	172,399,539	175,260,063	(1.6)	173,423,199	175,542,616	(1.2)

Revenues rose modestly for the three months ended September 30, 2007, and declined for the nine months because of lower realized investment gains. For the three and nine months ended September 30, 2007, one of the primary drivers of consolidated property casualty earned premiums and total revenues – written premiums – was at a level that caused us to further lower our full-year 2007 target for this measure. We discuss that change in Measuring Our Success in 2007 and Beyond, Page 16. Below we discuss two significant components of revenues, investment income and realized investment gains and losses.

For the three and nine months ended September 30, 2007, growth in pretax investment income reflected strong cash flow for new investments and increased dividend income from the common stock portfolio. Pretax interest income trends have been affected in recent years by the higher percentage of tax-advantaged bond purchases, such as municipal bonds, which have a lower gross yield than taxable bonds.

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For the three months ended September 30, 2007, a more normalized level of gains from the disposition of certain investments led to higher realized investment gains. For the nine months ended September 30, 2007 and 2006, realized investment gains were higher than our normal level because of equity sales in the first half of each year. We discuss these sales in Investments Results of Operations, Page 31.

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 nine months ended September 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 grant associates stock options on an annual basis.

During the three months ended September 30, 2007, we repurchased 1.9 million shares of our common stock at a cost of \$80 million. During the nine months ended September 30, 2007, we repurchased a total of 3.4 million shares at a cost of \$144 million. The fourth-quarter accelerated share repurchase agreement more than doubled year-to-date repurchases to approximately 7.4 million shares at a cost of approximately \$304 million.

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 nine months ended September 30, 2007.

Balance Sheet Data and Performance Measures

(Dollars in millions except share data)		At September 30, 2007	At December 31, 2006
Balance sheet data			
Invested assets		\$13,268	\$13,759
Total assets		17,622	17,222
Short-term debt		69	49
Long-term debt		791	791
Shareholders' equity		6,538	6,808
Book value per share		38.47	39.38
Debt-to-capital ratio		11.6%	11.0%
		Three months ended September 30, 2007	Nine months ended September 30, 2007
Performance measures			
Comprehensive income	\$ (149)	\$ 455	\$ 30
Return on equity, annualized	7.4%	7.4%	13.4%
Return on equity, annualized, based on comprehensive income	(8.9)	29.1	0.6

Invested assets were below the level at year-end 2006 primarily because of the lower market value of our equity portfolio. Total assets rose over the year-end 2006 level primarily because of the securities lending collateral asset of \$768 million.

Comprehensive income is net income plus the year-over-year change in accumulated other comprehensive income. In the three months ended September 30, 2007, comprehensive income declined because net income was more than offset by lower unrealized gains in the investment portfolio. In the three months ended September 30, 2006, comprehensive income rose because of higher unrealized gains in the investment portfolio.

In the nine months ended September 30, 2007, comprehensive income rose slightly because net income more than offset lower unrealized gains in the investment portfolio. In the nine months ended September 30, 2006, comprehensive income rose because of higher net income and unrealized gains in the investment portfolio.

Return on equity was unchanged in the three months ended September 30, 2007. Return on equity was lower for the nine-month period because realized gains on investments were lower. Return on equity based on comprehensive income showed results similar to comprehensive income, as described above.

Our ratio of total debt to capital (total debt plus shareholders' equity) rose 0.6 percentage points from year-end 2006 due to the \$20 million increase in short-term borrowings and lower shareholders' equity, which reflected lower unrealized gains in the investment portfolio.

Property Casualty Highlights

(Dollars in millions)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change %	2007	2006	Change %
Property casualty highlights						
Written premiums	\$ 736	\$ 780	(5.6)	\$2,392	\$2,423	(1.3)
Earned premiums	777	791	(1.8)	2,348	2,362	(0.6)
Underwriting profit	21	31	(32.7)	192	137	40.8
GAAP combined ratio	97.3%	96.1%		91.8%	94.2%	
Statutory combined ratio	98.7	96.4		91.3	93.2	

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** declined for the three months ended September 30, 2007. The quarter benefited from lower levels of catastrophe losses and commissions and from higher than anticipated favorable development on prior period reserves. These were offset by the effects of softer pricing, non-catastrophe weather losses and the timing differences.

Our underwriting profit rose for the nine months ended September 30, 2007, primarily because of 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 percent 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 September 30, 2007, we had 105 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. We made our first agency appointment in eastern Washington state in the second quarter and our first agency appointment in New Mexico in the third quarter.

At September 30, 2007, our 1,084 agency relationships had 1,311 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. We are very careful to protect the franchise for current agencies when selecting and appointing new agencies. Our objective is to appoint approximately 55 to 60 additional sales offices, or points of distribution, each year. During the first nine months of 2007, we had a net increase of 22 reporting agency locations. We made 33 new agency appointments during the period, including 16 that were new relationships. These were offset by changes in agency structures and the cancellation of nine agency relationships.

In 2007, we are making 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. Activities and plans 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 34 states in which we actively market insurance and provides quoting capabilities for nearly 100 percent of our new and renewal commercial lines business. We will introduce WinCPP in Washington and New Mexico as soon as possible. We have introduced real-time 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 commercial lines Web-based policy processing system. e-CLAS now is available in 15 states representing 71 percent of our Businessowner Policy (BOP) and Dentist's Package Policy (DBOP) premiums, which are part of the Specialty Packages commercial line of business. We continue to roll out e-CLAS to additional states for these policy types. CinciBridge real-time 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. We now anticipate rolling out a test version of this capability to selected agencies by year-end 2007 with full agency roll out in early 2008. Similar direct billing capability for policies not issued through e-CLAS is anticipated by the end of 2008.

iView™ is our commercial lines policy imaging and workflow system. At September 30, 2007, 80 percent of non-workers' compensation commercial lines policy files were 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.

- o Personal Lines Technology – Diamond, our personal lines policy processing system, now is available in 17 states representing virtually all of our personal lines premium volume. Roll out to additional states is planned for next year.

In 2006, we introduced PL-eFiles, a policy imaging system, to our personal lines operations. Through September 30, 2007, we had transitioned information on current Diamond personal lines policies to PL-eFiles and continue to work on imaging older policy information.

- o Claims Technology – CMS is our claims file management system used by claims associates and associates in other headquarters and field departments. Agency access to selected CMS information will be tested in the fourth quarter of 2007, with the full roll out due to be completed in early 2008.
- o Surety and Executive Risk Technology – CinciBond® is an automated system that processes license and permit surety bonds. It has been introduced to agencies in 10 states representing 803 agency reporting locations. We will roll out CinciBond to additional states beginning with Arizona and Michigan during the fourth quarter of 2007. We expect to add Judicial and Public Official bond processing in 2008.

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, policy terms and conditions.

In the first nine months 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. We have incorporated The Cincinnati Specialty Underwriters Insurance Company as a new subsidiary of The Cincinnati Insurance Company and we will capitalize Cincinnati Specialty Underwriters with up to \$200 million by year-end 2007. We also have incorporated CSU Producer Resources as a subsidiary of Cincinnati Financial Corporation. CSU Producer Resources is a wholly owned brokerage subsidiary that will provide exclusive access for our independent agencies to our excess and surplus lines products. Our interdepartmental team continues to identify the excess and surplus lines and classes of business that we will target, develop underwriting guidelines and establish 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 nine months of 2007, we are revising our full-year 2007 property casualty growth and profitability targets.

Written premiums – We now believe we may see slightly lower full-year net written premiums, in line with the 1.3 percent decline in this measure for the nine months ended September 30, 2007. At mid-year, we had estimated full-year premiums would be in the same range as last year's \$3.178 billion.

Our property casualty operations received administrative subpoenas from the Florida Office of Insurance Regulation on August 24, 2007. The subpoenas requested documents and testimony at a public hearing about our reinsurance programs, and our relationships with trade associations, rating agencies and risk modeling firms. Although our September 20, 2007, petition to modify the scope of the subpoenas was denied, the Office separately clarified the scope of the subpoenas and we produced responsive documents. The Office also cancelled the public hearing regarding the subpoenas originally planned for October 18, 2007. A new date for the hearing has not been set.

We share the Office's goal to make homeowners insurance available and affordable to the citizens of Florida, and we respect their right – their duty – to investigate activities that might be contrary to their regulations supporting that goal. The subpoenas add uncertainty to the insurance-related legislative and regulatory developments that have occurred in Florida this year. Over the past year, we have not sought new policyholder relationships from our Florida agencies. This status, which extends to most of our lines of property casualty insurance, may have slowed our growth rate in Florida this year. By excluding wind coverage from policies located within the Florida wind pool area, we have been able 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 through our Florida agencies.

In early 2007, A.M. Best projected that overall industry net written premiums would be flat in 2007. Premiums for the commercial lines sector were expected to decline 1.0 percent in 2007; the personal lines sector was expected to grow 1.2 percent and the reinsurance sector was expected to grow 18.6 percent. They later estimated that overall industry premiums declined an estimated 0.7 percent in the first six months of 2007. For that period, they estimated that premiums for the commercial lines sector declined an estimated 1.8 percent and that premiums for the personal lines sector rose an estimated 0.7 percent.

Combined ratio – We now believe that the full-year 2007 combined ratio could be at or below 94 percent on either a GAAP or statutory basis, improved from our previous estimate of a combined ratio at or below 95 percent. This is the second time we have improved our view for this measure this year. The GAAP combined ratio was 91.8 percent in the first nine months of 2007 and 94.3 percent for full-year 2006. Our revised target reflects several assumptions:

- o Catastrophe loss contribution lower than previously anticipated. This should help offset the expected deterioration in the underlying loss ratio due to softer pricing and loss cost inflation. We previously had anticipated catastrophe losses would contribute up to 4.5 percentage points to the combined ratio.
- o Savings from favorable reserve development contributing more than 2 percentage points to the full-year combined ratio. 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 Underwriting expense contribution as we continue to invest in people and technology. We now believe the consolidated property casualty 2007 underwriting expense ratio could be approximately 31 percent, slightly below our previous estimate.

In early 2007, A.M. Best projected the industry average 2007 combined ratio would be 96.8 percent. They later estimated that for the second-quarter, the commercial lines sector combined ratio was 91.9 percent, the personal lines sector ratio was 94.6 percent and the reinsurance sector ratio was 89.5 percent.

- **Pursuing a total return investment strategy that generates both strong investment income growth and capital appreciation** – We continue to estimate that 2007 pretax investment income growth will be approximately 6 percent.

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 nine months of 2007, our equity portfolio's total return was a negative 5.0 percent compared with a 9.1 percent return for the Index. Over the five years ended September 30, 2007, our compound annual equity portfolio return was 2.7 percent compared with 15.5 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 8.3 percent for the five-year period ended September 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, periodically authorizing stock dividends and splits and authorizing share repurchases. In February 2007, the board increased the indicated annual cash 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** - A \$20 million increase in our short-term borrowings and the decline in shareholders' equity resulted in an increase in our debt-to-capital ratio to 11.6 percent at September 30, 2007. 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 12 percent through the remainder of the year. We discuss our outstanding debt in Capital Resources, Page 34.

We expect our 2007 reinsurance premiums 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 nine months of 2007, the increase in premiums we are paying for reinsurance lowered the 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 November 1, 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 ratings organizations affirmed the company's ratings since our Quarterly Report on Form 10-Q for the period ended June 30, 2007:

- o On September 18, 2007, Moody's Investors Service affirmed its Aa3 insurance financial strength ratings of The Cincinnati Insurance Company and its property casualty operating subsidiaries. The rating outlook is stable.
- o On October 8, 2007, Fitch Ratings affirmed its AA (Very Strong) insurer financial strength ratings for The Cincinnati Insurance Company and its operating subsidiaries. The rating outlook is stable.

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 \$4.782 billion at September 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 89.6 percent at September 30, 2007, compared with 96.7 percent at year-end. Life statutory surplus was \$485 million at September 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 76.2 percent at September 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 7, 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 September 30,			Nine months ended September 30,		
	2007	2006	Change %	2007	2006	Change %
Written premiums	<u>\$ 736</u>	<u>\$ 780</u>	(5.6)	<u>\$ 2,392</u>	<u>\$ 2,423</u>	(1.3)
Earned premiums	\$ 777	\$ 791	(1.8)	\$ 2,348	\$ 2,362	(0.6)
Loss and loss expenses excluding catastrophes	511	489	4.5	1,409	1,375	2.5
Catastrophe loss and loss expenses	13	27	(51.9)	28	130	(78.7)
Commission expenses	127	147	(13.3)	440	452	(2.8)
Underwriting expenses	102	94	8.0	270	256	5.5
Policyholder dividends	3	3	(2.8)	9	12	(23.4)
Underwriting profit	<u>\$ 21</u>	<u>\$ 31</u>	(32.7)	<u>\$ 192</u>	<u>\$ 137</u>	40.8
Ratios as a percent of earned premiums:						
Loss and loss expenses excluding catastrophes	65.7%	61.7%		60.0%	58.3%	
Catastrophe loss and loss expenses	1.7	3.5		1.2	5.5	
Loss and loss expenses	67.4	65.2		61.2	63.8	
Commission expenses	16.5	18.7		18.7	19.1	
Underwriting expenses	13.0	11.8		11.5	10.8	
Policyholder dividends	0.4	0.4		0.4	0.5	
Combined ratio	<u>97.3%</u>	<u>96.1%</u>		<u>91.8%</u>	<u>94.2%</u>	

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:

- Market conditions continued to grow more competitive. For more than a year, we have been receiving reports from agents of ever more competitive commercial and personal lines marketplaces. In the third quarter, these reports rose to a higher frequency and pitch. This increased competition coincided with economic pressures in some regions, which also reduced premiums by affecting our policyholders' revenues and payrolls.
- New business written directly by agencies was \$82 million in the three months ended September 30, 2007, compared with \$98 million in the year-ago period. New business written directly by agencies was \$244 million in the nine months ended September 30, 2007, compared with \$268 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.
- Savings from favorable development on prior period reserves improved the combined ratio by a total of 6.4 percentage points in the three months ended September 30, 2007, and 5.4 percentage points in the nine-month period, including 0.9 percentage points from \$20 million of savings from favorable development on prior period catastrophe loss reserves. In the three and nine months ended September 30, 2006, savings from favorable reserve development improved the combined ratio by 4.9 and 1.5 percentage points.
- Catastrophe losses contributed 1.7 percentage points to the combined ratio in the three months ended September 30, 2007, compared with 3.5 points in the comparable 2006 period. Catastrophe losses contributed 1.2 percentage points in the nine months ended September 30, 2007, compared with 5.5 points a year ago. In the first nine months of 2007, we incurred \$48 million of pretax catastrophe

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losses caused by 12 weather events during the period, mitigated by \$20 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)

(In millions)			Three months ended Sept 30,			Nine months ended Sept 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	(1)	0	(1)	1	1	2
Feb. 23-25	Wind, hail, ice, snow	Midwest	0	0	0	3	0	3
Mar. 1-2	Wind, hail, flood	South	(1)	1	0	5	2	7
Apr. 13-16	Wind, hail, flood	Northeast	0	(1)	(1)	2	1	3
May 4-8	Wind, hail, flood	Midwest	0	0	0	3	0	3
May 21-24	Wind, hail, flood	Midwest, South	0	1	1	1	1	2
Jun. 7-9	Wind, hail, flood	Midwest	2	1	3	4	4	8
Jun. 20-22	Wind, hail	Midwest	1	(1)	0	1	2	3
Aug. 13-14	Wind, hail, flood	Midwest	1	2	3	1	2	3
Aug. 23-24	Wind, hail, flood	Midwest	3	1	4	3	1	4
Sep 20-21	Wind, hail, flood	Midwest	1	6	7	1	6	7
Development on 2006 and prior catastrophes			(5)	2	(3)	(11)	(9)	(20)
Calendar year incurred total			\$ 1	\$ 12	\$ 13	\$ 17	\$ 11	\$ 28

2006

Mar. 11-13	Wind, hail	Midwest, Mid-Atlantic	\$ 3	\$ (2)	\$ 1	\$ 30	\$ 8	\$ 38
Apr. 2-3	Wind, hail	Midwest, South	0	(1)	(1)	13	5	18
Apr. 6-8	Wind, hail, tornados	Midwest, South	4	7	11	14	24	38
Apr. 13-15	Wind, hail, tornados	Midwest	(1)	0	(1)	4	6	10
Apr. 23-25	Wind, hail	Midwest, South	0	0	0	2	1	3
Jun. 18-22	Wind, hail, flood	Midwest	(1)	0	(1)	3	2	5
Jun. 25-28	Wind, flood	Northeast	0	0	0	2	0	2
Jul 17-19	Wind, hail, flood	Northeast	1	0	1	1	0	1
Jul 19-21	Wind, hail, flood	Midwest	4	2	6	4	2	6
Jul. 27-28	Wind, flood	Midwest	1	0	1	1	0	1
Aug. 23-25	Wind, hail, flood	Midwest	4	4	8	4	4	8
Aug 29-Sep. 3	Wind, flood	Midwest, South	1	0	1	1	0	1
Sep. 22-23	Wind, hail, flood	Midwest, South	1	2	3	1	2	3
Development on 2005 and prior catastrophes			(3)	1	(2)	(3)	(1)	(4)
Calendar year incurred total			<u>\$ 14</u>	<u>\$ 13</u>	<u>\$ 27</u>	<u>\$ 77</u>	<u>\$ 53</u>	<u>\$130</u>

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 declined 6.4 percent in the three months ended September 30, 2007. Competition in our markets continued to intensify, and we view this as the most significant factor in the change in total commercial lines premiums and new business levels. In this environment, we have been careful to maintain our underwriting discipline and are comfortable with overall premium trends. Written premiums for the nine-month period matched last year's level.

Primarily because of the heightened competition, new commercial lines business written directly by agencies declined 18.3 percent for the three months ended September 30, 2007, to \$72 million from a record \$89 million. New business declined 11.8 percent for the nine months ended September 30, 2007, to \$216 million from a record \$244 million.

Other factors in the year-over-year comparisons include the economic slowdown in many regions, timing differences and higher reinsurance premiums. For commercial accounts, we calculate general liability premiums based on sales or payroll volumes while we calculate workers' compensation premiums based on payroll volumes. A change in these measures generally indicates a change in the business's exposure to risk. Accordingly, when external factors, such as the housing market slowdown, cause demand for our policyholders' business services to rise or fall, our premiums may fluctuate in line with these sales or payroll volume changes.

Early in 2007, 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 later estimated that industry commercial lines net written premiums declined 1.8 percent in the first six months of 2007.

- Combined ratio – Our commercial lines combined ratio rose in the three months ended September 30, 2007, largely because of the increase in the loss and loss expense ratio excluding catastrophe losses and higher underwriting expenses. Offsetting those increases were lower catastrophe losses, higher savings from favorable development on prior period reserves and lower commission expenses. The ratio improved for the nine-month period, primarily because of a significantly lower level of catastrophe losses.

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 23. We discuss reserve development for commercial lines of business below.

Our commercial lines statutory combined ratio was 97.3 percent and 89.2 percent in the three and nine months ended September 30, 2007, compared with 94.1 percent and 90.3 percent in the comparable 2006 periods. Beginning in 2007, we are including stock option expense in the calculation of statutory income. Early in 2007, A.M. Best estimated the industry commercial lines combined ratio would be approximately 98 percent in 2007, rising from approximately 94.3 percent in 2006. They later estimated the industry commercial lines combined ratio was 91.9 percent in the first six months of 2007.

Commercial Lines Results

(Dollars in millions)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change %	2007	2006	Change %
Written premiums	<u>\$ 544</u>	<u>\$ 582</u>	(6.4)	<u>\$ 1,851</u>	<u>\$ 1,853</u>	(0.1)
Earned premiums	\$ 600	\$ 602	(0.3)	\$ 1,810	\$ 1,783	1.5
Loss and loss expenses excluding catastrophes	395	363	9.0	1,068	1,020	4.7
Catastrophe loss and loss expenses	1	14	(93.5)	17	77	(78.4)
Commission expenses	94	109	(13.4)	330	331	(0.5)
Underwriting expenses	79	74	7.2	202	190	6.3
Policyholder dividends	3	3	(2.8)	9	12	(23.4)
Underwriting profit	<u>\$ 28</u>	<u>\$ 39</u>	(29.8)	<u>\$ 184</u>	<u>\$ 153</u>	20.8

Ratios as a percent of earned premiums:

Loss and loss expenses excluding catastrophes	65.8%	60.2%	59.0%	57.3%
Catastrophe loss and loss expenses	0.2	2.3	0.9	4.3
Loss and loss expenses	66.0	62.5	59.9	61.6
Commission expenses	15.8	18.2	18.3	18.6
Underwriting expenses	13.1	12.2	11.1	10.6
Policyholder dividends	0.5	0.5	0.5	0.6
Combined ratio	<u>95.4%</u>	<u>93.4%</u>	<u>89.8%</u>	<u>91.4%</u>

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 nine months ended September 30, 2007, was due to:

- Catastrophe losses – Catastrophe losses contributed 0.2 and 0.9 percentage points to the commercial lines loss and loss expense ratio in the three and nine months ended September 30, 2007, compared with 2.3 and 4.3 points in the comparable three and nine months of 2006. See Page 21 for details on catastrophe losses for the first nine months of 2007 and 2006.

While catastrophe losses were significantly lower than anticipated, we did have an unusual level of non-catastrophe weather losses. Losses from wind, hail and flood outside of catastrophe events were \$22 million, contributing about 3.7 percentage points to the combined ratio, in the three months ended September 30, 2007, compared with \$6 million, or about 1.0 points, in the three months ended September 30, 2006. Three of these non-catastrophe weather claims resulted in \$11 million of unusually large commercial property losses. One of these losses related to a tornado in North Dakota and two related to flooding in northern Ohio. In each case, industrywide damage appears to have been just shy of the level for official designation of a catastrophe event. Non-catastrophe weather-related losses were \$53 million and \$41 million in the nine months ended September 30, 2007 and 2006.

- Loss reserve development – Savings from favorable development on prior period reserves reduced the loss and loss expense ratio by 7.1 and 5.6 percentage points in the three and nine months ended September 30, 2007, including 0.7 and 0.6 points respectively from favorable development on prior

period catastrophe loss reserves. In the comparable three and nine months of 2006, savings reduced the ratio by 5.7 and 2.0 percentage points, respectively.

- **Market conditions** – During the third quarter of 2007, agents again reported that pricing pressure continued to increase on renewal business and that new business pricing was requiring more flexibility and more careful risk selection. We continued 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 15 percent to 20 percent on average to write the same piece of new business we would have quoted a year ago. By comparison, 10 percent to 15 percent premiums declines are not uncommon for renewal business.
- **Large losses** – We continue to monitor new losses and case reserve increases greater than \$250,000, for trends in factors such as initial reserve levels, loss cost inflation and settlement expenses. These losses and case reserve increases rose to a record level in the three months ended September 30, 2007, because of unusually high losses greater than \$1 million. Approximately half of the increase in losses greater than \$1 million was due to the non-catastrophe weather-related losses discussed above. The remainder largely was due to a higher the number of larger commercial auto and general liability losses greater than \$1 million. That increase was offset by a lower number of workers' compensation losses greater than \$1 million. The increase in the nine-month large loss measures was primarily due to the increase in third-quarter 2007 losses greater than \$1 million.

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 September 30,			Nine months ended September 30,		
	2007	2006	Change %	2007	2006	Change %
Losses \$1 million or more	\$ 72	\$ 51	41.4	\$ 153	\$ 121	26.6
Losses \$250 thousand to \$1 million	37	36	1.9	108	104	4.6
Development and case reserve increases of \$250,000 or more	45	46	(0.6)	141	135	4.1
Other losses excluding catastrophes	164	163	0.2	441	464	(5.0)
Total losses incurred excluding catastrophe losses	318	296	7.4	843	824	2.4
Catastrophe losses	1	14	(93.5)	17	77	(78.4)
Total losses incurred	\$ 319	\$ 310	2.8	\$ 860	\$ 901	(4.6)

Ratios as a percent of earned premiums:

Losses \$1 million or more	12.0%	8.5%	8.4%	6.8%
Losses \$250 thousand to \$1 million	6.2	6.1	6.0	5.8
Development and case reserve increases of \$250,000 or more	7.6	7.5	7.8	7.6
Other losses excluding catastrophes	27.2	27.1	24.4	26.0
Loss ratio excluding catastrophe losses	53.0	49.2	46.6	46.2
Catastrophe losses	0.2	2.3	0.9	4.3
Total loss ratio	53.2%	51.5%	47.5%	50.5%

Commission Expenses

Commercial lines commission expenses as a percent of earned premiums declined in the three and nine months ended September 30, 2007, due to lower 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 expenses grew for the three and nine months ended September 30, 2007, largely because of the timing of state assessments. The decline in written premiums also caused unfavorable year-over-year comparisons of deferred acquisition costs.

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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 September 30,			Nine months ended September 30,		
	2007	2006	Change %	2007	2006	Change %
Commercial casualty:						
Written premiums	\$ 179	\$ 196	(9.1)	\$ 641	\$ 634	1.1
Earned premiums	205	207	(1.0)	623	613	1.8
Loss and loss expenses incurred	131	103	27.5	358	311	14.8
Loss and loss expense ratio	63.7%	49.4%		57.4%	50.8%	
Loss and loss expense ratio excluding catastrophes	63.7	49.4		57.4	50.8	
Commercial property:						
Written premiums	\$ 120	\$ 126	(4.1)	\$ 383	\$ 381	0.6
Earned premiums	125	123	1.5	373	367	1.5
Loss and loss expenses incurred	77	68	13.7	200	224	(10.7)
Loss and loss expense ratio	61.5%	54.9%		53.7%	61.0%	
Loss and loss expense ratio excluding catastrophes	62.9	45.0		50.8	44.9	
Commercial auto:						
Written premiums	\$ 92	\$ 105	(12.0)	\$ 329	\$ 345	(4.7)
Earned premiums	108	113	(4.7)	331	337	(2.0)
Loss and loss expenses incurred	72	82	(12.4)	213	211	1.1
Loss and loss expense ratio	66.9%	72.8%		64.5%	62.5%	
Loss and loss expense ratio excluding catastrophes	66.5	73.3		64.4	61.5	
Workers' compensation:						
Written premiums	\$ 84	\$ 85	(1.8)	\$ 289	\$ 288	0.4
Earned premiums	94	93	0.8	280	271	3.4
Loss and loss expenses incurred	77	84	(8.5)	210	228	(7.7)
Loss and loss expense ratio	82.0%	90.3%		75.0%	84.1%	
Loss and loss expense ratio excluding catastrophes	82.0	90.3		75.0	84.1	
Specialty packages:						
Written premiums	\$ 34	\$ 35	(3.2)	\$ 111	\$ 109	1.6
Earned premiums	36	35	3.7	109	106	3.3
Loss and loss expenses incurred	28	26	7.3	71	78	(8.2)
Loss and loss expense ratio	76.7%	74.2%		65.3%	73.5%	
Loss and loss expense ratio excluding catastrophes	70.5	67.1		60.1	60.2	
Surety and executive risk:						
Written premiums	\$ 28	\$ 28	(0.2)	\$ 76	\$ 74	2.8
Earned premiums	25	24	5.3	73	69	5.5
Loss and loss expenses incurred	9	11	(18.7)	27	38	(30.4)
Loss and loss expense ratio	36.5%	47.3%		36.7%	55.6%	
Loss and loss expense ratio excluding catastrophes	36.5	47.3		36.7	55.6	
Machinery and equipment:						
Written premiums	\$ 7	\$ 7	15.9	\$ 22	\$ 22	1.9
Earned premiums	7	7	4.0	21	20	3.3
Loss and loss expenses incurred	2	3	(20.2)	6	7	(17.4)
Loss and loss expense ratio	34.7%	45.2%		27.8%	34.8%	
Loss and loss expense ratio excluding catastrophes	33.4	43.1		27.9	34.0	

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 declined in the three months ended September 30, 2007, but rose for the nine-month period. Casualty pricing continued to become more competitive. In addition, premiums often are predicated on policyholder payrolls and sales, which may be adversely affected by broader economic changes.

The commercial casualty loss and loss expense ratio rose in the three- and nine-month periods. Influences on loss experience included savings from favorable reserve development offset by pricing decreases and loss cost inflation. While the increase in the ratio exceeded our expectations, it remained within the range we consider appropriate in light of the characteristic volatility of this line of business.

Commercial Property

Commercial property written premiums declined in the three months ended September 30, 2007, but rose for the nine-month period. Commercial property results reflect the competitive pricing environment in non-coastal

markets. We continue to work to ensure we receive adequate premiums for insured risks. This ongoing effort helps offset more competitive market conditions.

The commercial property loss and loss expense ratio rose in the three- and nine-month periods due to pricing decreases, normal loss cost inflation and higher non-catastrophe weather-related losses. Generally, the loss and loss expense ratio continued to outperform our expectations, though by a smaller margin than in the first half of 2007.

Commercial Auto

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

The commercial auto loss and loss expense ratio improved in the three-month period, but rose for the nine months. In addition to the pricing decreases, normal loss cost inflation also contributed to the rise in the loss and loss expense ratio and to the increase in large losses first observed in mid-2006. New losses greater than \$1 million contributed \$60 million to loss and loss expenses in the nine months ended September 30, 2007, up from \$42 million in the comparable 2006 period.

Workers' Compensation

Workers' compensation written premiums declined slightly in the three months ended September 30, 2007, but rose slightly for the nine-month period.

We pay a lower commission rate on workers' compensation business, which means this line has a higher loss and loss expense breakeven ratio than our other commercial business lines. The workers' compensation loss and loss expense ratio improved in the three- and nine-month periods, benefiting from savings from favorable development on prior period reserves. 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 declined in the three months ended September 30, 2007, but rose for the nine-month period. 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 rose for the three-month period but improved for the nine-month period, primarily due to lower catastrophe losses.

Surety and Executive Risk

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

Machinery and Equipment

Machinery and equipment written premiums were unchanged for the three and nine months ended September 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 nine months of 2007 will persist through year-end 2007 and into 2008.

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 continue to contribute to underwriting profits to the extent seen over the past three and a half 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 nine months ended September 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 four 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 7.0 percent to \$10 million in the three months ended September 30, 2007, from \$9 million in the year-ago period and increased 18.6 percent to \$28 million in the first nine months of 2007 from \$24 million in the comparable 2006 period. New business premiums have risen for five 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 3.7 percent in the first nine months of 2007 compared with the year-ago period.

Early in 2007, 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 later estimated industry personal lines net written premiums rose 0.7 percent in the first six months of 2007.

- **Combined ratio** — The combined ratio improvement for the three- and nine-month periods was due to the lower level of catastrophe losses in 2007. For the nine-month period, the benefit of the lower level of catastrophe losses was offset by an increase in the loss and loss expense ratio excluding catastrophe losses. Both periods experienced a higher level of non-commission expenses in 2007.

Our personal lines statutory combined ratio was 103.6 percent and 98.3 percent in the three and nine months ended September 30, 2007, versus 104.0 percent and 102.3 percent in the comparable 2006 periods. Beginning in 2007, we are including stock option expense in the calculation of statutory income. Early in 2007, A.M. Best estimated the industry personal lines combined ratio would be approximately 95.4 percent in 2007, rising from approximately 92 percent in 2006. They later estimated that the industry personal lines combined ratio was 94.6 percent in the first six months of 2007.

Personal Lines Results

(Dollars in millions)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change%	2007	2006	Change%
Written premiums	<u>\$ 192</u>	<u>\$ 198</u>	(3.1)	<u>\$ 541</u>	<u>\$ 570</u>	(5.1)
Earned premiums	\$ 177	\$ 189	(6.6)	\$ 538	\$ 579	(7.1)
Loss and loss expenses excluding catastrophes	116	126	(8.2)	341	355	(4.0)
Catastrophe loss and loss expenses	12	13	(7.7)	11	53	(79.0)
Commission expenses	33	38	(13.1)	110	121	(9.1)
Underwriting expenses	23	20	11.0	68	66	3.4
Underwriting profit (loss)	<u>\$ (7)</u>	<u>\$ (8)</u>	19.1	<u>\$ 8</u>	<u>\$ (16)</u>	148.2

Ratios as a percent of earned premiums:

Loss and loss expenses excluding catastrophes	65.4%	66.6%	63.3%	61.3%
Catastrophe loss and loss expenses	7.0	7.1	2.1	9.2
Loss and loss expenses	72.4	73.7	65.4%	70.5
Commission expenses	18.7	20.1	20.4	20.8
Underwriting expenses	12.7	10.6	12.8	11.5
Combined ratio	<u>103.8%</u>	<u>104.4%</u>	<u>98.6%</u>	<u>102.8%</u>

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 nine months ended September 30, 2007, was due to:

- Market conditions — Lower pricing led to lower earned premiums, which was a significant factor in the change in the loss and loss expense ratio excluding catastrophe losses.
- Catastrophe losses — Catastrophe losses contributed 7.0 percentage points to the personal lines loss and loss expense ratio in the three months ended September 30, 2007, compared with 7.1 percentage points in the same three months of 2006. Catastrophe losses contributed 2.1 percentage points to the ratio in the first nine months of 2007 compared with 9.2 percentage points in the first nine months of 2006. See Page 21 for details on catastrophe losses for the first nine months of 2007 and 2006.
- Loss reserve development — Savings from favorable development on prior period reserves reduced the ratio by 4.0 percentage points in the three months ended September 30, 2007, including 1.1 points due to unfavorable development on prior period catastrophe loss reserves. Savings reduced the ratio by 4.6 percentage points in the nine months ended September 30, 2007, including 1.8 points due to savings from favorable development on prior period catastrophe loss reserves. Savings from favorable development on prior period reserves lowered the ratio by 2.7 and 0.2 percentage points in the three and nine months ended September 30, 2006. Savings in the noted periods largely related to favorable development on losses in the other personal business line.
- Large losses — We continue to monitor new losses and case reserve increases greater than \$250,000 for trends in factors such as initial reserve levels, loss cost inflation and settlement expenses. In the three months ended September 30, 2007, these losses were below the year-ago level. In total, personal lines new losses and reserve increases greater than \$250,000 were 13.3 percent and 11.7 percent of earned premiums in the three and nine months ended September 30, 2007, compared with 13.5 percent and 11.4 percent in the three and nine months ended September 30, 2006.

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 September 30,			Nine months ended September 30,		
	2007	2006	Change%	2007	2006	Change%
Losses \$1 million or more	\$ 8	\$ 9	(10.7)	\$ 21	\$ 19	11.5
Losses \$250 thousand to \$1 million	10	12	(17.9)	31	31	0.9
Development and case reserve increases of \$250,000 or more	5	4	20.9	12	16	(28.8)
Other losses excluding catastrophes	78	85	(8.4)	232	242	(4.1)
Total losses incurred excluding catastrophe losses	101	110	(8.6)	296	308	(3.9)
Catastrophe losses	12	13	(7.7)	11	53	(79.0)
Total losses incurred	\$ 113	\$ 123	(8.5)	\$ 307	\$ 361	(15.0)

Ratios as a percent of earned premiums:

Losses \$1 million or more	4.8%	5.0%	3.8%	3.2%
Losses \$250 thousand to \$1 million	5.7	6.4	5.8	5.4
Development and case reserve increases of \$250,000 or more	2.8	2.1	2.1	2.8
Other losses excluding catastrophes	43.5	44.5	43.3	41.8
Loss ratio excluding catastrophe losses	56.8	58.0	55.0	53.2
Catastrophe losses	7.0	7.1	2.1	9.2
Total loss ratio	63.8%	65.1%	57.1%	62.4%

Commission Expenses

Personal lines commission expenses as a percent of earned premiums declined in the three and nine months ended September 30, 2007, due to lower 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 expenses rose 2.1 and 1.3 percentage points in the three and nine months ended September 30, 2007. The increase was primarily due to the lower earned premiums, the normal fluctuations in operating expenses and the timing of state assessments.

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 September 30,			Nine months ended September 30,		
	2007	2006	Change%	2007	2006	Change%
Personal auto:						
Written premiums	\$ 92	\$ 96	(3.8)	\$ 256	\$ 279	(8.3)
Earned premiums	85	95	(10.8)	259	294	(11.9)
Loss and loss expenses incurred	57	57	(0.3)	174	183	(4.6)
Loss and loss expense ratio	67.7%	60.6%		67.3%	62.2%	
Loss and loss expense ratio excluding catastrophes	67.0	59.2		67.9	60.2	
Homeowner:						
Written premiums	\$ 77	\$ 79	(3.5)	\$ 218	\$ 224	(2.6)
Earned premiums	70	72	(3.1)	214	219	(2.3)
Loss and loss expenses incurred	58	68	(14.7)	142	183	(22.4)
Loss and loss expense ratio	82.7%	93.9%		66.5%	83.7%	
Loss and loss expense ratio excluding catastrophes	67.1	78.9		61.1	63.9	
Other personal:						
Written premiums	\$ 23	\$ 23	1.2	\$ 67	\$ 67	0.2
Earned premiums	22	22	(0.2)	65	66	(1.8)
Loss and loss expenses incurred	13	14	(8.7)	36	42	(15.9)
Loss and loss expense ratio	57.9%	63.3%		54.7%	63.9%	
Loss and loss expense ratio excluding catastrophes	54.2	58.1		52.7	57.3	

Personal Auto

Written and earned premiums for the personal auto business line declined for the three and nine months ended September 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 premiums lost due to price reductions 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.

The personal auto loss and loss expense ratio rose 7.1 and 5.1 percentage points for the three and nine months ended September 30, 2007, largely because of pricing reductions and normal loss cost trends.

Homeowner

Written and earned premiums for the homeowner business line declined for the three and nine months ended September 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 15.6 and 5.4 percentage points for the three and nine months ended September 30, 2007. Savings from favorable development on prior period catastrophe loss reserves in the first quarter of 2007 reduced the impact of catastrophe losses for the nine-month period. In the three and nine months of 2006, catastrophe losses raised the loss and loss expense ratio by 15.0 and 19.8 percentage points, respectively.

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 ratio 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 nine months ended September 30, 2007, and the loss and loss expense ratios improved, primarily due to higher savings from favorable development on prior period reserves.

Personal Lines Insurance Outlook

While higher 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 — Additional features help differentiate our products. This year, we introduced an expanded identity theft coverage that includes advocacy services to assist policyholders 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.

We also began 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 more than 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 802 of our 1,311 reporting agency locations in 22 of the 34 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, some agency locations that previously marketed only our commercial lines products have added our personal lines products. Expanding into these agencies should provide additional sources of premiums and help geographically diversify our personal lines portfolio. Over the last 12 months, our field marketing teams and personal lines associates began contacting the commercial lines-only agencies we identified in the 17 states in which Diamond is in use, introducing them to our enhanced personal lines products and technology.

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 nine months ended September 30, 2007, because of higher earned premiums and realized investment gains as discussed in the Investments Results of Operations, Page 31. Total life insurance net written premiums were \$39 million and \$126 million in the three and nine months ended September 30, 2007, compared with \$40 million and \$121 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 Written premiums for life insurance products rose \$2 million, or 6.3 percent, to \$34 million for the three months ended September 30, 2007, and \$10 million, or 10.9 percent, to \$104 million for the nine-month period. Written premiums for life insurance products largely reflect two product lines:
 - Written premiums for term life insurance products rose 14.2 percent to \$17 million for the three months and 24.7 percent to \$53 for the nine months.
 - Written premiums for universal life insurance products rose 3.6 percent to \$10 million for the three months and 5.0 percent to \$32 for the nine months.
 - o Written annuity premiums declined \$3 million, or 43.5 percent, to \$4 million in the three months ended September 30, 2007, and \$5 million, or 21.5 percent, to \$19 million in the nine-month period. Since late 2005, we have de-emphasized annuities because of an unfavorable interest rate environment.

Separate account investment management fee income contributed modestly to total revenues in each of the periods.

Gross in-force policy face amounts increased 7.0 percent to \$60.956 billion at September 30, 2007, from \$56.971 billion at year-end 2006. For the first nine months of 2007, the life insurance segment experienced a 10.1 percent decline in life applications submitted compared with the first nine months of 2006 although segment premiums rose. We introduced new whole and universal life products, both of which have 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 29 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 September 30, 2007, as higher earned premiums were offset by higher operating expenses; however, the segment operating profit rose by \$2 million for the nine-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 \$8 million and \$64 million in the three and nine months ended September 30, 2007, compared with \$9 million and \$54 million in the comparable 2006 period.

Life Insurance Results

(In millions)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change%	2007	2006	Change%
Written premiums	<u>\$ 39</u>	<u>\$ 40</u>	(2.5)	<u>\$ 126</u>	<u>\$ 121</u>	4.3
Earned premiums	\$ 34	\$ 28	23.0	\$ 99	\$ 84	19.3
Separate account investment management fees	<u>1</u>	<u>0</u>	51.1	<u>4</u>	<u>2</u>	35.2
Total revenues	<u>35</u>	<u>28</u>	23.7	<u>103</u>	<u>86</u>	19.7
Contract holders benefits incurred	36	33	10.1	98	92	7.2
Investment interest credited to contract holders	(14)	(14)	5.9	(43)	(40)	4.9
Operating expenses incurred	<u>15</u>	<u>9</u>	59.9	<u>44</u>	<u>32</u>	31.3
Total benefits and expenses	<u>37</u>	<u>28</u>	28.0	<u>99</u>	<u>84</u>	17.9
Life insurance segment profit (loss)	<u>\$ (2)</u>	<u>\$ 0</u>	312.1	<u>\$ 4</u>	<u>\$ 2</u>	112.9

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 designed for cash value accumulation.

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 41.9 percent of total dividend income in the first nine months of 2007. We discuss our Fifth Third investment in Quantitative and Qualitative Disclosures About Market Risk, Page 37, 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 nine 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 35.

- o Realized gains in the three months ended September 30, 2007, reflected a more typical level of disposition of certain investments.
- o Realized gains in the nine months ended September 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 \$478 million at September 30, 2007. The sale contributed \$184 million to our pretax realized gains for the nine month period. 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 \$118 million to our pretax realized gains for the nine-month period. After-tax proceeds totaled approximately \$77 million.
- o Realized losses in the three months ended September 30, 2006, reflected a more typical level of disposition of certain investments.
- o Realized gains in the nine months ended September 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.

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

Investment Results

(In millions)	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change%	2007	2006	Change%
Investment income:						
Interest	\$ 77	\$ 74	4.2	\$ 229	\$ 225	1.9
Dividends	75	67	11.8	219	194	12.7
Other	4	4	(12.3)	11	11	(0.9)
Investment expenses	(4)	(1)	(136.5)	(8)	(5)	(63.3)
Total net investment income	152	144	5.8	451	425	6.0
Investment interest credited to contract holders	(14)	(14)	(5.9)	(43)	(40)	(4.9)
Net realized investment gains and losses:						
Realized investment gains and losses	20	(2)	1,039.3	371	667	(44.4)
Change in valuation of derivatives	(3)	2	(242.6)	1	5	(83.8)
Other-than-temporary impairment charges	(1)	0	nm	(2)	(1)	(99.3)
Net realized investment gains	16	0	nm	370	671	(44.9)
Investment operations income	\$ 154	\$ 130	18.0	\$ 778	\$ 1,056	(26.3)

Investments Outlook

We continue to believe investment income growth for full-year 2007 could be approximately 6 percent even though we have reduced our Fifth Third common stock holding by 7.6 percent as discussed in Investing Activities, Page 33. Our outlook for investment income is based on growth in dividend income from all of our equity holdings, the investment of insurance operations cash flow and the current portfolio attributes. In 2007, we have been able to allocate a higher proportion of cash available for investment to equity securities, as appropriate, 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. During the last 12 months, Fifth Third and another 32 of our 39 publicly traded common stock holdings have raised their dividend.

We believe impairments in 2007 should be limited to securities that we identify as available 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 September 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 \$2 million and \$11 million in revenues in the three and nine months ended September 30, 2007, compared with \$4 and \$12 million for the three and nine months of 2006. Losses before income taxes of \$13 million and \$35 million for the three and nine months ended September 30, 2007, were primarily due to \$12 million and \$37 million, respectively, in interest expense from debt of the parent company.

TAXES

Income tax expense was \$36 million and \$270 million in the three and nine months ended September 30, 2007, compared with \$33 million and \$357 million in the comparable prior periods. The effective tax rates for the 2007 three- and nine-month periods were 22.5 percent and 28.7 percent compared with 21.9 percent and 30.9 percent in the comparable 2006 periods.

The primary reason for the change in the effective tax rate was the level and timing of realized gains. In the first nine months of 2007, we had a pretax realized gain of \$370 million, including \$16 million in the three months ended September 30. In the first nine 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. There were no material pretax realized gains in the three months ended September 30, 2006. 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, after the dividend proration of the 1986 Tax Reform

Act, 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 September 30, 2007, we had shareholders' equity of \$6.538 billion compared with \$6.808 billion at year-end 2006. Total debt rose by \$20 million to \$860 million.

SOURCES OF LIQUIDITY

Subsidiary Dividends

Our insurance subsidiary declared dividends to the parent company of \$140 million in the first nine months of 2007 compared with \$125 million in the first nine 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):

(In millions)	Nine months ended September 30,	
	2007	2006
Premiums collected	\$ 2,454	\$ 2,459
Loss and loss expenses paid	(1,407)	(1,378)
Commissions and other underwriting expenses paid	(816)	(789)
Insurance subsidiary cash flow from underwriting	231	292
Investment income received	376	355
Insurance subsidiary operating cash flow	<u>\$ 607</u>	<u>\$ 647</u>

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 nine 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 \$597 million in the first nine months of 2007 compared with \$301 million in the first nine months of 2006.
- Equity securities — In the first nine months of 2007, we sold equity holdings resulting in \$602 million in proceeds. In the first nine months of 2006, total equity sales were \$850 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.

We also can sell investments to generate capital for other corporate purposes. As we discuss in Uses of Capital, Page 35, we funded an accelerated share repurchase agreement by selling 5.5 million shares, or 7.6 percent, of the company's Fifth Third common stock holding on October 24, 2007. The sale generated total proceeds of \$162 million, which will be reduced by capital gains taxes of approximately \$22 million. The net after-tax gain of approximately \$42 million, or about 25 cents per share, will be included in net income for the three and 12 months ending December 31, 2007.

Fifth Third remains the company's largest equity holding, and Cincinnati Financial remains Fifth Third's largest shareholder. After the transaction, Cincinnati Financial and its subsidiaries retain 67.3 million shares of Fifth Third's common stock, or approximately 12.6 percent of the bank's September 30, 2007, total common shares outstanding.

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 \$4.219 billion at September 30, 2007, compared with \$5.178 billion at year-end 2006. On an after-tax basis, equity investments constituted 41.9 percent of total shareholders' equity at September 30, 2007.

At September 30, 2007, our total debt-to-capital ratio was 11.6 percent, with \$791 million in long-term debt and \$69 million in borrowings on our short-term lines of credit. We generally have minimized our reliance on debt financing although we may utilize lines of credit to fund short-term cash needs. We borrowed \$20 million from one of our short-term lines of credit in the three months ended September 30, 2007, for share repurchase during the third quarter. Based on our present capital requirements, we do not anticipate a material increase in debt levels during the remainder of 2007. While the new short-term borrowings and decline in shareholders' equity raised our debt-to-capital ratio, we believe the ratio will remain approximately 12 percent through the remainder of the year.

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 November 1, 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. There have been no material changes since that date.

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 for the nine months ended September 30, 2007, were essentially unchanged from the year-earlier level because lower commission expenses offset higher underwriting expenses. 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 spending for our planned excess and surplus lines business has begun, but has not reached a material level. Estimates for additional capital expenditures, however, 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 as 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. We contributed \$10 million to the pension plan during nine months ended September 30, 2007.

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 nine months ended September 30, 2007, we invested available cash flow and after-tax proceeds from the sale of equity investments. A significant portion of our equity investments were made 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 nine months of 2007, our common stock portfolio yield (to market) was 3.9 percent at September 30, 2007, compared with 1.9 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 nine months of 2007, \$180 million was used for cash dividends to shareholders.
- Common stock repurchase program — During the first nine months of 2007, we used \$144 million to repurchase 3.4 million shares of our common stock at an average price of \$42.21. 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 42. We do not adjust number of shares repurchased and average price per repurchased share for stock dividends.

On October 24, 2007, we entered into an accelerated share repurchase agreement with UBS AG. The 4 million accelerated share repurchase agreement is valued at \$160 million (based on a reference price of \$39.88). The final effective purchase price will be based on the volume weighted average price of company's common stock through a contractually specified period expected to conclude no later than the first quarter of 2008.

In addition to the accelerated share repurchase agreement, the board of directors expanded the repurchase authorization to approximately 13 million shares. Purchases are expected to be made generally through open market transactions. The board gives management discretion to purchase shares at reasonable prices in light of circumstances at the time of purchase, pursuant to Securities and Exchange Commission regulations.

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 commercial casualty and workers' compensation exposure growth and loss cost inflation. 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. Reserving 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)	Case reserves	Loss reserves IBNR reserves	Loss expense reserves	Total gross reserves	Percent of total
At September 30, 2007					
Commercial casualty	\$ 1,022	\$ 438	\$ 515	\$ 1,975	55.4%
Commercial property	125	12	37	174	4.9
Commercial auto	280	52	66	398	11.2
Workers' compensation	419	287	107	813	22.8
Specialty packages	85	1	5	91	2.6
Surety and executive risk	68	1	36	105	2.9
Machinery and equipment	4	3	1	8	0.2
Total	\$ 2,003	\$ 794	\$ 767	\$ 3,564	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)	Case reserves	Loss reserves IBNR reserves	Loss expense reserves	Total gross reserves	Percent of total
At September 30, 2007					
Personal auto	\$ 167	\$ 2	\$ 31	\$ 200	46.8%
Homeowners	71	14	16	101	23.5
Other personal	52	61	13	126	29.7
Total	\$ 290	\$ 77	\$ 60	\$ 427	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 \$1.459 billion at September 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 \$13.201 billion at September 30, 2007, compared with \$13.699 billion at year-end 2006. 41 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.

(In millions)	At September 30, 2007		At December 31, 2006	
	Book value	Fair value	Book value	Fair value
Taxable fixed maturities	\$ 3,394	\$ 3,405	\$ 3,357	\$ 3,389
Tax-exempt fixed maturities	2,511	2,534	2,382	2,416
Common equities	2,748	6,976	2,400	7,564
Preferred equities	258	249	221	235
Short-term investments	37	37	95	95
Total	<u>\$ 8,948</u>	<u>\$13,201</u>	<u>\$ 8,455</u>	<u>\$13,699</u>

The ratio of investment assets to total assets for the parent company was 29.9 percent at September 30, 2007, compared with 31.5 percent at year-end 2006. At September 30, 2007, the parent company held 32.5 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 September 30, 2007, tax-exempt fixed maturities accounted for 42.7 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 1,960 securities. Further, our investment portfolio contains no mortgage loans or mortgage-backed securities. Our bond portfolio continued to hold steady in the third quarter. Widening credit spreads in the corporate sector were more than offset by the benefit the general flight to quality had on our municipal and agency portfolios.

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.

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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 September 30, 2007	\$5,939	\$6,237	\$5,642
At December 31, 2006	5,805	6,099	5,511

The effective duration of the fixed maturity portfolio was 5.0 years at September 30, 2007, essentially unchanged from year-end 2006. A 100 basis point movement in interest rates would result in an approximately 5.0 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 is 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 September 30, 2007, we had \$37 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 that exceed the yield of the overall market 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 September 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 nine months ended September 30, 2007			
	Actual cost	Fair value	Percent of fair value	Earned dividend income
Fifth Third Bancorp	\$ 283	\$ 2,466	35.3%	\$ 92
The Procter & Gamble Company	206	529	7.6	8
Exxon Mobil Corporation	58	478	6.9	6
AllianceBernstein Holding L.P.	113	345	4.9	12
U.S. Bancorp	263	333	4.8	11
PNC Financial Services Group, Inc.	62	320	4.6	9
Johnson & Johnson	218	263	3.8	5
National City Corporation	171	246	3.5	12
Wells Fargo & Company	107	204	2.9	5
Wyeth	62	197	2.8	3
Huntington Bancshares Inc.	168	152	2.2	2
Piedmont Natural Gas Company, Inc.	64	142	2.0	4
Wachovia Corporation	150	139	2.0	4
General Electric Co.	106	130	1.9	2
Chevron Corporation	56	124	1.8	2
All other common stock holdings	661	908	13.0	25
Total	\$ 2,748	\$ 6,976	100.0%	\$ 202

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Our investments are heavily weighted toward the financials sector, which represented 64.7 percent of the total fair value of the common stock portfolio at September 30, 2007. Financials typically underperform the overall market during periods when interest rates are expected to rise. We historically have viewed 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 are aware that some of the financial institutions we hold in our equity portfolio have indicated they are enduring more credit related issues than others. As a group, however, the largest banks in our portfolio have not materially underperformed the broader financials sector this year. 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 37.7 percent of our shareholders' equity at September 30, 2007, and dividends earned from our Fifth Third investment were 20.4 percent of our investment income in the first nine months of 2007.

(In millions except market price data)		Nine months ended September 30,	
		2007	2006
Fifth Third Bancorp common stock holding:			
Dividends earned		\$ 92	\$ 86
Percent of total net investment income		20.4%	20.2%
		At September 30,	At December 31,
		2007	2006
Shares held		73	73
Closing market price of Fifth Third		\$33.88	\$40.93
Book value of holding		283	283
Fair value of holding		2,466	2,979
After-tax unrealized gain		1,419	1,752
Market value as a percent of total equity investments		34.1%	38.2%
Market value as a percent of invested assets		18.6	21.7
Market value as a percent of total shareholders' equity		37.7	43.8
After-tax unrealized gain as a percent of total shareholders' equity		21.7	25.7

Following our October sale of 5.5 million shares of our Fifth Third holding, the market value of the remaining shares would account for about 30 percent of our shareholders' equity at September 30, 2007, on a pro forma basis using Fifth Third's market value on October 24, 2007. Based on the number of shares of Fifth Third that we now own, a 5 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 26 cent impact on our book value per share on a pro forma basis to reflect the sale.

SECURITIES LENDING COLLATERAL INVESTED

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. At September 30, 2007, we had fixed maturities with a market value of \$754 million on loan. The \$768 million in offsetting collateral is shown on our balance sheets as securities lending collateral invested.

We are potentially at risk if our ability to return the collateral is compromised because of a material decline in the market value of the securities in which we have invested the collateral. We discuss the program in Note 2, Investments, Securities Lending Program, Page 8.

UNREALIZED INVESTMENT GAINS AND LOSSES

At September 30, 2007, unrealized investment gains before taxes totaled \$4.357 billion and unrealized investment losses in the investment portfolio amounted to \$104 million.

Unrealized Investment Gains

The unrealized gains at September 30, 2007, were primarily due to long-term gains from our holdings of Fifth Third common stock, which constituted 50.1 percent of the gains. The contribution of our Fifth Third holding to future gains will be lower because of our sale of 7.6 percent of our holding. Four of our common stock holdings — AllianceBernstein Holding L.P. (NYSE:AB), ExxonMobil (NYSE:XOM), PNC Financial Services Group, Inc. (NYSE:PNC) and The Procter & Gamble Company (NYSE:PG) — each constituted at least 5 percent of the gains. Reflecting the company's long-term investment philosophy, of the 1,204 securities trading at or above book value, 545 securities, or 45.3 percent, have shown unrealized gains for more than 24 months.

Unrealized Investment Losses — Potential Other-than-temporary Impairments

At September 30, 2007, 838 of the 2,042 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. 14 of the 838 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.

- 801 of these holdings were trading between 90 percent and 100 percent of book value, including 11 that are hybrid financial instruments. After adjustments for SFAS No. 155, the fair value of these 801 holdings was \$3.344 billion, and they accounted for \$82 million in unrealized losses. The value of these securities fluctuates primarily because of changes in interest rates.
- 37 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 37 holdings was \$134 million, and they accounted for \$24 million in unrealized losses. These securities, which are being closely monitored, have been affected by a combination of factors including the effects of higher interest rates on longer-duration instruments, leveraged buyout activity and the slowdown in the residential construction market.
- No holdings were trading below 70 percent of book value at September 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 41 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:

(Dollars in millions)	6 Months or less		> 6 - 12 Months		> 12 - 24 Months		> 24 - 36 Months	
	Number of issues	Gross unrealized gain/loss	Number of issues	Gross unrealized gain/loss	Number of issues	Gross unrealized gain/loss	Number of issues	Gross unrealized gain/loss
At September 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	124	(12)	30	(7)	55	(9)	152	(27)
Trading at 100% and above of book value	99	4	17	1	43	7	219	54
Total	223	(8)	47	(6)	98	(2)	371	27
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	100	(1)	95	(2)	21	0	226	(6)
Trading at 100% and above of book value	382	5	0	0	91	4	297	23
Total	482	4	95	(2)	112	4	523	17
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	4	(29)	0	0	1	0	0	0
Trading at 100% and above of book value	4	7	2	17	7	278	25	3,955
Total	8	(22)	2	17	8	278	25	3,955
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	25	(11)	0	0	0	0	1	0
Trading at 100% and above of book value	5	0	3	0	4	1	4	1
Total	30	(11)	3	0	4	1	5	1
Short-term investments:								
Trading below 70% of book value	0	0	0	0	0	0	0	0
Trading at 70% to less than 100% of book value	0	0	4	0	0	0	0	0
Trading at 100% and above of book value	2	0	0	0	0	0	0	0
Total	2	0	4	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	253	(53)	129	(9)	77	(9)	379	(33)
Trading at 100% and above of book value	492	16	22	18	145	290	545	4,033
Total	745	\$ (37)	151	\$ 9	222	\$ 281	924	\$ 4,000

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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 September 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	838	3,583	3,479	(104)	124
Trading at 100% and above of book value	1,204	5,365	9,722	4,357	302
Investment income on securities sold in current year	0	0	0	0	22
Total	<u>2,042</u>	<u>\$ 8,948</u>	<u>\$13,201</u>	<u>\$ 4,253</u>	<u>\$ 448</u>
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	<u>1,973</u>	<u>\$ 8,455</u>	<u>\$13,699</u>	<u>\$ 5,244</u>	<u>\$ 562</u>

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 September 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 September 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). On October 24, 2007, we entered into an accelerated share repurchase agreement for 4 million shares. Additional repurchase in the first nine months of 2007, were 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
July 1-31, 2007	0	0.00	0	5,328,664
August 1-31, 2007	1,522,147	41.42	1,522,147	3,806,517
September 1-30, 2007	405,001	42.18	405,001	3,401,516
Totals	<u>3,418,223</u>	42.21	<u>3,417,732</u>	

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

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

In addition to the accelerated share repurchase agreement, on October 24, 2007, the board of directors expanded the existing repurchase authorization to approximately 13 million shares. Purchases are expected to be made generally through open market transactions. The board gives management discretion to purchase shares at reasonable prices in light of circumstances at the time of purchase, pursuant to Securities and Exchange Commission regulations.

The prior repurchase program was announced in 2005, replacing a program that had been in effect since 1999. No repurchase program has expired during the period covered by the above table. All of the 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

None.

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 Amendments November 2005(14)
10.12	Executive Compensation Amendments November 2006 (15)
10.13	Amendment No. 1 to Credit Agreement by and among Cincinnati Financial Corporation and CFC investment Company, as Borrower, and Fifth Third Bank, as lender. (16)
10.14	Cincinnati Financial Corporation Supplemental Retirement Plan (17)
10.15	Standard Form of Incentive Stock Option Agreement for Stock Option Plan VII (18)
10.16	Standard Form of Nonqualified Stock Option Agreement for Stock Option Plan VII (19)
10.17	Standard Form of Incentive Stock Option Agreement for the 2006 Stock Compensation Plan (20)
10.18	Standard Form of Nonqualified Stock Option Agreement for the 2006 Stock Compensation Plan (21)
10.19	Restricted Stock Unit Agreement for John J. Schiff, Jr., dated January 31, 2007 (22)
10.20	Restricted Stock Unit Agreement for James E. Benoski, dated January 31, 2007 (23)
10.21	Restricted Stock Unit Agreement for Jacob F. Scherer, Jr., dated January 31, 2007 (24)

(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. (File No. 000-04604)
- (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 dated March 30, 2007 (File No. 000-04604).
- (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 the company's Current Report on Form 8-K dated November 24, 2006
- (16) Incorporated by reference to Exhibit 10.01 filed with the company's Current Report on Form 8-K dated May 26, 2006.

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Exhibit No.	Exhibit Description
10.22	Restricted Stock Unit Agreement for Kenneth W. Stecher, dated January 31, 2007 (25)
10.23	Restricted Stock Unit Agreement for Thomas A. Joseph, dated January 31, 2007 (26)
10.24	Form of Restricted Stock Unit Agreement for use under the Cincinnati Financial Corporation 2006 Stock Purchase Incentive Plan (service-based)(27)
10.25	Form of Restricted Stock Unit Agreement for use under the Cincinnati Financial Corporation 2006 Stock Purchase Incentive Plan (performance-based)(28)
10.26	Form of Incentive Compensation Agreement for use under the Cincinnati Financial Corporation 2006 Incentive Compensation Plan (performance-based)(29)
10.27	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 (30)
10.28	Second Amended and Restated Discretionary Line of Credit Note with PNC Bank, National Association dated July 12, 2007 (31)
10.29	Secondary Block Trade Agreement between The Cincinnati Insurance Company and UBS Securities LLC, dated October 23, 2007
10.30	Purchase Agreement (Tranche 1 of 4) between Cincinnati Financial Corporation and UBS AG, London Branch, acting through UBS Securities LLC as agent, dated October 24, 2007
10.31	Purchase Agreement (Tranche 2 of 4) between Cincinnati Financial Corporation and UBS AG, London Branch, acting through UBS Securities LLC as agent, dated October 24, 2007
10.32	Purchase Agreement (Tranche 3 of 4) between Cincinnati Financial Corporation and UBS AG, London Branch, acting through UBS Securities LLC as agent, dated October 24, 2007
10.33	Purchase Agreement (Tranche 4 of 4) between Cincinnati Financial Corporation and UBS AG, London Branch, acting through UBS Securities LLC as agent, dated October 24, 2007
10.34	Stock Purchase Agreement between Cincinnati Financial Corporation and the E. Perry Webb Marital Trust, dated September 5, 2007
11	Statement re: Computation of per share earnings for the three and nine months ended September 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

(17) 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

(31) Incorporated by reference to Exhibit 10.27 filed with the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

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: November 2, 2007

/S/ Kenneth W. Stecher

Kenneth W. Stecher

Chief Financial Officer, Executive Vice President, Secretary and Treasurer
(Principal Accounting Officer)

Cincinnati Financial Corporation
Form 10-Q for the quarterly period ended September 30, 2007

SECONDARY BLOCK TRADE AGREEMENT

October 23, 2007

5,500,000 shares of common stock of Fifth Third Bancorp (FITB).

This agreement dated October 23, 2007 sets out the terms under which UBS Securities LLC, ("UBS" / "Buyer") will purchase 5,500,000 shares of common stock (the "Shares") of Fifth Third Bancorp (FITB) (the "Issuer") from The Cincinnati Insurance Company ("Seller").

1. Purchase and sale

Subject to the terms and conditions of this agreement (the "Agreement"), Seller agrees as legal and beneficial owner to sell the Shares, free of all liens, charges or other encumbrances and Buyer agrees to purchase and pay for the Shares at a net price of \$29.50 per Share for a total consideration of \$162,250,000 (the "Purchase Price") together with all dividends, distributions and other benefits attaching to the Shares as from October 24, 2007 (the "Trade Date"). The Purchase Price will be reduced by the amount of any applicable SEC fees payable pursuant to Section 31 of the Securities Exchange Act of 1934.

2. Closing

- (a) On October 29, 2007 or at such other time and/or date as Seller and Buyer may agree (the "Closing Date"), Buyer shall pay to Seller the Purchase Price for the Shares by transfer to Seller's account to be identified in writing at least [48] hours prior to payment against delivery of the Shares on the Closing Date. Such delivery shall be effected by crediting the Shares in registered form to the participant account of UBS Securities LLC at the Depository Trust and Clearing Corporation ("DTC"), DTC participant number 642.
- (b) Seller agrees that it will not, and will ensure that none of its subsidiaries or associates or holding company will, prior to the expiry of 90 days following the Closing Date, offer, issue, sell or otherwise dispose of (or announce an intention of doing so) any other shares of the Issuer or any securities convertible into or exchangeable for or carrying rights to acquire other shares of the Issuer without the prior written consent of Buyer.
- (c) Seller undertakes with Buyer that it will bear and pay any stamp or other duties or taxes on or in connection with the sale and transfer of the Shares to be sold by Seller and the execution and delivery of this Agreement and any other tax payable by Seller in connection with the transaction contemplated hereby.

3. Expenses

Seller and Buyer shall bear their own legal costs (if any) and all their other out-of-pocket expenses (if any).

4. Representations and warranties

- (a) As a condition of the obligation of Buyer to purchase and pay for the Shares, Seller represents and warrants to Buyer as follows:
 - (i) that Seller is the holder and sole legal and beneficial owner of the Shares free from all liens, charges and other encumbrances and that the Shares rank pari passu in all respects with other outstanding shares of common stock of the Issuer, including their entitlement to dividends,
 - (ii) that Seller has the power and authority to sell the Shares hereunder and no person has any conflicting right, contingent or otherwise, to purchase or to be offered for purchase, the Shares, or any of them,

Secondary Block Trade Letter Agreement

December 2000

- (iii) that the execution, delivery and performance of this Agreement has been duly authorised by Seller and upon execution and delivery of the Agreement by the Buyer and the Seller will constitute a legal, valid and binding obligation of Seller,
 - (iv) that the execution, delivery and performance of this Agreement by Seller will not infringe any law or regulation applicable to Seller and is not and will not be contrary to the provisions of the constitutional documents of Seller and will not result in any breach of the terms of, or constitute a default under, any instrument or agreement to which Seller is a party or by which it or its property is bound,
 - (v) that there are no restrictions (contractual or otherwise) prohibiting or otherwise affecting the sale or transfer of the Shares to Buyer, other than those necessary to ensure compliance with the registration requirements of the U.S. Securities Act of 1933, as amended, or an exemption therefrom, and no consents or approvals are required to be obtained in connection with the sale of the Shares to Buyer and the sale of the Shares to Buyer will not violate or breach any representation or warranty made by Seller pertaining to the Shares. Seller has furnished to Buyer a true and complete copy of all agreements, documents and other instruments relating to the issuance, sale and delivery of the Shares to Seller.
 - (vi) that all consents and approvals of any court, government department or other regulatory body required by Seller for the offering of the Shares and the execution, delivery and performance of the terms of this Agreement have been obtained and are in full force and effect,
 - (vii) that there has been no material adverse change or any development involving a prospective material adverse change in the condition (financial or otherwise) of the Issuer and its subsidiaries since the date of the last published accounts,
 - (viii) that there is no other material information, beyond the information contained in the latest published Annual Report of the Issuer or any other public information including interim results and press releases which is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and its subsidiaries, and
 - (ix) the representations and warranties of Seller set forth in Seller's representation letter (in form similar to the form attached as Exhibit A titled, "Seller's Representation Letter"), dated on or about the date hereof, to Buyer are true and correct.
- (b) Seller covenants with Buyer that it will keep Buyer indemnified against any losses, liabilities, costs, claims, actions and demands (including any expenses arising in connection therewith) which it may incur, or which may be made against it as a result of or in relation to any actual or alleged misrepresentation in or breach of any of the above representations and warranties and will reimburse Buyer for all costs, charges and expenses which it may pay or incur in connection with investigating, disputing or defending any such action or claim.
 - (c) The above representations, warranties and indemnity shall continue in full force and effect notwithstanding any investigation by or on behalf of Buyer or completion of this Agreement.

6. Conditions to Closing

The obligations of Buyer hereunder shall be subject, in its discretion, to the condition that all representations and warranties and other statements of Seller herein are, and as of the Closing Date will be, true, complete and accurate.

7. Law and jurisdiction

This Agreement is governed by the laws of the State of New York as applied to contracts to be performed wholly within the State of New York. Each party hereto irrevocably submits to the extent permitted under applicable law to the non-exclusive jurisdiction of the federal and state courts located in the Borough of Manhattan, State of New York. Each party waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any suit, action or proceeding relating to this Agreement. Each party certifies (i) that no representative, agent or attorney of the other party has represented, expressly or otherwise, that such other party would not seek to enforce the foregoing waiver in the event of any such suit, action or proceeding and (ii) acknowledges that it and the other party have entered into this Agreement, in reliance on, among other things, the mutual waivers and certifications in this Section.

8. Notices

Any notice or notification in any form to be given by the Buyer is to be sent by facsimile, addressed to the Seller and using the following address and facsimile number:

Martin F. Hollenbeck
Vice President, Investment Department
The Cincinnati Insurance Company
6200 S. Gilmore Road
Fairfield, Ohio 45014
Telephone: (513) 870-2634
Fax: (513) 870-0609

Any such notice shall take effect at the time of dispatch.

9. Miscellaneous

- (a) Time shall be of the essence of this Agreement.
- (b) The heading to each Clause is included for convenience only and shall not affect the construction of this Agreement.
- (c) In the event any provision of this Agreement is found to be or becomes invalid or unenforceable, no other provision of this Agreement shall thereby be affected and the Agreement shall remain valid and enforceable in respect of all remaining provisions, and any invalid or unenforceable provision will be deemed to be replaced by a provision which as nearly as possible accomplishes the commercial purpose of the original.

If the foregoing is in accordance with your understanding, please sign and return to us a counterpart hereof. Upon acceptance by you this Agreement and such acceptance shall constitute a binding agreement between Buyer and Seller.

Yours faithfully

UBS Securities LLC

Agreed to and accepted by Seller:

The Cincinnati Insurance Company

By: Kenneth W. Stecher

Title: Chief Financial Officer and Treasurer

Secondary Block Trade Letter Agreement

December 2000

SELLER'S REPRESENTATION LETTER

To: UBS Securities LLC
 677 Washington Blvd
 Stamford CT 06901
 Attn: Restricted Securities, ERM
 Facsimile: 203 719 7031

To: Fifth Third Bancorp
 38 Fountain Square Plaza
 MD10AT76
 Cincinnati, OH 45202
 Attn: Paul Reynolds, Esq., General Counsel
 Facsimile: 513 534 6757

In conjunction with the order to sell 5,500,000 shares of common stock ("the Shares") of Fifth Third Bancorp (the "Issuer") through you as broker or dealer for The Cincinnati Insurance Company's ("Seller's") account in the manner permitted by Rule 144 (the "Rule") under the Securities Act of 1933, Seller represents and warrants to you as follows:

1. During the three months prior to the date of this letter, no shares of the Issuer have been sold by Seller and by any person whose sales must be aggregated with Seller as provided in paragraphs (a) and (e) of the Rule ("Aggregated Persons"). Neither Seller nor, to the best of Seller's knowledge, any person whose sales must be aggregated with Seller's, intend to sell any additional shares within the next three calendar months.
2. Seller, on a consolidated basis with its parent and subsidiary companies is an affiliate of the Issuer.
3. The number of shares which Seller orders you to sell as broker or dealer for Seller's account, combined with (i) the number of shares which Aggregated Persons have ordered you to sell and (ii) the number of shares set forth in paragraph (1) above, does not exceed the greater of:
 - a. 1% of the outstanding shares of the security, as shown by the most recent report or statement published by the Issuer, or
 - b. if the security is listed on a national securities exchange and/or NASDAQ, the average weekly volume of trading on all such securities exchanges and/or NASDAQ during the four calendar weeks preceding Seller's filing of the Form 144 Notice with the Securities and Exchange Commission ("SEC").
4. The Issuer has filed the required periodic reports with the SEC as described in Rule 144(c)(1) under the Act. If Seller relies on written advice from the Issuer, Seller attaches a copy hereto. Seller is not aware of any material adverse information concerning the Issuer that has not been publicly disclosed.
5. If the Shares are "restricted securities" as defined in paragraph (a)(3) of the Rule, Seller confirms that Seller has been the beneficial owner for a period of at least one year as provided in paragraph (d) of the Rule.
6. a) Seller has not solicited or arranged for the solicitation of any orders to buy in anticipation of or in connection with Seller's proposed sale.
 b) Seller has made no payment to any other person in connection with your execution of Seller's order.
 c) Seller has not agreed to act in concert with any other person in connection with Seller's proposed sale, except for such other stockholders of the Issuer as are parties to a letter agreement with you related thereto dated this date.
7. Seller shall file notices on Form 144 with the SEC and any applicable exchange as required by paragraph (h) of the Rule.
8. It is Seller's *bona fide* intention to sell the Shares within a reasonable time after the filing of Form 144 or receipt of the sell order, or both. If the Shares have not been sold within 90 days of such date, Seller understands a new filing will be required.
9. Pursuant to the exemption from registration provided by paragraph (e)(1) of the Rule, no registration of the Shares is required for their offer and sale in the manner contemplated.
10. Seller understands that the payment of the proceeds of the sale will be delayed until the Shares are transferred and delivered free of restriction into UBS Securities LLC's participant account at the Depository Trust and Clearing Corporation ("DTC"), DTC participant number 642.

Seller agrees to notify UBS Securities LLC immediately if any of the above representations become inaccurate before this sale is completed.
 Very truly yours,

 The Cincinnati Insurance Company
 By: Kenneth W. Stecher
 Title: Chief Financial Officer and Treasurer

 October 23, 2007

Secondary Block Trade Letter Agreement

December 2000

PURCHASE AGREEMENT (TRANCHE 1 OF 4)

PURCHASE AGREEMENT, dated as of **October 24, 2007** (the “Agreement”), by and between Cincinnati Financial Corporation (the “Issuer”), and UBS AG, London Branch (“UBS”) acting through UBS Securities LLC (“Agent”) as agent.

W I T N E S S E T H

WHEREAS, the Issuer has publicly announced its intention to repurchase shares of its common stock, par value \$2.00 per share (the “Common Stock”), from time to time (the “Repurchase Program”); and

WHEREAS, the Issuer desires to enter into the Agreement with UBS in order to effect the Repurchase Program;

NOW, THEREFORE, in consideration of the premises, the covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Definitions.

As used herein the following terms shall have the meanings set forth below:

“Announcement Date” means in respect of a Merger Event, the date of the first public announcement of a firm intention to merge or to make an offer that leads to the Merger Event, as determined by the Calculation Agent.

“Bankruptcy” means the Issuer is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured

party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

“Bloomberg Screen Volume at Price Page” shall mean the display designated as page “CINF Equity AQR” on the Bloomberg Financial Service or such page as may replace the Volume at Price page on that service for the purpose of displaying daily volume and volume-weighted trading prices of equity securities during the normal trading hours of 9:30 a.m. to 4:00 p.m., New York Time or, if such service does not then publish daily volume and volume-weighted trading prices of the Common Stock, such other page and services selected by the Calculation Agent that reports daily volume and weighted trading prices of the Common Stock.

“Borrowed Shares” means, as of any date, the number of Shares borrowed by UBS in connection with this Transaction, as determined by the Calculation Agent.

“Calculation Agent” shall mean UBS Securities LLC.

“Calculation Date” means the first Trading Day after the Last Averaging Date.

“Closing Price” of the Common Stock on any day shall mean the last reported sales price regular way on such day or, in case no such sales price is reported on such day, the average of the reported closing bid and asked prices regular way of the Common Stock, in each case on the Exchange, or, if not then traded on the Exchange, the principal securities exchange or quotation system on which the Common Stock is then listed or admitted to trading, or, if not then listed or admitted to trading on a securities exchange or quotation system, the average of the closing bid and asked prices of the Common Stock in the over-the-counter market on the day in question as reported by the National Quotations Bureau Incorporated, or a similarly generally accepted reporting service, or, if not so available in such manner, as furnished by any New York Stock Exchange member firm selected by the Calculation Agent.

“Combined Consideration” means New Shares in combination with Other Consideration.

“Cross Default” means the occurrence or existence of (1) a default, event of default or other similar condition or event (however described) in respect of the Issuer under one or more agreements or instruments relating to the payment of money in an aggregate amount of not less than \$10 million which has resulted in such agreement or instrument becoming, or becoming capable at such time of being declared, due and payable before it would otherwise have been due and payable or (2) a default by the Issuer in making one or more payments on the due date thereof in an aggregate amount of not less than \$10 million

under such agreements or instruments (after giving effect to any applicable notice requirement or grace period).

“Determined Amount” has the meaning ascribed to it in Section 3(d).

“Discount” means the product of (a) 1.30%, and (b) the arithmetic average of daily volume-weighted average prices of Shares on each Trading Day from the First Averaging Date up to and including the Last Averaging Date, as listed on Bloomberg Screen Volume at Price Page.

“Dividend Amount” shall mean, as of each of the dates set out below (each a “Dividend Adjustment Date”), the amount set forth opposite such Dividend Adjustment Date:

<u>Dividend Adjustment Date</u>	<u>Dividend Amount</u>
The date immediately preceding the ex-dividend date for the Issuer’s regularly scheduled fourth quarter 2007 dividend, (such ex-dividend date currently anticipated to be December 20, 2007)	\$0.355

“Dividend Event” means the payment of an ordinary or extraordinary dividend of distribution by the Issuer in any of the time periods specified above with a value, as determined by the Calculation Agent in good faith, that exceeds the amount specified above for such period by \$0.01 or more.

“Early Closure” means the closure on any Trading Day of the Exchange or any Related Exchange(s) prior to its regularly scheduled closing time.

“Excess Shares” means the number of Shares (if any) equal to (a)(i) the Settlement Amount divided by (ii) the Reference Price minus (b) the Determined Amount.

“Exchange” means the NASDAQ Global Select Market or any successor thereto or any substitute exchange or quotation system to which trading in the Shares has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the Shares on such temporary substitute exchange or quotation system as on the original Exchange).

“Exchange Disruption” means any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (i) to effect transactions in, or obtain market values for, the Shares on the Exchange, or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to the Shares on the Related Exchange(s).

“Execution Period” shall mean the period commencing on the First Averaging Date and ending on the earliest of (i) the Last Averaging Date, (ii) the Termination Date or (iii) the Termination Event Termination Date.

“Failure to Pay or Deliver” means failure by the Issuer to make, when due, any payment under this Agreement or any delivery of Shares under this Agreement required to be made by it if such failure is not remedied on or before the third Trading Day after notice of such failure is given to the Issuer by UBS or the Agent.

“Final VWAP-Minus Price” means (i) the arithmetic average of daily volume-weighted average prices of Shares on each Trading Day from the First Averaging Date up to and including the Last Averaging Date, as listed on Bloomberg Screen Volume at Price Page, minus (ii) the Discount.

“First Averaging Date” means October 25, 2007; provided, however, that the First Averaging Date may be extended by the Calculation Agent in its discretion by one Trading Day for each Scheduled Trading Day following the date hereof and prior to the First Averaging Date that ceases to be a Scheduled Trading Day or is not a Trading Day due to the occurrence of a Market Disruption Event.

“Hedge Account Shares” means, as of any date, the Number of Shares minus the Borrowed Shares.

“Last Averaging Date” means a trading day between and including November 7, 2007 and January 30, 2008, as determined by UBS; provided, however, that each of such dates may be extended by the Calculation Agent in its discretion by one Trading Day for each Scheduled Trading Day during the Execution Period that ceases to be a Scheduled Trading Day or is not a Trading Day due to the occurrence of a Market Disruption Event. Notice of the Last Averaging Date shall be given by UBS not later than 8:00 pm New York time on the Trading Day following the Last Averaging Date. Notice shall be irrevocable once provided to Issuer. If no notice is provided, then the Last Averaging Date shall be January 30, 2008.

“Market Disruption Event” means the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption or (iii) an Early Closure, which in each case the Calculation Agent determines is material.

“Merger Event” means, in respect of any relevant Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding, (ii) consolidation, amalgamation or merger of the Issuer with or into another entity (other than a consolidation, amalgamation or merger in which such Issuer is the continuing entity and which does not result in any such reclassification or change of all of such Shares outstanding) or (iii) other takeover offer for such Shares that results in a transfer or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by the offeror), in each case if the Merger Date is on or before the Last Averaging Date.

“Net Share Settlement” shall mean settlement by the Issuer of its obligations hereunder in accordance with Section 3(c).

“New Shares” means shares (whether of the offeror or a third party).

“Number of Shares” has the meaning ascribed to it in Section 2.

“Other Consideration” means cash and/or any securities (other than New Shares) or assets (whether of the offeror or a third party).

“Payment Date” has the meaning ascribed to it in Section 3(b).

“Principal Account” means the notional principal account referred to in Section 3(a).

“Purchase Price” means the product of (a) the Number of Shares and (b) the Closing Price of the Common Stock on October 24, 2007.

“Purchasing Date” means any Trading Day during the Execution Period.

“Reference Price” means the Closing Price of the Common Stock on the last Trading Day of the Execution Period.

“Related Exchange(s)” means each exchange or quotation system where trading has a material effect (as determined by the Calculation Agent) on the overall market for futures or options contracts relating to the Shares.

“Scheduled Trading Day” means any day on which the Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions.

“Settlement Amount” shall mean (i) in the case of the Issuer, the amount of any negative balance in the Principal Account as of the Calculation Date, and (ii) in the case of UBS, the amount of any positive balance in the Principal Account as of the Calculation Date, in each case as determined by the Calculation Agent, and as adjusted by the Calculation Agent to reflect the accrual of interest thereon at the rate set forth for that day opposite the caption “Open” under the caption “Federal Funds” as displayed on Bloomberg Page BTMM, from and excluding the third Trading Day following the Calculation Date hereunder to and including the actual Payment Date, if the Payment Date occurs following the third Trading Day following the Calculation Date hereunder.

“Share-for-Combined” means, in respect of a Merger Event, that the consideration for the relevant Shares consists of Combined Consideration.

“Share-for-Other” means, in respect of a Merger Event, that the consideration for the relevant Shares consists solely of Other Consideration.

“Share-for-Share” means, in respect of a Merger Event, that the consideration for the relevant Shares consists (or, at the option of the holder of such Shares, may consist) solely of New Shares.

“Shelf Registration” means a registration statement in form and substance reasonably acceptable to UBS for an offering to be made on a continuous basis pursuant to Rule 415 under the Securities Act, registering UBS’s resale, in any manner or manners designated by UBS, of all the Stock Settlement Shares, any Make-Whole Shares, and any other Shares held by UBS in connection with this transaction which, in the opinion of counsel to UBS, are required to be included in the Shelf Registration to be resold by UBS to the public.

“Short Squeeze” shall mean a situation where (i) UBS has determined, in its judgment, that it is unable to hedge its exposure to the transaction contemplated hereby because of the lack of sufficient shares of Common Stock being made available for borrowing from lenders, including without limitation UBS’s being required to redeliver shares of Common Stock to any lender at the demand of such lender and not being able to meet such obligation in full in a timely manner by reasonable efforts to borrow shares of Common Stock from another lender or lenders, or (ii) UBS would incur a cost to borrow shares of Common Stock to hedge its exposure to the transaction contemplated hereby that is greater than a rate equal to 50 basis points per annum.

“Stock Settlement Amount” shall mean (i) in the case that the Issuer is required to pay the Settlement Amount to UBS and has elected to pay the Settlement Amount by delivery of shares of Common Stock to UBS pursuant to Section 3(c), an amount, determined by the Calculation Agent, equal to the Settlement Amount to be paid by the Issuer pursuant to Section 3(b), divided by the Reference Price, and (ii) in the case that UBS is required to pay the Settlement Amount to the Issuer and the Issuer has elected to require UBS to satisfy the obligation by delivery of shares of Common Stock to the Issuer pursuant to Section 3(h), an amount, determined by the Calculation Agent, equal to the Settlement Amount to be paid by UBS pursuant to Section 3(b), divided by the weighted average price per share actually paid by UBS to purchase such Stock Settlement Shares.

“Stock Settlement Shares” shall mean such whole number of shares included in the Stock Settlement Amount.

“Termination Date” has the meaning ascribed to it in Section 4(b).

“Termination Event” shall mean the occurrence of a (i) Bankruptcy, (ii) Cross Default, (iii) Failure to Pay or Deliver, (iv) Short Squeeze or (v) Dividend Event.

“Termination Event Termination Date” has the meaning ascribed to it in Section 8 below.

“Trading Day” shall mean any day on which the Common Stock is traded on the Exchange or, if not then traded on the Exchange, the principal securities exchange or quotation

system on which such securities are then traded or, if not then traded on a securities exchange or quotation system, in the over-the-counter market, and on which no Market Disruption Event occurs.

“Trading Disruption” means any suspension of or limitation imposed on trading by the Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Exchange or Related Exchange or otherwise (i) relating to the Shares on the Exchange or (ii) in futures or options contracts relating to the Shares on any Related Exchange.

Section 2. Purchase and Sale.

Subject to the terms and conditions set forth herein, UBS agrees to sell to the Issuer, and the Issuer agrees to purchase from UBS, 1,000,000 shares (the “Number of Shares”) of Common Stock (the “Shares”) at a purchase price per Share equal to the Closing Price of the Common Stock on **October 24, 2007** or on such other date and at such other time as the parties may mutually agree (the “Execution Date”). At 4:00 P.M. on the third Trading Day after the Execution Date (the “Settlement Date”), UBS shall deliver or cause to be delivered the Shares through the facilities of The Depository Trust Company to the Issuer against payment by the Issuer of the Purchase Price by wire transfer of immediately available funds. The parties understand and agree that the delivery of the Shares by or on behalf of UBS upon the payment of the aggregate Purchase Price by the Issuer is irrevocable and that as of the Settlement Date the Issuer will be the sole beneficial owner of the Shares for all purposes.

As compensation to UBS for its commitment and services hereunder, the Issuer on the Settlement Date will pay to UBS by wire transfer of immediately available funds an additional amount equal to \$143,642.36. This amount payable to UBS shall not be subject to refund.

Section 3. Settlement.

(a) On the Settlement Date, the Calculation Agent shall establish a notional Principal Account in an amount equal to the Purchase Price. The Calculation Agent shall adjust the Principal Account daily as follows:

The Principal Account shall be reduced on the third day following the Last Averaging Date in an amount equal to the product of (x) the Number of Shares and (y) the Final VWAP-Minus Price.

On the first Trading Day immediately following the last day of the Execution Period, the Calculation Agent will calculate the Settlement Amount and, if applicable, the Stock Settlement Amount, notify (the “Settlement Amount Notification”) the Issuer of the Settlement Amount and, if applicable, the Stock Settlement Amount and provide a schedule of its calculations thereof. The Calculation Agent shall respond promptly to all questions raised by the Issuer relating to such calculations. If the Issuer objects to the calculation of the Settlement

Amount, the Issuer shall promptly notify the Calculation Agent, and the Issuer and UBS agree to use their good faith best efforts to reach an agreement as to the Settlement Amount. In the further event that the Issuer and UBS are not able to reach an agreement, the Issuer and UBS shall appoint a third party with sufficient expertise to determine the calculation of the Settlement Amount, and such calculations shall be binding on both parties.

(b) On the third Trading Day immediately following the Calculation Date (the “Payment Date”), if the Settlement Amount is positive, UBS shall pay the Settlement Amount to the Issuer and, if the Settlement Amount is negative, the Issuer shall pay the absolute value of such Settlement Amount to UBS. Except as provided in paragraphs (c) and (d) of this Section, all payments to be made under this Section 3 shall be made on the Payment Date by wire transfer of immediately available funds.

(c) If the Issuer is required to pay the Settlement Amount to UBS pursuant to paragraph (b) of this Section, the Issuer may, at its option, satisfy the obligation by the delivery to UBS of a number of whole shares of Common Stock (and a payment of cash in lieu of fractional shares, if any) equal to the Stock Settlement Amount. In order to exercise this option, the Issuer must (each, a “Condition on Net Share Settlement”) (i) notify UBS of its election to have any Settlement Amount payable in shares of Common Stock no later than 10 days prior to November 7, 2007 (the “Stock Election Notice”), (ii) enter into a registration rights agreement with UBS in form and substance acceptable to UBS (the “Registration Rights Agreement”) not later than 7 days prior to November 7, 2007, which agreement will contain, among other things, customary representations and warranties and indemnification and other rights, including rights to customary opinions of counsel and accountant’s “comfort letters,” relating to the registration of the Stock Settlement Shares, the Make-whole Shares and any additional shares of Common Stock as to which UBS is named as a selling securityholder in the Shelf Registration (the “Registered Shares”); (iii) the Shelf Registration shall have been filed with the Securities and Exchange Commission not less than five Trading Days prior to November 7, 2007; and (iv) maintain the effectiveness of the Shelf Registration until all Registered Shares have been sold by UBS. Subject to paragraph 3(g) below, if any of the conditions in the preceding sentence are not met, the provisions of this paragraph (c) shall be inoperative and the Issuer shall be obligated to pay any applicable Settlement Amount by wire transfer of immediately available funds. If the Issuer complies with all of its obligations under this paragraph (c), then at 9:30 A.M. on the Payment Date, the Issuer shall deliver to UBS (i) a certificate or certificates representing the fully paid and nonassessable Stock Settlement Shares, in such denominations and in such names as UBS may specify and (ii) the cash payment, if any, in lieu of fractional shares by wire transfer of immediately available funds. The parties understand and agree that the deliveries made pursuant to the preceding sentence and the following paragraph shall be irrevocable and shall satisfy in full the Issuer’s obligations under this Section 3.

If the Issuer delivers Stock Settlement Shares to UBS pursuant to this paragraph (c) and within ten Trading Days after the Payment Date, UBS resells all or any portion of the Stock Settlement Shares and the net proceeds received by UBS upon resale of such shares exceeds the Settlement Amount (or if less than all of the Stock Settlement Shares are resold, the applicable pro rata portion of the Settlement Amount), UBS shall promptly refund in cash such

difference to the Issuer; provided that UBS may, at its option, satisfy its obligation under this sentence by returning to the Issuer any portion of the Stock Settlement Shares that would, if sold, have resulted in net proceeds in excess of the Settlement Amount. In the event that such net proceeds are less than the Settlement Amount (or if less than all of the Stock Settlement Shares are resold, the applicable pro rata portion of the Settlement Amount), the Issuer shall pay in cash or additional shares of Common Stock (the “Make-whole Shares”) such difference (the “Make-whole Amount”) to UBS promptly after receipt of notice thereof. In the event that Issuer elects to pay the Make-whole Amount in additional shares of Common Stock, the requirements set forth in this paragraph (c) with respect to payment of the Settlement Amount in Shares, including Make-whole requirements, shall apply, such that UBS shall pay to the Issuer any such excess and the Issuer shall pay to UBS in cash or Make-Whole Shares any additional Make-Whole Amount. In calculating the net proceeds from the resale of any Stock Settlement Shares there shall be deducted from such proceeds any amount equal to the customary underwriting discount or commission for underwritten offerings of common stock by companies comparable to the Issuer multiplied by the total number of Shares sold for the account of UBS pursuant to a Shelf Registration.

(d) Notwithstanding any other provision in this Agreement, if Issuer exercises its right pursuant to Section 3(c) above, Issuer shall not be obliged to deliver, in connection with this Agreement, in excess of 3,000,000 shares of Common Stock, as recalculated from time to time (the “Determined Amount”). In the event that, but for this Section 3, Issuer would be obliged to deliver a number of shares of Common Stock equal to the Determined Amount plus the Excess Shares, Issuer agrees to (x) satisfy its remaining obligation by cash payment or; (y) (i) use its best efforts to increase its number of authorized shares, thereby increasing the Determined Amount, to the extent necessary so that, but for this Section 3, the number of shares of Common Stock Issuer would be obliged to deliver does not exceed the (recalculated) Determined Amount and (ii) allocate such newly authorized shares of Common Stock in satisfaction of Issuer’s delivery obligations under this Agreement in priority to any other use of such Common Stock. For the avoidance of doubt, the obligation of Issuer to so use its best efforts is an ongoing obligation.

(e) Issuer hereby represents and warrants that it will:

(i) calculate the Determined Amount based on the maximum amount able to be calculated in accordance with EITF 00-19 or any successor financial statement guidance; and

(ii) in respect of all equity derivative transactions in respect of which Issuer’s equity securities constitute (all or part of) the instruments underlying such transactions (the “Derivative Trades”), use the same methodology to derive the Determined Amount (howsoever described) applicable to each Derivative Trade as is used to derive the Determined Amount for this Agreement.

(f) UBS agrees that, in respect of any obligations Issuer has duly elected be satisfied pursuant to Section 3(c) above, in the event of Issuer’s bankruptcy, UBS

shall not have rights in bankruptcy that rank senior to the rights in bankruptcy of common shareholders of Issuer.

(g) If the Issuer has used its best efforts to satisfy the Conditions on Net Share Settlement but has been unable to because the Shelf Registration is not declared effective by the SEC within the time set out in paragraph 3(c) (or, where UBS has previously agreed to extend such period based on a request by the Issuer pursuant to paragraph 3(g)(ii), within such period as extended pursuant to paragraph 3(g)(ii)), then the Issuer may elect to:

(i) deliver the relevant number of Shares to UBS in which case:

(A) the day on which the Issuer makes such an election to deliver such Shares is the “Issuer Election Date”, and

(B) Issuer shall withdraw any Registration Statement filed with the SEC in connection with the Shares, and

(C) Issuer will enter into a private placement purchase agreement with UBS in form and substance acceptable to UBS no later than the next Trading Day following the Issuer Election Date, and

(D) Issuer shall deliver to UBS such Shares on the Settlement Date which, for the purposes of this paragraph 3(g)(i)(D), shall be the third Trading Day following the Issuer Election Date, and

(E) in addition to any Make-whole Amount payable by Issuer pursuant to paragraph 3(c) herein, Issuer shall deliver to UBS such additional Shares until UBS has realized actual net proceeds upon resale of such Shares equal to the Settlement Amount. At its election, UBS may by a written notice to Issuer retain a number of Shares delivered by Issuer pursuant to this paragraph 3(g)(i). If UBS so elects, UBS shall be deemed to have sold each such retained Share for an amount equal to the price per Share obtained by UBS for the last Share sold by UBS prior to sending written notice of its intention to retain Shares to Issuer. In no event will UBS be obligated to exercise its right to retain Shares; or

(ii) request UBS to extend the period within which the Registration Statement is to be declared effective by the SEC for a further period specified in writing by UBS at the time of such extension.

(h) If UBS is required to pay the Settlement Amount to the Issuer pursuant to paragraph (b) of this Section, the Issuer may, at its option, elect that UBS satisfy the obligation by the delivery to the Issuer of a number of whole shares of Common Stock (and a payment of cash in lieu of fractional shares, if any) equal to the Stock Settlement Amount. In order to exercise this option, the Issuer must notify UBS of its election to have any Settlement Amount payable in shares of Common Stock no later than 15 days prior to the Payment Date (the “Stock Election Notice”). If the condition in the preceding sentence is not met, the provisions of this paragraph (h) shall be inoperative and UBS shall be obligated to pay any applicable Settlement Amount by wire transfer of immediately available funds. If the Issuer complies with all of its obligations under this paragraph (h), then at 9:30 A.M. on the Payment Date, UBS shall deliver to the Issuer (i) a certificate or certificates representing the fully paid and nonassessable Stock Settlement Shares, and (ii) the cash payment, if any, in lieu of

fractional shares by wire transfer of immediately available funds. The parties understand and agree that the deliveries made pursuant to the preceding sentence shall be irrevocable and shall satisfy in full UBS' obligations under this Section 3.

Section 4. Anti-dilution Adjustments.

(a) Subdivisions and Combinations of Common Stock. In the event that the outstanding shares of the Common Stock shall be subdivided or split into a greater number of shares of Common Stock where the effective date of such subdivision or the record date for such split occurs during the Execution Period, the number of shares of Common Stock referred to herein shall be deemed to be proportionately increased and the Final VWAP-Minus Price and Discount shall be deemed to be proportionately decreased; conversely, in case outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock through a combination of shares of Common Stock or a reverse stock split where the effective date of such combination or the record date for such reverse stock split occurs during the Execution Period, the number of shares of Common Stock referred to herein shall be deemed to be proportionately decreased and the Final VWAP-Minus Price and Discount shall be deemed to be proportionately increased. Any adjustment pursuant to this paragraph (a) shall become effective (i) in the case of a subdivision or combination of the Common Stock, at the close of business on the record date for such subdivision or combination or (ii) in the case of a stock split or reverse stock split, at the split, at the close of business on the record date for such stock split or reverse stock split.

(b) Merger Events. In respect of each Merger Event, UBS and the Issuer or the person formed by such consolidation or resulting from such merger or which acquired such assets or which acquires the Issuer's Common Stock, as the case may be, shall negotiate in good faith to amend this Agreement to give appropriate effect to such transaction. In the event that the parties are unable to reach an agreement ten (10) Trading Days prior to the effective date of such transaction (the "Termination Date"), (i) the Execution Period shall terminate on the Termination Date, (ii) the Principal Account shall be reduced on such date by an amount equal to the product of (x) an amount equal to the cash and fair market value (as determined by the Issuer's Board of Directors whose good faith determination shall be conclusive and binding) of the securities and/or property payable or distributable upon such transaction in respect of one share of Common Stock and (y) the number of Borrowed Shares as of such date, and (iii) the Settlement Amount shall be further adjusted by the Calculation Agent by the amount that the Calculation Agent reasonably determines in good faith to be UBS's total losses and costs in connection with the early termination of this Agreement, including any loss of bargain, cost of funding, or loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position.

If payment is required of Issuer in connection with a Merger Event, the Issuer shall have the right, in its sole discretion, to elect (the "Extraordinary Transaction Election") to satisfy any such payment obligation by Net Share Settlement of this Transaction PROVIDED THAT, in connection with a "Share-for-Combined" Merger Event or "Share-for-Other" Merger Event, the Extraordinary Transaction Election is available to satisfy only the percentage of such payment obligation equal to the percentage of the non-cash consideration over the total

Combined Consideration (in the case of a “Share-for-Combined” Merger Event) or total Other Consideration (in the case of a “Share-for-Other” Merger Event). The remaining percentage of such payment obligation must be satisfied in cash. The Issuer shall make any election to settle the Transaction by way of Net Share Settlement within two Trading Days of the Announcement Date but in any event not less than twenty Trading Days prior to the effective date of such merger.

(c) Tender Offers. In the event an offer is made to the holders of Common Stock to tender shares of Common Stock for cash, UBS may, in its discretion (i) accelerate the Last Averaging Date or (ii) adjust the Number of Shares. UBS shall notify the Issuer in writing as to the terms of any adjustment made pursuant to this Section 4(c) no later than 5 days after the tender offer is made.

(d) Other Events. In the event of any corporate event involving the Issuer or the Common Stock not specifically addressed in subsections (a), (b) or (c) of this Section 4 or in the event that the Calculation Agent, in its good faith judgment, determines that the adjustments described in subsections (a), (b) or (c) of this Section 4 will not result in an equitable adjustment of the terms of the transaction described herein, and provided that, in each case, such corporate event impacts the rights or obligations of a holder of Common Stock, the terms of the transaction described herein shall be subject to adjustment by the Calculation Agent (including, without limitation, the First Averaging Date, the Last Averaging Date and the Number of Shares) as in the exercise of its good faith judgment it deems appropriate under the circumstances in order to result in an equitable adjustment to this transaction. In the event that the Issuer objects to the adjustments, the Issuer shall promptly so notify the Calculation Agent and UBS, and the Issuer and UBS agree to use their good faith best efforts to reach an agreement as to the adjustment. In the further event that the Issuer and UBS are not able to reach an agreement, the Issuer and UBS shall appoint a third party with sufficient expertise to determine the adjustment and such adjustment shall be binding on both parties.

Section 5. Acknowledgement.

The Issuer acknowledges and agrees that it is not relying, and has not relied, upon UBS or Agent with respect to the legal, accounting, tax or other implications of this Agreement and that it has conducted its own analysis of the legal, accounting, tax and other implications of this Agreement. The Issuer further acknowledges and agrees that neither UBS nor Agent have acted as its advisor in any capacity in connection with this Agreement or the transactions contemplated by this Agreement. The Issuer acknowledges that neither UBS nor Agent is acting as the agent for the Issuer in effecting any purchase of Common Stock pursuant to this Agreement. The Issuer understands and acknowledges that UBS and its affiliates may from time to time effect transactions, for their own account or the account of customers, and hold positions, in securities or options on securities of the Issuer and that UBS and its affiliates may continue to conduct such transactions during the Execution Period. The Issuer understands and acknowledges that UBS and its affiliates intend to engage in hedging activity that could affect the market for such securities and/or the Common Stock that is the subject of this transaction, and consequently the cost or proceeds to the Issuer hereunder.

Section 6. Representations and Warranties.

(a) The Issuer hereby represents and warrants to UBS that:

(i) it has (or, in the case of the Registration Rights Agreement, will have when and if executed) all power and authority to enter into this Agreement and the Registration Rights Agreement and the transactions contemplated hereby and thereby;

(ii) this Agreement has been duly authorized, validly executed and delivered by the Issuer and constitutes a valid and legally binding obligation of the Issuer enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(iii) the Registration Rights Agreement, when and if executed and delivered pursuant to Section 3(c) hereof, shall have been duly authorized, validly executed and delivered by the Issuer and shall constitute a valid and legally binding obligation of the Issuer enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(iv) if Stock Settlement Shares are delivered pursuant to Section 3(c) or Section 3(g), as the case may be, the Stock Settlement Shares, when delivered to UBS or to the Issuer, as the case may be, will have been duly authorized and will be duly and validly issued, fully paid and nonassessable and free of preemptive and other rights;

(v) the transactions contemplated by this Agreement, including the delivery of the Stock Settlement Shares pursuant to Section 3(c) or Section 3(g), as the case may be, are consistent with the authorization of the Repurchase Program;

(vi) the Issuer is not entering into this Agreement to facilitate a distribution of the Common Stock (or any security convertible into or exchangeable for Common Stock) or in connection with a future issuance of securities;

(vii) the Issuer is not entering into this Agreement to create actual or apparent trading activity in the Common Stock (or any security convertible into or exchangeable for Common Stock) or to raise or depress the price of the Common Stock (or any security convertible into or exchangeable for Common Stock);

(viii) as of the date hereof and as of the date of any Stock Election Notice hereunder, (i) none of the Issuer and its executive officers and directors is, or will be, as the case may be, aware of any material nonpublic information regarding the Issuer or the Common Stock and (ii) all reports and other documents filed by the Issuer with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, when considered as a whole (with the more recent such reports and documents deemed to

amend inconsistent statements contained in any earlier such reports and documents), do not or will not, as the case may be, contain any untrue statement of a material fact or any omission of a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading;

(ix) the repurchase of the Shares by the Issuer, the compliance by the Issuer with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach (each, a “Breach”) of any of the terms or provisions of, or constitute a default (each a “Default”) under, any indenture, mortgage, deed of trust, loan agreement or any other agreement or instrument to which the Issuer or any of its subsidiaries is a party (collectively, “Contracts”) or by which the Issuer or any of its subsidiaries is bound or to which any of the property or assets of the Issuer or any of its subsidiaries is subject (except such Breach or Default as would not reasonably be expected to materially adversely affect the ability of the Issuer to perform its obligations under any Contract), nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Issuer or any of its subsidiaries is subject, nor will such action result in any violation of the Certificate of Incorporation or By-laws of the Issuer or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Issuer or any of its properties; and

(x) no consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body having jurisdiction over the Issuer or any of its properties is required for the repurchase of the Shares by the Issuer, the compliance by the Issuer with all the terms of this Agreement, or the consummation by the Issuer of the transactions contemplated by this Agreement, other than the registration of the Stock Settlement Shares and any Make-whole Shares under the Securities Act in accordance with the provisions of Section 3(c), which registration shall be completed not less than five Trading Days prior to November 7, 2007, and such authorizations, orders, registrations and qualifications as may be required under state securities or blue sky laws in connection with the resale by UBS of the Registered Shares.

(b) UBS hereby represents and warrants to the Issuer:

(i) it has all power and authority to enter into this Agreement and the Registration Rights Agreement and the transactions contemplated hereby and thereby;

(ii) this Agreement has been duly authorized, validly executed and delivered by UBS and constitutes a valid and legally binding obligation of UBS enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors’ rights and to general equity principles; and

(iii) the Registration Rights Agreement, when and if executed and delivered pursuant to Section 3(c) hereof, shall have been duly authorized, validly executed and delivered by UBS and shall constitute a valid and legally binding obligation of UBS enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency,

fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(c) The Issuer and UBS hereto acknowledge that this transaction is not secured by any collateral that would otherwise secure the obligations of the Issuer.

Section 7. Indemnification.

In the event that UBS becomes involved in any capacity in any action, proceeding or investigation brought by or against any person in connection with any matter referred to in this Agreement, the Issuer periodically will reimburse UBS for its legal and other expenses (including the cost of any investigation and preparation) incurred in connection therewith. The Issuer also will indemnify and hold UBS harmless against any losses, claims, damages or liabilities to which UBS may become subject in connection with any matter referred to in this Agreement, except to the extent that any such loss, claim, damage or liability results from the gross negligence or bad faith of UBS in effecting the transactions which are the subject of this Agreement. If for any reason the foregoing indemnification is unavailable to UBS or insufficient to hold it harmless, then the Issuer shall contribute to the amount paid or payable by UBS as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative benefits received by the Issuer on the one hand and UBS on the other hand in the matters contemplated by this Agreement as well as the relative fault of the Issuer and UBS with respect to such loss, claim, damage or liability and any other relevant equitable considerations. The relative benefits to the Issuer, on the one hand, and UBS, on the other hand, shall be in the same proportion as the aggregate Purchase Price bears to the commissions received by UBS pursuant to the last paragraph of Section 2. The reimbursement, indemnity and contribution obligations of the Issuer under this Section 7 shall be in addition to any liability which the Issuer may otherwise have, shall extend upon the same terms and conditions to any affiliate of UBS and the partners, directors, officers, agents, employees and controlling persons (if any), as the case may be, of UBS and any such affiliate and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of the Issuer, UBS, any such affiliate and any such person. The Issuer also agrees that neither UBS nor any of such affiliates, partners, directors, officers, agents, employees or controlling persons shall have any liability to the Issuer for or, in connection with any matter referred to in this Agreement except to the extent that any losses, claims, damages, liabilities or expenses incurred by the Issuer result from the gross negligence or bad faith of UBS in effecting the transactions that are the subject of this Agreement. The foregoing provisions shall survive any termination or completion of this Agreement.

Section 8. Termination Event.

Upon the occurrence of a Termination Event and so long as such Termination Event shall be continuing, UBS may, in its discretion, by notice to the Issuer (the date of such notice and the notice referred to in the succeeding clause being referred to herein as the "Notice Date"), direct that the Execution Period shall forthwith terminate on the date specified in such notice (the "Termination Event Termination Date"). In such an event, (i) the Execution Period shall terminate on the Termination Event Termination Date, (ii) the Principal Account shall be

reduced on such date by an amount equal to the sum of (A) the product of (x) the number of Hedge Account Shares and (y) the arithmetic average of daily volume-weighted average prices of Shares in each Trading Day from the First Averaging Date up to and excluding the Notice Date, as listed on Bloomberg Screen Volume at Price Page and (B) the total purchase price paid by UBS for the Shares of Common Stock that are purchased by UBS during the period commencing on and including the Notice Date to and including the Termination Event Termination Date in order to cover the remaining number of Borrowed Shares, (iii) the Principal Account shall be increased to reflect an appropriate accrual of interest at the Federal Funds Open Rate, as determined by the Calculation Agent, to reflect interest earned by UBS in respect of the aggregate Purchase Price received from the Issuer, (iv) the Principal Account shall be decreased to reflect UBS's actual cost of borrowing shares of Common Stock to hedge its obligations hereunder, and (v) the Settlement Amount shall be further adjusted by the amount that UBS reasonably determines in good faith to be its total losses and costs in connection with the early termination of this Agreement, including any loss of bargain, cost of funding, or loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position.

Section 9. Miscellaneous.

(a) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and obligations set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

(b) Assignment. Neither the rights under this Agreement nor the obligations created by this Agreement shall be assignable or delegable, in whole or in part, by either party hereto without the prior written consent of the other (which consent shall not be unreasonably withheld), and any attempt to assign or delegate any rights or obligations arising under this Agreement without such consent shall be void.

(c) Waivers, etc. No failure or delay on the part of either party in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No amendment, modification or waiver of any provision of this Agreement nor consent to any departure by either party therefrom shall in any event be effective unless the same shall be in writing and, in the case of a waiver or consent, shall be effective only in the specific instance and for the purpose for which given.

(d) Beneficiaries. This Agreement shall be binding upon, and inure solely to the benefit of, the Issuer, UBS and, to the extent provided in Section 7 hereof, the affiliates, partners, directors, officers, agents, employees and controlling persons, if any, of UBS, and their respective successors, assigns, heirs and personal representatives, and no other person shall acquire any rights hereunder.

(e) Rights of Set-Off. In addition to any rights of set-off a party may have as a matter of law or otherwise, upon occurrence of an Event of Default with respect to the Issuer, UBS shall have the right, without prior notice to the Issuer or any other person, to (i) set off any obligation of the Issuer owing to UBS or any affiliate of UBS against any obligations of UBS or any affiliate of UBS owing to the Issuer, or (ii) for the purpose of cross-currency set-off, convert any obligation to another currency at the market rate determined by UBS, or (iii) if an obligation is unascertained, in good faith estimate that obligation and set off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained. Nothing in this Section 9(e) will have the effect of creating a charge or other security interest.

(f) Changes of Law. If, due to any change in applicable law or regulations or the interpretation thereof by any court of law or other body having jurisdiction subsequent to the date of this Agreement, performance of any provision of this Agreement or any transaction contemplated thereby shall become impracticable or impossible, the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as contemplated by such provision.

(g) Confidentiality. Subject to Section 5(a), to any contrary requirement of law and to the right of each party to enforce its rights hereunder in any legal action, each party shall keep strictly confidential and shall cause its employees and agents to keep strictly confidential the terms of this Agreement and any information of or concerning the other party which it or any of its agents or employees may acquire pursuant to, or in the course of performing its obligations under, any provision of this Agreement. In the event disclosure is permitted pursuant to the preceding sentence, the disclosing party shall (i) provide prior notice of such disclosure to the other party, (ii) use its best efforts to minimize the extent of such disclosure and (iii) comply with all reasonable requests of the other party to minimize the extent of such disclosure. This Section 9(g) shall not prevent either party from disclosing information as necessary to third-party advisors in connection with the transactions contemplated hereby provided that such advisors agree in writing to be bound by this Section 9(g) as if a party hereto.

(h) Agent. UBS Securities LLC shall act as “agent” for UBS and the Issuer within the meaning of Rule 15a-6 under the Exchange Act. The Agent is not a principal to this Agreement and shall have no responsibility or liability to UBS or the Issuer in respect of this Agreement, including, without limitation, in respect of the failure of UBS or the Issuer to pay or perform under this Agreement. Each of UBS and the Issuer agrees to proceed solely against the other to collect or recover any securities or money owing to it in connection with or as a result of this Agreement. The Agent shall otherwise have no liability in respect of this Agreement, except for its gross negligence or willful misconduct in performing its duties as Agent hereunder. As a broker-dealer registered with the Securities and Exchange Commission, UBS Securities LLC, in its capacity as agent, will be responsible for (i) effecting the transaction contemplated in this Agreement, (ii) issuing all required notices, confirmations and statements to Buyer and Seller and (iii) maintaining books and records relating to this Agreement.

(i) Headings. Descriptive headings herein are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

(j) Counterparts. This Agreement may be executed by the parties hereto in counterparts, and each such executed counterpart shall be, and shall be deemed to be, an original instrument and all such counterparts, taken together, shall constitute one and the same instrument.

(k) Notices. All notices, consents, requests, instructions, approvals and other communications provided for herein shall be validly given, made or served if in writing and delivered personally, by telegram, by telecopy or sent by overnight courier, postage prepaid, to:

UBS AG, London Branch at:

c/o UBS Securities LLC
299 Park Avenue
New York, NY 10171
Attention of: Paul Stowell and Sanjeet Dewal
Fax Number: 212-821-4610

With a copy to such address to attention of:
Legal and External Affairs

the Issuer at:

Cincinnati Financial Corporation
6200 South Gilmore Road
Fairfield, OH 45014

Attention of: Martin F. Hollenbeck, Investment Department
Fax Number: 513-870-0609

With a copy to such address to attention of:
Legal Department—Corporate Division

or to such other address as any party may, from time to time, designate in a written notice given in a like manner. Notice given by telegram or telecopy shall be deemed delivered when evidence of the transmission is received by the sender and shall be confirmed in writing by overnight courier, postage prepaid. Notice given by overnight courier as set out above shall be deemed delivered the business day after the date the same is mailed.

(l) Account Details.

UBS:

Cash Payments for Stock Purchase

Citibank, New York

ABA# 021 000 089

A/C# 4065 2556

UBS Securities, LLC

Cash Payments for Settlement

UBS AG Stamford

f/o UBS AG London Branch

ABA# 026-007-993

AC# 101-WA-140007-000

Issuer:

(To be provided)

(m) Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the state of New York without reference to conflict of law principles. Each party hereto irrevocably submits to the extent permitted under applicable law to the non-exclusive jurisdiction of the federal and state courts located in the Borough of Manhattan, State of New York. Each party waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any suit, action or proceeding relating to this Agreement.

IN WITNESS WHEREOF, UBS and the Issuer have caused this Agreement to be duly authorized, executed and delivered as of the date first written above.

UBS AG, LONDON BRANCH

By: _____
Name:
Title:

By: _____
Name:
Title:

UBS SECURITIES LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

CINCINNATI FINANCIAL CORPORATION

By: _____
Name:
Title:

PURCHASE AGREEMENT (TRANCHE 2 OF 4)

PURCHASE AGREEMENT, dated as of **October 24, 2007** (the “Agreement”), by and between Cincinnati Financial Corporation (the “Issuer”), and UBS AG, London Branch (“UBS”) acting through UBS Securities LLC (“Agent”) as agent.

W I T N E S S E T H

WHEREAS, the Issuer has publicly announced its intention to repurchase shares of its common stock, par value \$2.00 per share (the “Common Stock”), from time to time (the “Repurchase Program”); and

WHEREAS, the Issuer desires to enter into the Agreement with UBS in order to effect the Repurchase Program;

NOW, THEREFORE, in consideration of the premises, the covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Definitions.

As used herein the following terms shall have the meanings set forth below:

“Announcement Date” means in respect of a Merger Event, the date of the first public announcement of a firm intention to merge or to make an offer that leads to the Merger Event, as determined by the Calculation Agent.

“Bankruptcy” means the Issuer is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured

party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

“Bloomberg Screen Volume at Price Page” shall mean the display designated as page “CINF Equity AQR” on the Bloomberg Financial Service or such page as may replace the Volume at Price page on that service for the purpose of displaying daily volume and volume-weighted trading prices of equity securities during the normal trading hours of 9:30 a.m. to 4:00 p.m., New York Time or, if such service does not then publish daily volume and volume-weighted trading prices of the Common Stock, such other page and services selected by the Calculation Agent that reports daily volume and weighted trading prices of the Common Stock.

“Borrowed Shares” means, as of any date, the number of Shares borrowed by UBS in connection with this Transaction, as determined by the Calculation Agent.

“Calculation Agent” shall mean UBS Securities LLC.

“Calculation Date” means the first Trading Day after the Last Averaging Date.

“Closing Price” of the Common Stock on any day shall mean the last reported sales price regular way on such day or, in case no such sales price is reported on such day, the average of the reported closing bid and asked prices regular way of the Common Stock, in each case on the Exchange, or, if not then traded on the Exchange, the principal securities exchange or quotation system on which the Common Stock is then listed or admitted to trading, or, if not then listed or admitted to trading on a securities exchange or quotation system, the average of the closing bid and asked prices of the Common Stock in the over-the-counter market on the day in question as reported by the National Quotations Bureau Incorporated, or a similarly generally accepted reporting service, or, if not so available in such manner, as furnished by any New York Stock Exchange member firm selected by the Calculation Agent.

“Combined Consideration” means New Shares in combination with Other Consideration.

“Cross Default” means the occurrence or existence of (1) a default, event of default or other similar condition or event (however described) in respect of the Issuer under one or more agreements or instruments relating to the payment of money in an aggregate amount of not less than \$10 million which has resulted in such agreement or instrument becoming, or becoming capable at such time of being declared, due and payable before it would otherwise have been due and payable or (2) a default by the Issuer in making one or more payments on the due date thereof in an aggregate amount of not less than \$10 million

under such agreements or instruments (after giving effect to any applicable notice requirement or grace period).

“Determined Amount” has the meaning ascribed to it in Section 3(d).

“Discount” means the product of (a) 1.30%, and (b) the arithmetic average of daily volume-weighted average prices of Shares on each Trading Day from the First Averaging Date up to and including the Last Averaging Date, as listed on Bloomberg Screen Volume at Price Page.

“Dividend Amount” shall mean, as of each of the dates set out below (each a “Dividend Adjustment Date”), the amount set forth opposite such Dividend Adjustment Date:

Dividend Adjustment Date	Dividend Amount
The date immediately preceding the ex-dividend date for the Issuer’s regularly scheduled fourth quarter 2007 dividend, (such ex-dividend date currently anticipated to be December 20, 2007)	\$0.355

“Dividend Event” means the payment of an ordinary or extraordinary dividend of distribution by the Issuer in any of the time periods specified above with a value, as determined by the Calculation Agent in good faith, that exceeds the amount specified above for such period by \$0.01 or more.

“Early Closure” means the closure on any Trading Day of the Exchange or any Related Exchange(s) prior to its regularly scheduled closing time.

“Excess Shares” means the number of Shares (if any) equal to (a)(i) the Settlement Amount divided by (ii) the Reference Price minus (b) the Determined Amount.

“Exchange” means the NASDAQ Global Select Market or any successor thereto or any substitute exchange or quotation system to which trading in the Shares has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the Shares on such temporary substitute exchange or quotation system as on the original Exchange).

“Exchange Disruption” means any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (i) to effect transactions in, or obtain market values for, the Shares on the Exchange, or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to the Shares on the Related Exchange(s).

“Execution Period” shall mean the period commencing on the First Averaging Date and ending on the earliest of (i) the Last Averaging Date, (ii) the Termination Date or (iii) the Termination Event Termination Date.

“Failure to Pay or Deliver” means failure by the Issuer to make, when due, any payment under this Agreement or any delivery of Shares under this Agreement required to be made by it if such failure is not remedied on or before the third Trading Day after notice of such failure is given to the Issuer by UBS or the Agent.

“Final VWAP-Minus Price” means (i) the arithmetic average of daily volume-weighted average prices of Shares on each Trading Day from the First Averaging Date up to and including the Last Averaging Date, as listed on Bloomberg Screen Volume at Price Page, minus (ii) the Discount.

“First Averaging Date” means October 25, 2007; provided, however, that the First Averaging Date may be extended by the Calculation Agent in its discretion by one Trading Day for each Scheduled Trading Day following the date hereof and prior to the First Averaging Date that ceases to be a Scheduled Trading Day or is not a Trading Day due to the occurrence of a Market Disruption Event.

“Hedge Account Shares” means, as of any date, the Number of Shares minus the Borrowed Shares.

“Last Averaging Date” means a trading day between and including November 21, 2007 and January 30, 2008, as determined by UBS; provided, however, that each of such dates may be extended by the Calculation Agent in its discretion by one Trading Day for each Scheduled Trading Day during the Execution Period that ceases to be a Scheduled Trading Day or is not a Trading Day due to the occurrence of a Market Disruption Event. Notice of the Last Averaging Date shall be given by UBS not later than 8:00 pm New York time on the Trading Day following the Last Averaging Date. Notice shall be irrevocable once provided to Issuer. If no notice is provided, then the Last Averaging Date shall be January 30, 2008.

“Market Disruption Event” means the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption or (iii) an Early Closure, which in each case the Calculation Agent determines is material.

“Merger Event” means, in respect of any relevant Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding, (ii) consolidation, amalgamation or merger of the Issuer with or into another entity (other than a consolidation, amalgamation or merger in which such Issuer is the continuing entity and which does not result in any such reclassification or change of all of such Shares outstanding) or (iii) other takeover offer for such Shares that results in a transfer or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by the offeror), in each case if the Merger Date is on or before the Last Averaging Date.

“Net Share Settlement” shall mean settlement by the Issuer of its obligations hereunder in accordance with Section 3(c).

“New Shares” means shares (whether of the offeror or a third party).

“Number of Shares” has the meaning ascribed to it in Section 2.

“Other Consideration” means cash and/or any securities (other than New Shares) or assets (whether of the offeror or a third party).

“Payment Date” has the meaning ascribed to it in Section 3(b).

“Principal Account” means the notional principal account referred to in Section 3(a).

“Purchase Price” means the product of (a) the Number of Shares and (b) the Closing Price of the Common Stock on October 24, 2007.

“Purchasing Date” means any Trading Day during the Execution Period.

“Reference Price” means the Closing Price of the Common Stock on the last Trading Day of the Execution Period.

“Related Exchange(s)” means each exchange or quotation system where trading has a material effect (as determined by the Calculation Agent) on the overall market for futures or options contracts relating to the Shares.

“Scheduled Trading Day” means any day on which the Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions.

“Settlement Amount” shall mean (i) in the case of the Issuer, the amount of any negative balance in the Principal Account as of the Calculation Date, and (ii) in the case of UBS, the amount of any positive balance in the Principal Account as of the Calculation Date, in each case as determined by the Calculation Agent, and as adjusted by the Calculation Agent to reflect the accrual of interest thereon at the rate set forth for that day opposite the caption “Open” under the caption “Federal Funds” as displayed on Bloomberg Page BTMM, from and excluding the third Trading Day following the Calculation Date hereunder to and including the actual Payment Date, if the Payment Date occurs following the third Trading Day following the Calculation Date hereunder.

“Share-for-Combined” means, in respect of a Merger Event, that the consideration for the relevant Shares consists of Combined Consideration.

“Share-for-Other” means, in respect of a Merger Event, that the consideration for the relevant Shares consists solely of Other Consideration.

“Share-for-Share” means, in respect of a Merger Event, that the consideration for the relevant Shares consists (or, at the option of the holder of such Shares, may consist) solely of New Shares.

“Shelf Registration” means a registration statement in form and substance reasonably acceptable to UBS for an offering to be made on a continuous basis pursuant to Rule 415 under the Securities Act, registering UBS’s resale, in any manner or manners designated by UBS, of all the Stock Settlement Shares, any Make-Whole Shares, and any other Shares held by UBS in connection with this transaction which, in the opinion of counsel to UBS, are required to be included in the Shelf Registration to be resold by UBS to the public.

“Short Squeeze” shall mean a situation where (i) UBS has determined, in its judgment, that it is unable to hedge its exposure to the transaction contemplated hereby because of the lack of sufficient shares of Common Stock being made available for borrowing from lenders, including without limitation UBS’s being required to redeliver shares of Common Stock to any lender at the demand of such lender and not being able to meet such obligation in full in a timely manner by reasonable efforts to borrow shares of Common Stock from another lender or lenders, or (ii) UBS would incur a cost to borrow shares of Common Stock to hedge its exposure to the transaction contemplated hereby that is greater than a rate equal to 50 basis points per annum.

“Stock Settlement Amount” shall mean (i) in the case that the Issuer is required to pay the Settlement Amount to UBS and has elected to pay the Settlement Amount by delivery of shares of Common Stock to UBS pursuant to Section 3(c), an amount, determined by the Calculation Agent, equal to the Settlement Amount to be paid by the Issuer pursuant to Section 3(b), divided by the Reference Price, and (ii) in the case that UBS is required to pay the Settlement Amount to the Issuer and the Issuer has elected to require UBS to satisfy the obligation by delivery of shares of Common Stock to the Issuer pursuant to Section 3(h), an amount, determined by the Calculation Agent, equal to the Settlement Amount to be paid by UBS pursuant to Section 3(b), divided by the weighted average price per share actually paid by UBS to purchase such Stock Settlement Shares.

“Stock Settlement Shares” shall mean such whole number of shares included in the Stock Settlement Amount.

“Termination Date” has the meaning ascribed to it in Section 4(b).

“Termination Event” shall mean the occurrence of a (i) Bankruptcy, (ii) Cross Default, (iii) Failure to Pay or Deliver, (iv) Short Squeeze or (v) Dividend Event.

“Termination Event Termination Date” has the meaning ascribed to it in Section 8 below.

“Trading Day” shall mean any day on which the Common Stock is traded on the Exchange or, if not then traded on the Exchange, the principal securities exchange or quotation

system on which such securities are then traded or, if not then traded on a securities exchange or quotation system, in the over-the-counter market, and on which no Market Disruption Event occurs.

“Trading Disruption” means any suspension of or limitation imposed on trading by the Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Exchange or Related Exchange or otherwise (i) relating to the Shares on the Exchange or (ii) in futures or options contracts relating to the Shares on any Related Exchange.

Section 2. Purchase and Sale.

Subject to the terms and conditions set forth herein, UBS agrees to sell to the Issuer, and the Issuer agrees to purchase from UBS, 1,000,000 shares (the “Number of Shares”) of Common Stock (the “Shares”) at a purchase price per Share equal to the Closing Price of the Common Stock on **October 24, 2007** or on such other date and at such other time as the parties may mutually agree (the “Execution Date”). At 4:00 P.M. on the third Trading Day after the Execution Date (the “Settlement Date”), UBS shall deliver or cause to be delivered the Shares through the facilities of The Depository Trust Company to the Issuer against payment by the Issuer of the Purchase Price by wire transfer of immediately available funds. The parties understand and agree that the delivery of the Shares by or on behalf of UBS upon the payment of the aggregate Purchase Price by the Issuer is irrevocable and that as of the Settlement Date the Issuer will be the sole beneficial owner of the Shares for all purposes.

As compensation to UBS for its commitment and services hereunder, the Issuer on the Settlement Date will pay to UBS by wire transfer of immediately available funds an additional amount equal to \$143,642.36. This amount payable to UBS shall not be subject to refund.

Section 3. Settlement.

(a) On the Settlement Date, the Calculation Agent shall establish a notional Principal Account in an amount equal to the Purchase Price. The Calculation Agent shall adjust the Principal Account daily as follows:

The Principal Account shall be reduced on the third day following the Last Averaging Date in an amount equal to the product of (x) the Number of Shares and (y) the Final VWAP-Minus Price.

On the first Trading Day immediately following the last day of the Execution Period, the Calculation Agent will calculate the Settlement Amount and, if applicable, the Stock Settlement Amount, notify (the “Settlement Amount Notification”) the Issuer of the Settlement Amount and, if applicable, the Stock Settlement Amount and provide a schedule of its calculations thereof. The Calculation Agent shall respond promptly to all questions raised by the Issuer relating to such calculations. If the Issuer objects to the calculation of the Settlement

Amount, the Issuer shall promptly notify the Calculation Agent, and the Issuer and UBS agree to use their good faith best efforts to reach an agreement as to the Settlement Amount. In the further event that the Issuer and UBS are not able to reach an agreement, the Issuer and UBS shall appoint a third party with sufficient expertise to determine the calculation of the Settlement Amount, and such calculations shall be binding on both parties.

(b) On the third Trading Day immediately following the Calculation Date (the “Payment Date”), if the Settlement Amount is positive, UBS shall pay the Settlement Amount to the Issuer and, if the Settlement Amount is negative, the Issuer shall pay the absolute value of such Settlement Amount to UBS. Except as provided in paragraphs (c) and (d) of this Section, all payments to be made under this Section 3 shall be made on the Payment Date by wire transfer of immediately available funds.

(c) If the Issuer is required to pay the Settlement Amount to UBS pursuant to paragraph (b) of this Section, the Issuer may, at its option, satisfy the obligation by the delivery to UBS of a number of whole shares of Common Stock (and a payment of cash in lieu of fractional shares, if any) equal to the Stock Settlement Amount. In order to exercise this option, the Issuer must (each, a “Condition on Net Share Settlement”) (i) notify UBS of its election to have any Settlement Amount payable in shares of Common Stock no later than 10 days prior to November 21, 2007 (the “Stock Election Notice”), (ii) enter into a registration rights agreement with UBS in form and substance acceptable to UBS (the “Registration Rights Agreement”) not later than 7 days prior to November 21, 2007, which agreement will contain, among other things, customary representations and warranties and indemnification and other rights, including rights to customary opinions of counsel and accountant’s “comfort letters,” relating to the registration of the Stock Settlement Shares, the Make-whole Shares and any additional shares of Common Stock as to which UBS is named as a selling securityholder in the Shelf Registration (the “Registered Shares”); (iii) the Shelf Registration shall have been filed with the Securities and Exchange Commission not less than five Trading Days prior to November 21, 2007; and (iv) maintain the effectiveness of the Shelf Registration until all Registered Shares have been sold by UBS. Subject to paragraph 3(g) below, if any of the conditions in the preceding sentence are not met, the provisions of this paragraph (c) shall be inoperative and the Issuer shall be obligated to pay any applicable Settlement Amount by wire transfer of immediately available funds. If the Issuer complies with all of its obligations under this paragraph (c), then at 9:30 A.M. on the Payment Date, the Issuer shall deliver to UBS (i) a certificate or certificates representing the fully paid and nonassessable Stock Settlement Shares, in such denominations and in such names as UBS may specify and (ii) the cash payment, if any, in lieu of fractional shares by wire transfer of immediately available funds. The parties understand and agree that the deliveries made pursuant to the preceding sentence and the following paragraph shall be irrevocable and shall satisfy in full the Issuer’s obligations under this Section 3.

If the Issuer delivers Stock Settlement Shares to UBS pursuant to this paragraph (c) and within ten Trading Days after the Payment Date, UBS resells all or any portion of the Stock Settlement Shares and the net proceeds received by UBS upon resale of such shares exceeds the Settlement Amount (or if less than all of the Stock Settlement Shares are resold, the applicable pro rata portion of the Settlement Amount), UBS shall promptly refund in cash such

difference to the Issuer; provided that UBS may, at its option, satisfy its obligation under this sentence by returning to the Issuer any portion of the Stock Settlement Shares that would, if sold, have resulted in net proceeds in excess of the Settlement Amount. In the event that such net proceeds are less than the Settlement Amount (or if less than all of the Stock Settlement Shares are resold, the applicable pro rata portion of the Settlement Amount), the Issuer shall pay in cash or additional shares of Common Stock (the “Make-whole Shares”) such difference (the “Make-whole Amount”) to UBS promptly after receipt of notice thereof. In the event that Issuer elects to pay the Make-whole Amount in additional shares of Common Stock, the requirements set forth in this paragraph (c) with respect to payment of the Settlement Amount in Shares, including Make-whole requirements, shall apply, such that UBS shall pay to the Issuer any such excess and the Issuer shall pay to UBS in cash or Make-Whole Shares any additional Make-Whole Amount. In calculating the net proceeds from the resale of any Stock Settlement Shares there shall be deducted from such proceeds any amount equal to the customary underwriting discount or commission for underwritten offerings of common stock by companies comparable to the Issuer multiplied by the total number of Shares sold for the account of UBS pursuant to a Shelf Registration.

(d) Notwithstanding any other provision in this Agreement, if Issuer exercises its right pursuant to Section 3(c) above, Issuer shall not be obliged to deliver, in connection with this Agreement, in excess of 3,000,000 shares of Common Stock, as recalculated from time to time (the “Determined Amount”). In the event that, but for this Section 3, Issuer would be obliged to deliver a number of shares of Common Stock equal to the Determined Amount plus the Excess Shares, Issuer agrees to (x) satisfy its remaining obligation by cash payment or; (y) (i) use its best efforts to increase its number of authorized shares, thereby increasing the Determined Amount, to the extent necessary so that, but for this Section 3, the number of shares of Common Stock Issuer would be obliged to deliver does not exceed the (recalculated) Determined Amount and (ii) allocate such newly authorized shares of Common Stock in satisfaction of Issuer’s delivery obligations under this Agreement in priority to any other use of such Common Stock. For the avoidance of doubt, the obligation of Issuer to so use its best efforts is an ongoing obligation.

(e) Issuer hereby represents and warrants that it will:

(i) calculate the Determined Amount based on the maximum amount able to be calculated in accordance with EITF 00-19 or any successor financial statement guidance; and

(ii) in respect of all equity derivative transactions in respect of which Issuer’s equity securities constitute (all or part of) the instruments underlying such transactions (the “Derivative Trades”), use the same methodology to derive the Determined Amount (howsoever described) applicable to each Derivative Trade as is used to derive the Determined Amount for this Agreement.

(f) UBS agrees that, in respect of any obligations Issuer has duly elected be satisfied pursuant to Section 3(c) above, in the event of Issuer’s bankruptcy, UBS

shall not have rights in bankruptcy that rank senior to the rights in bankruptcy of common shareholders of Issuer.

(g) If the Issuer has used its best efforts to satisfy the Conditions on Net Share Settlement but has been unable to because the Shelf Registration is not declared effective by the SEC within the time set out in paragraph 3(c) (or, where UBS has previously agreed to extend such period based on a request by the Issuer pursuant to paragraph 3(g)(ii), within such period as extended pursuant to paragraph 3(g)(ii)), then the Issuer may elect to:

(i) deliver the relevant number of Shares to UBS in which case:

(A) the day on which the Issuer makes such an election to deliver such Shares is the “Issuer Election Date”, and

(B) Issuer shall withdraw any Registration Statement filed with the SEC in connection with the Shares, and

(C) Issuer will enter into a private placement purchase agreement with UBS in form and substance acceptable to UBS no later than the next Trading Day following the Issuer Election Date, and

(D) Issuer shall deliver to UBS such Shares on the Settlement Date which, for the purposes of this paragraph 3(g)(i)(D), shall be the third Trading Day following the Issuer Election Date, and

(E) in addition to any Make-whole Amount payable by Issuer pursuant to paragraph 3(c) herein, Issuer shall deliver to UBS such additional Shares until UBS has realized actual net proceeds upon resale of such Shares equal to the Settlement Amount. At its election, UBS may by a written notice to Issuer retain a number of Shares delivered by Issuer pursuant to this paragraph 3(g)(i). If UBS so elects, UBS shall be deemed to have sold each such retained Share for an amount equal to the price per Share obtained by UBS for the last Share sold by UBS prior to sending written notice of its intention to retain Shares to Issuer. In no event will UBS be obligated to exercise its right to retain Shares; or

(ii) request UBS to extend the period within which the Registration Statement is to be declared effective by the SEC for a further period specified in writing by UBS at the time of such extension.

(h) If UBS is required to pay the Settlement Amount to the Issuer pursuant to paragraph (b) of this Section, the Issuer may, at its option, elect that UBS satisfy the obligation by the delivery to the Issuer of a number of whole shares of Common Stock (and a payment of cash in lieu of fractional shares, if any) equal to the Stock Settlement Amount. In order to exercise this option, the Issuer must notify UBS of its election to have any Settlement Amount payable in shares of Common Stock no later than 15 days prior to the Payment Date (the “Stock Election Notice”). If the condition in the preceding sentence is not met, the provisions of this paragraph (h) shall be inoperative and UBS shall be obligated to pay any applicable Settlement Amount by wire transfer of immediately available funds. If the Issuer complies with all of its obligations under this paragraph (h), then at 9:30 A.M. on the Payment Date, UBS shall deliver to the Issuer (i) a certificate or certificates representing the fully paid and nonassessable Stock Settlement Shares, and (ii) the cash payment, if any, in lieu of

fractional shares by wire transfer of immediately available funds. The parties understand and agree that the deliveries made pursuant to the preceding sentence shall be irrevocable and shall satisfy in full UBS' obligations under this Section 3.

Section 4. Anti-dilution Adjustments.

(a) Subdivisions and Combinations of Common Stock. In the event that the outstanding shares of the Common Stock shall be subdivided or split into a greater number of shares of Common Stock where the effective date of such subdivision or the record date for such split occurs during the Execution Period, the number of shares of Common Stock referred to herein shall be deemed to be proportionately increased and the Final VWAP-Minus Price and Discount shall be deemed to be proportionately decreased; conversely, in case outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock through a combination of shares of Common Stock or a reverse stock split where the effective date of such combination or the record date for such reverse stock split occurs during the Execution Period, the number of shares of Common Stock referred to herein shall be deemed to be proportionately decreased and the Final VWAP-Minus Price and Discount shall be deemed to be proportionately increased. Any adjustment pursuant to this paragraph (a) shall become effective (i) in the case of a subdivision or combination of the Common Stock, at the close of business on the record date for such subdivision or combination or (ii) in the case of a stock split or reverse stock split, at the split, at the close of business on the record date for such stock split or reverse stock split.

(b) Merger Events. In respect of each Merger Event, UBS and the Issuer or the person formed by such consolidation or resulting from such merger or which acquired such assets or which acquires the Issuer's Common Stock, as the case may be, shall negotiate in good faith to amend this Agreement to give appropriate effect to such transaction. In the event that the parties are unable to reach an agreement ten (10) Trading Days prior to the effective date of such transaction (the "Termination Date"), (i) the Execution Period shall terminate on the Termination Date, (ii) the Principal Account shall be reduced on such date by an amount equal to the product of (x) an amount equal to the cash and fair market value (as determined by the Issuer's Board of Directors whose good faith determination shall be conclusive and binding) of the securities and/or property payable or distributable upon such transaction in respect of one share of Common Stock and (y) the number of Borrowed Shares as of such date, and (iii) the Settlement Amount shall be further adjusted by the Calculation Agent by the amount that the Calculation Agent reasonably determines in good faith to be UBS's total losses and costs in connection with the early termination of this Agreement, including any loss of bargain, cost of funding, or loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position.

If payment is required of Issuer in connection with a Merger Event, the Issuer shall have the right, in its sole discretion, to elect (the "Extraordinary Transaction Election") to satisfy any such payment obligation by Net Share Settlement of this Transaction PROVIDED THAT, in connection with a "Share-for-Combined" Merger Event or "Share-for-Other" Merger Event, the Extraordinary Transaction Election is available to satisfy only the percentage of such payment obligation equal to the percentage of the non-cash consideration over the total

Combined Consideration (in the case of a “Share-for-Combined” Merger Event) or total Other Consideration (in the case of a “Share-for-Other” Merger Event). The remaining percentage of such payment obligation must be satisfied in cash. The Issuer shall make any election to settle the Transaction by way of Net Share Settlement within two Trading Days of the Announcement Date but in any event not less than twenty Trading Days prior to the effective date of such merger.

(c) Tender Offers. In the event an offer is made to the holders of Common Stock to tender shares of Common Stock for cash, UBS may, in its discretion (i) accelerate the Last Averaging Date or (ii) adjust the Number of Shares. UBS shall notify the Issuer in writing as to the terms of any adjustment made pursuant to this Section 4(c) no later than 5 days after the tender offer is made.

(d) Other Events. In the event of any corporate event involving the Issuer or the Common Stock not specifically addressed in subsections (a), (b) or (c) of this Section 4 or in the event that the Calculation Agent, in its good faith judgment, determines that the adjustments described in subsections (a), (b) or (c) of this Section 4 will not result in an equitable adjustment of the terms of the transaction described herein, and provided that, in each case, such corporate event impacts the rights or obligations of a holder of Common Stock, the terms of the transaction described herein shall be subject to adjustment by the Calculation Agent (including, without limitation, the First Averaging Date, the Last Averaging Date and the Number of Shares) as in the exercise of its good faith judgment it deems appropriate under the circumstances in order to result in an equitable adjustment to this transaction. In the event that the Issuer objects to the adjustments, the Issuer shall promptly so notify the Calculation Agent and UBS, and the Issuer and UBS agree to use their good faith best efforts to reach an agreement as to the adjustment. In the further event that the Issuer and UBS are not able to reach an agreement, the Issuer and UBS shall appoint a third party with sufficient expertise to determine the adjustment and such adjustment shall be binding on both parties.

Section 5. Acknowledgement.

The Issuer acknowledges and agrees that it is not relying, and has not relied, upon UBS or Agent with respect to the legal, accounting, tax or other implications of this Agreement and that it has conducted its own analysis of the legal, accounting, tax and other implications of this Agreement. The Issuer further acknowledges and agrees that neither UBS nor Agent have acted as its advisor in any capacity in connection with this Agreement or the transactions contemplated by this Agreement. The Issuer acknowledges that neither UBS nor Agent is acting as the agent for the Issuer in effecting any purchase of Common Stock pursuant to this Agreement. The Issuer understands and acknowledges that UBS and its affiliates may from time to time effect transactions, for their own account or the account of customers, and hold positions, in securities or options on securities of the Issuer and that UBS and its affiliates may continue to conduct such transactions during the Execution Period. The Issuer understands and acknowledges that UBS and its affiliates intend to engage in hedging activity that could affect the market for such securities and/or the Common Stock that is the subject of this transaction, and consequently the cost or proceeds to the Issuer hereunder.

Section 6. Representations and Warranties.

(a) The Issuer hereby represents and warrants to UBS that:

(i) it has (or, in the case of the Registration Rights Agreement, will have when and if executed) all power and authority to enter into this Agreement and the Registration Rights Agreement and the transactions contemplated hereby and thereby;

(ii) this Agreement has been duly authorized, validly executed and delivered by the Issuer and constitutes a valid and legally binding obligation of the Issuer enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(iii) the Registration Rights Agreement, when and if executed and delivered pursuant to Section 3(c) hereof, shall have been duly authorized, validly executed and delivered by the Issuer and shall constitute a valid and legally binding obligation of the Issuer enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(iv) if Stock Settlement Shares are delivered pursuant to Section 3(c) or Section 3(g), as the case may be, the Stock Settlement Shares, when delivered to UBS or to the Issuer, as the case may be, will have been duly authorized and will be duly and validly issued, fully paid and nonassessable and free of preemptive and other rights;

(v) the transactions contemplated by this Agreement, including the delivery of the Stock Settlement Shares pursuant to Section 3(c) or Section 3(g), as the case may be, are consistent with the authorization of the Repurchase Program;

(vi) the Issuer is not entering into this Agreement to facilitate a distribution of the Common Stock (or any security convertible into or exchangeable for Common Stock) or in connection with a future issuance of securities;

(vii) the Issuer is not entering into this Agreement to create actual or apparent trading activity in the Common Stock (or any security convertible into or exchangeable for Common Stock) or to raise or depress the price of the Common Stock (or any security convertible into or exchangeable for Common Stock);

(viii) as of the date hereof and as of the date of any Stock Election Notice hereunder, (i) none of the Issuer and its executive officers and directors is, or will be, as the case may be, aware of any material nonpublic information regarding the Issuer or the Common Stock and (ii) all reports and other documents filed by the Issuer with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, when considered as a whole (with the more recent such reports and documents deemed to

amend inconsistent statements contained in any earlier such reports and documents), do not or will not, as the case may be, contain any untrue statement of a material fact or any omission of a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading;

(ix) the repurchase of the Shares by the Issuer, the compliance by the Issuer with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach (each, a “Breach”) of any of the terms or provisions of, or constitute a default (each a “Default”) under, any indenture, mortgage, deed of trust, loan agreement or any other agreement or instrument to which the Issuer or any of its subsidiaries is a party (collectively, “Contracts”) or by which the Issuer or any of its subsidiaries is bound or to which any of the property or assets of the Issuer or any of its subsidiaries is subject (except such Breach or Default as would not reasonably be expected to materially adversely affect the ability of the Issuer to perform its obligations under any Contract), nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Issuer or any of its subsidiaries is subject, nor will such action result in any violation of the Certificate of Incorporation or By-laws of the Issuer or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Issuer or any of its properties; and

(x) no consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body having jurisdiction over the Issuer or any of its properties is required for the repurchase of the Shares by the Issuer, the compliance by the Issuer with all the terms of this Agreement, or the consummation by the Issuer of the transactions contemplated by this Agreement, other than the registration of the Stock Settlement Shares and any Make-whole Shares under the Securities Act in accordance with the provisions of Section 3(c), which registration shall be completed not less than five Trading Days prior to November 21, 2007, and such authorizations, orders, registrations and qualifications as may be required under state securities or blue sky laws in connection with the resale by UBS of the Registered Shares.

(b) UBS hereby represents and warrants to the Issuer:

(i) it has all power and authority to enter into this Agreement and the Registration Rights Agreement and the transactions contemplated hereby and thereby;

(ii) this Agreement has been duly authorized, validly executed and delivered by UBS and constitutes a valid and legally binding obligation of UBS enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors’ rights and to general equity principles; and

(iii) the Registration Rights Agreement, when and if executed and delivered pursuant to Section 3(c) hereof, shall have been duly authorized, validly executed and delivered by UBS and shall constitute a valid and legally binding obligation of UBS enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency,

fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(c) The Issuer and UBS hereto acknowledge that this transaction is not secured by any collateral that would otherwise secure the obligations of the Issuer.

Section 7. Indemnification.

In the event that UBS becomes involved in any capacity in any action, proceeding or investigation brought by or against any person in connection with any matter referred to in this Agreement, the Issuer periodically will reimburse UBS for its legal and other expenses (including the cost of any investigation and preparation) incurred in connection therewith. The Issuer also will indemnify and hold UBS harmless against any losses, claims, damages or liabilities to which UBS may become subject in connection with any matter referred to in this Agreement, except to the extent that any such loss, claim, damage or liability results from the gross negligence or bad faith of UBS in effecting the transactions which are the subject of this Agreement. If for any reason the foregoing indemnification is unavailable to UBS or insufficient to hold it harmless, then the Issuer shall contribute to the amount paid or payable by UBS as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative benefits received by the Issuer on the one hand and UBS on the other hand in the matters contemplated by this Agreement as well as the relative fault of the Issuer and UBS with respect to such loss, claim, damage or liability and any other relevant equitable considerations. The relative benefits to the Issuer, on the one hand, and UBS, on the other hand, shall be in the same proportion as the aggregate Purchase Price bears to the commissions received by UBS pursuant to the last paragraph of Section 2. The reimbursement, indemnity and contribution obligations of the Issuer under this Section 7 shall be in addition to any liability which the Issuer may otherwise have, shall extend upon the same terms and conditions to any affiliate of UBS and the partners, directors, officers, agents, employees and controlling persons (if any), as the case may be, of UBS and any such affiliate and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of the Issuer, UBS, any such affiliate and any such person. The Issuer also agrees that neither UBS nor any of such affiliates, partners, directors, officers, agents, employees or controlling persons shall have any liability to the Issuer for or, in connection with any matter referred to in this Agreement except to the extent that any losses, claims, damages, liabilities or expenses incurred by the Issuer result from the gross negligence or bad faith of UBS in effecting the transactions that are the subject of this Agreement. The foregoing provisions shall survive any termination or completion of this Agreement.

Section 8. Termination Event.

Upon the occurrence of a Termination Event and so long as such Termination Event shall be continuing, UBS may, in its discretion, by notice to the Issuer (the date of such notice and the notice referred to in the succeeding clause being referred to herein as the "Notice Date"), direct that the Execution Period shall forthwith terminate on the date specified in such notice (the "Termination Event Termination Date"). In such an event, (i) the Execution Period

shall terminate on the Termination Event Termination Date, (ii) the Principal Account shall be reduced on such date by an amount equal to the sum of (A) the product of (x) the number of Hedge Account Shares and (y) the arithmetic average of daily volume-weighted average prices of Shares in each Trading Day from the First Averaging Date up to and excluding the Notice Date, as listed on Bloomberg Screen Volume at Price Page and (B) the total purchase price paid by UBS for the Shares of Common Stock that are purchased by UBS during the period commencing on and including the Notice Date to and including the Termination Event Termination Date in order to cover the remaining number of Borrowed Shares, (iii) the Principal Account shall be increased to reflect an appropriate accrual of interest at the Federal Funds Open Rate, as determined by the Calculation Agent, to reflect interest earned by UBS in respect of the aggregate Purchase Price received from the Issuer, (iv) the Principal Account shall be decreased to reflect UBS's actual cost of borrowing shares of Common Stock to hedge its obligations hereunder, and (v) the Settlement Amount shall be further adjusted by the amount that UBS reasonably determines in good faith to be its total losses and costs in connection with the early termination of this Agreement, including any loss of bargain, cost of funding, or loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position.

Section 9. Miscellaneous.

(a) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and obligations set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

(b) Assignment. Neither the rights under this Agreement nor the obligations created by this Agreement shall be assignable or delegable, in whole or in part, by either party hereto without the prior written consent of the other (which consent shall not be unreasonably withheld), and any attempt to assign or delegate any rights or obligations arising under this Agreement without such consent shall be void.

(c) Waivers, etc. No failure or delay on the part of either party in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No amendment, modification or waiver of any provision of this Agreement nor consent to any departure by either party therefrom shall in any event be effective unless the same shall be in writing and, in the case of a waiver or consent, shall be effective only in the specific instance and for the purpose for which given.

(d) Beneficiaries. This Agreement shall be binding upon, and inure solely to the benefit of, the Issuer, UBS and, to the extent provided in Section 7 hereof, the affiliates, partners, directors, officers, agents, employees and controlling persons, if any, of UBS, and their respective successors, assigns, heirs and personal representatives, and no other person shall acquire any rights hereunder.

(e) Rights of Set-Off. In addition to any rights of set-off a party may have as a matter of law or otherwise, upon occurrence of an Event of Default with respect to the Issuer, UBS shall have the right, without prior notice to the Issuer or any other person, to (i) set off any obligation of the Issuer owing to UBS or any affiliate of UBS against any obligations of UBS or any affiliate of UBS owing to the Issuer, or (ii) for the purpose of cross-currency set-off, convert any obligation to another currency at the market rate determined by UBS, or (iii) if an obligation is unascertained, in good faith estimate that obligation and set off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained. Nothing in this Section 9(e) will have the effect of creating a charge or other security interest.

(f) Changes of Law. If, due to any change in applicable law or regulations or the interpretation thereof by any court of law or other body having jurisdiction subsequent to the date of this Agreement, performance of any provision of this Agreement or any transaction contemplated thereby shall become impracticable or impossible, the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as contemplated by such provision.

(g) Confidentiality. Subject to Section 5(a), to any contrary requirement of law and to the right of each party to enforce its rights hereunder in any legal action, each party shall keep strictly confidential and shall cause its employees and agents to keep strictly confidential the terms of this Agreement and any information of or concerning the other party which it or any of its agents or employees may acquire pursuant to, or in the course of performing its obligations under, any provision of this Agreement. In the event disclosure is permitted pursuant to the preceding sentence, the disclosing party shall (i) provide prior notice of such disclosure to the other party, (ii) use its best efforts to minimize the extent of such disclosure and (iii) comply with all reasonable requests of the other party to minimize the extent of such disclosure. This Section 9(g) shall not prevent either party from disclosing information as necessary to third-party advisors in connection with the transactions contemplated hereby provided that such advisors agree in writing to be bound by this Section 9(g) as if a party hereto.

(h) Agent. UBS Securities LLC shall act as “agent” for UBS and the Issuer within the meaning of Rule 15a-6 under the Exchange Act. The Agent is not a principal to this Agreement and shall have no responsibility or liability to UBS or the Issuer in respect of this Agreement, including, without limitation, in respect of the failure of UBS or the Issuer to pay or perform under this Agreement. Each of UBS and the Issuer agrees to proceed solely against the other to collect or recover any securities or money owing to it in connection with or as a result of this Agreement. The Agent shall otherwise have no liability in respect of this Agreement, except for its gross negligence or willful misconduct in performing its duties as Agent hereunder. As a broker-dealer registered with the Securities and Exchange Commission, UBS Securities LLC, in its capacity as agent, will be responsible for (i) effecting the transaction contemplated in this Agreement, (ii) issuing all required notices, confirmations and statements to Buyer and Seller and (iii) maintaining books and records relating to this Agreement.

(i) Headings. Descriptive headings herein are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

(j) Counterparts. This Agreement may be executed by the parties hereto in counterparts, and each such executed counterpart shall be, and shall be deemed to be, an original instrument and all such counterparts, taken together, shall constitute one and the same instrument.

(k) Notices. All notices, consents, requests, instructions, approvals and other communications provided for herein shall be validly given, made or served if in writing and delivered personally, by telegram, by telecopy or sent by overnight courier, postage prepaid, to:

UBS AG, London Branch at:

c/o UBS Securities LLC
299 Park Avenue
New York, NY 10171
Attention of: Paul Stowell and Sanjeet Dewal
Fax Number: 212-821-4610

With a copy to such address to attention of:
Legal and External Affairs

the Issuer at:

Cincinnati Financial Corporation
6200 South Gilmore Road
Fairfield, OH 45014

Attention of: Martin F. Hollenbeck, Investment Department
Fax Number: 513-870-0609

With a copy to such address to attention of:
Legal Department—Corporate Division

or to such other address as any party may, from time to time, designate in a written notice given in a like manner. Notice given by telegram or telecopy shall be deemed delivered when evidence of the transmission is received by the sender and shall be confirmed in writing by overnight courier, postage prepaid. Notice given by overnight courier as set out above shall be deemed delivered the business day after the date the same is mailed.

(l) Account Details.

UBS:

Cash Payments for Stock Purchase

Citibank, New York

ABA# 021 000 089

A/C# 4065 2556

UBS Securities, LLC

Cash Payments for Settlement

UBS AG Stamford

f/o UBS AG London Branch

ABA# 026-007-993

AC# 101-WA-140007-000

Issuer:

(To be provided)

(m) Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the state of New York without reference to conflict of law principles. Each party hereto irrevocably submits to the extent permitted under applicable law to the non-exclusive jurisdiction of the federal and state courts located in the Borough of Manhattan, State of New York. Each party waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any suit, action or proceeding relating to this Agreement.

IN WITNESS WHEREOF, UBS and the Issuer have caused this Agreement to be duly authorized, executed and delivered as of the date first written above.

UBS AG, LONDON BRANCH

By: _____
Name:
Title:

By: _____
Name:
Title:

UBS SECURITIES LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

CINCINNATI FINANCIAL CORPORATION

By: _____
Name:
Title:

PURCHASE AGREEMENT (TRANCHE 3 OF 4)

PURCHASE AGREEMENT, dated as of **October 24, 2007** (the “Agreement”), by and between Cincinnati Financial Corporation (the “Issuer”), and UBS AG, London Branch (“UBS”) acting through UBS Securities LLC (“Agent”) as agent.

W I T N E S S E T H

WHEREAS, the Issuer has publicly announced its intention to repurchase shares of its common stock, par value \$2.00 per share (the “Common Stock”), from time to time (the “Repurchase Program”); and

WHEREAS, the Issuer desires to enter into the Agreement with UBS in order to effect the Repurchase Program;

NOW, THEREFORE, in consideration of the premises, the covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Definitions.

As used herein the following terms shall have the meanings set forth below:

“Announcement Date” means in respect of a Merger Event, the date of the first public announcement of a firm intention to merge or to make an offer that leads to the Merger Event, as determined by the Calculation Agent.

“Bankruptcy” means the Issuer is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured

party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

“Bloomberg Screen Volume at Price Page” shall mean the display designated as page “CINF Equity AQR” on the Bloomberg Financial Service or such page as may replace the Volume at Price page on that service for the purpose of displaying daily volume and volume-weighted trading prices of equity securities during the normal trading hours of 9:30 a.m. to 4:00 p.m., New York Time or, if such service does not then publish daily volume and volume-weighted trading prices of the Common Stock, such other page and services selected by the Calculation Agent that reports daily volume and weighted trading prices of the Common Stock.

“Borrowed Shares” means, as of any date, the number of Shares borrowed by UBS in connection with this Transaction, as determined by the Calculation Agent.

“Calculation Agent” shall mean UBS Securities LLC.

“Calculation Date” means the first Trading Day after the Last Averaging Date.

“Closing Price” of the Common Stock on any day shall mean the last reported sales price regular way on such day or, in case no such sales price is reported on such day, the average of the reported closing bid and asked prices regular way of the Common Stock, in each case on the Exchange, or, if not then traded on the Exchange, the principal securities exchange or quotation system on which the Common Stock is then listed or admitted to trading, or, if not then listed or admitted to trading on a securities exchange or quotation system, the average of the closing bid and asked prices of the Common Stock in the over-the-counter market on the day in question as reported by the National Quotations Bureau Incorporated, or a similarly generally accepted reporting service, or, if not so available in such manner, as furnished by any New York Stock Exchange member firm selected by the Calculation Agent.

“Combined Consideration” means New Shares in combination with Other Consideration.

“Cross Default” means the occurrence or existence of (1) a default, event of default or other similar condition or event (however described) in respect of the Issuer under one or more agreements or instruments relating to the payment of money in an aggregate amount of not less than \$10 million which has resulted in such agreement or instrument becoming, or becoming capable at such time of being declared, due and payable before it would otherwise have been due and payable or (2) a default by the Issuer in making one or more payments on the due date thereof in an aggregate amount of not less than \$10 million

under such agreements or instruments (after giving effect to any applicable notice requirement or grace period).

“Determined Amount” has the meaning ascribed to it in Section 3(d).

“Discount” means the product of (a) 1.30%, and (b) the arithmetic average of daily volume-weighted average prices of Shares on each Trading Day from the First Averaging Date up to and including the Last Averaging Date, as listed on Bloomberg Screen Volume at Price Page.

“Dividend Amount” shall mean, as of each of the dates set out below (each a “Dividend Adjustment Date”), the amount set forth opposite such Dividend Adjustment Date:

<u>Dividend Adjustment Date</u>	<u>Dividend Amount</u>
The date immediately preceding the ex-dividend date for the Issuer’s regularly scheduled fourth quarter 2007 dividend, (such ex-dividend date currently anticipated to be December 20, 2007)	\$0.355

“Dividend Event” means the payment of an ordinary or extraordinary dividend of distribution by the Issuer in any of the time periods specified above with a value, as determined by the Calculation Agent in good faith, that exceeds the amount specified above for such period by \$0.01 or more.

“Early Closure” means the closure on any Trading Day of the Exchange or any Related Exchange(s) prior to its regularly scheduled closing time.

“Excess Shares” means the number of Shares (if any) equal to (a)(i) the Settlement Amount divided by (ii) the Reference Price minus (b) the Determined Amount.

“Exchange” means the NASDAQ Global Select Market or any successor thereto or any substitute exchange or quotation system to which trading in the Shares has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the Shares on such temporary substitute exchange or quotation system as on the original Exchange).

“Exchange Disruption” means any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (i) to effect transactions in, or obtain market values for, the Shares on the Exchange, or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to the Shares on the Related Exchange(s).

“Execution Period” shall mean the period commencing on the First Averaging Date and ending on the earliest of (i) the Last Averaging Date, (ii) the Termination Date or (iii) the Termination Event Termination Date.

“Failure to Pay or Deliver” means failure by the Issuer to make, when due, any payment under this Agreement or any delivery of Shares under this Agreement required to be made by it if such failure is not remedied on or before the third Trading Day after notice of such failure is given to the Issuer by UBS or the Agent.

“Final VWAP-Minus Price” means (i) the arithmetic average of daily volume-weighted average prices of Shares on each Trading Day from the First Averaging Date up to and including the Last Averaging Date, as listed on Bloomberg Screen Volume at Price Page, minus (ii) the Discount.

“First Averaging Date” means October 25, 2007; provided, however, that the First Averaging Date may be extended by the Calculation Agent in its discretion by one Trading Day for each Scheduled Trading Day following the date hereof and prior to the First Averaging Date that ceases to be a Scheduled Trading Day or is not a Trading Day due to the occurrence of a Market Disruption Event.

“Hedge Account Shares” means, as of any date, the Number of Shares minus the Borrowed Shares.

“Last Averaging Date” means a trading day between and including December 5, 2007 and January 30, 2008, as determined by UBS; provided, however, that each of such dates may be extended by the Calculation Agent in its discretion by one Trading Day for each Scheduled Trading Day during the Execution Period that ceases to be a Scheduled Trading Day or is not a Trading Day due to the occurrence of a Market Disruption Event. Notice of the Last Averaging Date shall be given by UBS not later than 8:00 pm New York time on the Trading Day following the Last Averaging Date. Notice shall be irrevocable once provided to Issuer. If no notice is provided, then the Last Averaging Date shall be January 30, 2008.

“Market Disruption Event” means the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption or (iii) an Early Closure, which in each case the Calculation Agent determines is material.

“Merger Event” means, in respect of any relevant Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding, (ii) consolidation, amalgamation or merger of the Issuer with or into another entity (other than a consolidation, amalgamation or merger in which such Issuer is the continuing entity and which does not result in any such reclassification or change of all of such Shares outstanding) or (iii) other takeover offer for such Shares that results in a transfer or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by the offeror), in each case if the Merger Date is on or before the Last Averaging Date.

“Net Share Settlement” shall mean settlement by the Issuer of its obligations hereunder in accordance with Section 3(c).

“New Shares” means shares (whether of the offeror or a third party).

“Number of Shares” has the meaning ascribed to it in Section 2.

“Other Consideration” means cash and/or any securities (other than New Shares) or assets (whether of the offeror or a third party).

“Payment Date” has the meaning ascribed to it in Section 3(b).

“Principal Account” means the notional principal account referred to in Section 3(a).

“Purchase Price” means the product of (a) the Number of Shares and (b) the Closing Price of the Common Stock on October 24, 2007.

“Purchasing Date” means any Trading Day during the Execution Period.

“Reference Price” means the Closing Price of the Common Stock on the last Trading Day of the Execution Period.

“Related Exchange(s)” means each exchange or quotation system where trading has a material effect (as determined by the Calculation Agent) on the overall market for futures or options contracts relating to the Shares.

“Scheduled Trading Day” means any day on which the Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions.

“Settlement Amount” shall mean (i) in the case of the Issuer, the amount of any negative balance in the Principal Account as of the Calculation Date, and (ii) in the case of UBS, the amount of any positive balance in the Principal Account as of the Calculation Date, in each case as determined by the Calculation Agent, and as adjusted by the Calculation Agent to reflect the accrual of interest thereon at the rate set forth for that day opposite the caption “Open” under the caption “Federal Funds” as displayed on Bloomberg Page BTMM, from and excluding the third Trading Day following the Calculation Date hereunder to and including the actual Payment Date, if the Payment Date occurs following the third Trading Day following the Calculation Date hereunder.

“Share-for-Combined” means, in respect of a Merger Event, that the consideration for the relevant Shares consists of Combined Consideration.

“Share-for-Other” means, in respect of a Merger Event, that the consideration for the relevant Shares consists solely of Other Consideration.

“Share-for-Share” means, in respect of a Merger Event, that the consideration for the relevant Shares consists (or, at the option of the holder of such Shares, may consist) solely of New Shares.

“Shelf Registration” means a registration statement in form and substance reasonably acceptable to UBS for an offering to be made on a continuous basis pursuant to Rule 415 under the Securities Act, registering UBS’s resale, in any manner or manners designated by UBS, of all the Stock Settlement Shares, any Make-Whole Shares, and any other Shares held by UBS in connection with this transaction which, in the opinion of counsel to UBS, are required to be included in the Shelf Registration to be resold by UBS to the public.

“Short Squeeze” shall mean a situation where (i) UBS has determined, in its judgment, that it is unable to hedge its exposure to the transaction contemplated hereby because of the lack of sufficient shares of Common Stock being made available for borrowing from lenders, including without limitation UBS’s being required to redeliver shares of Common Stock to any lender at the demand of such lender and not being able to meet such obligation in full in a timely manner by reasonable efforts to borrow shares of Common Stock from another lender or lenders, or (ii) UBS would incur a cost to borrow shares of Common Stock to hedge its exposure to the transaction contemplated hereby that is greater than a rate equal to 50 basis points per annum.

“Stock Settlement Amount” shall mean (i) in the case that the Issuer is required to pay the Settlement Amount to UBS and has elected to pay the Settlement Amount by delivery of shares of Common Stock to UBS pursuant to Section 3(c), an amount, determined by the Calculation Agent, equal to the Settlement Amount to be paid by the Issuer pursuant to Section 3(b), divided by the Reference Price, and (ii) in the case that UBS is required to pay the Settlement Amount to the Issuer and the Issuer has elected to require UBS to satisfy the obligation by delivery of shares of Common Stock to the Issuer pursuant to Section 3(h), an amount, determined by the Calculation Agent, equal to the Settlement Amount to be paid by UBS pursuant to Section 3(b), divided by the weighted average price per share actually paid by UBS to purchase such Stock Settlement Shares.

“Stock Settlement Shares” shall mean such whole number of shares included in the Stock Settlement Amount.

“Termination Date” has the meaning ascribed to it in Section 4(b).

“Termination Event” shall mean the occurrence of a (i) Bankruptcy, (ii) Cross Default, (iii) Failure to Pay or Deliver, (iv) Short Squeeze or (v) Dividend Event.

“Termination Event Termination Date” has the meaning ascribed to it in Section 8 below.

“Trading Day” shall mean any day on which the Common Stock is traded on the Exchange or, if not then traded on the Exchange, the principal securities exchange or quotation

system on which such securities are then traded or, if not then traded on a securities exchange or quotation system, in the over-the-counter market, and on which no Market Disruption Event occurs.

“Trading Disruption” means any suspension of or limitation imposed on trading by the Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Exchange or Related Exchange or otherwise (i) relating to the Shares on the Exchange or (ii) in futures or options contracts relating to the Shares on any Related Exchange.

Section 2. Purchase and Sale.

Subject to the terms and conditions set forth herein, UBS agrees to sell to the Issuer, and the Issuer agrees to purchase from UBS, 1,000,000 shares (the “Number of Shares”) of Common Stock (the “Shares”) at a purchase price per Share equal to the Closing Price of the Common Stock on **October 24, 2007** or on such other date and at such other time as the parties may mutually agree (the “Execution Date”). At 4:00 P.M. on the third Trading Day after the Execution Date (the “Settlement Date”), UBS shall deliver or cause to be delivered the Shares through the facilities of The Depository Trust Company to the Issuer against payment by the Issuer of the Purchase Price by wire transfer of immediately available funds. The parties understand and agree that the delivery of the Shares by or on behalf of UBS upon the payment of the aggregate Purchase Price by the Issuer is irrevocable and that as of the Settlement Date the Issuer will be the sole beneficial owner of the Shares for all purposes.

As compensation to UBS for its commitment and services hereunder, the Issuer on the Settlement Date will pay to UBS by wire transfer of immediately available funds an additional amount equal to \$143,642.36. This amount payable to UBS shall not be subject to refund.

Section 3. Settlement.

(a) On the Settlement Date, the Calculation Agent shall establish a notional Principal Account in an amount equal to the Purchase Price. The Calculation Agent shall adjust the Principal Account daily as follows:

The Principal Account shall be reduced on the third day following the Last Averaging Date in an amount equal to the product of (x) the Number of Shares and (y) the Final VWAP-Minus Price.

On the first Trading Day immediately following the last day of the Execution Period, the Calculation Agent will calculate the Settlement Amount and, if applicable, the Stock Settlement Amount, notify (the “Settlement Amount Notification”) the Issuer of the Settlement Amount and, if applicable, the Stock Settlement Amount and provide a schedule of its calculations thereof. The Calculation Agent shall respond promptly to all questions raised by the Issuer relating to such calculations. If the Issuer objects to the calculation of the Settlement

Amount, the Issuer shall promptly notify the Calculation Agent, and the Issuer and UBS agree to use their good faith best efforts to reach an agreement as to the Settlement Amount. In the further event that the Issuer and UBS are not able to reach an agreement, the Issuer and UBS shall appoint a third party with sufficient expertise to determine the calculation of the Settlement Amount, and such calculations shall be binding on both parties.

(b) On the third Trading Day immediately following the Calculation Date (the “Payment Date”), if the Settlement Amount is positive, UBS shall pay the Settlement Amount to the Issuer and, if the Settlement Amount is negative, the Issuer shall pay the absolute value of such Settlement Amount to UBS. Except as provided in paragraphs (c) and (d) of this Section, all payments to be made under this Section 3 shall be made on the Payment Date by wire transfer of immediately available funds.

(c) If the Issuer is required to pay the Settlement Amount to UBS pursuant to paragraph (b) of this Section, the Issuer may, at its option, satisfy the obligation by the delivery to UBS of a number of whole shares of Common Stock (and a payment of cash in lieu of fractional shares, if any) equal to the Stock Settlement Amount. In order to exercise this option, the Issuer must (each, a “Condition on Net Share Settlement”) (i) notify UBS of its election to have any Settlement Amount payable in shares of Common Stock no later than 10 days prior to December 5, 2007 (the “Stock Election Notice”), (ii) enter into a registration rights agreement with UBS in form and substance acceptable to UBS (the “Registration Rights Agreement”) not later than 7 days prior to December 5, 2007, which agreement will contain, among other things, customary representations and warranties and indemnification and other rights, including rights to customary opinions of counsel and accountant’s “comfort letters,” relating to the registration of the Stock Settlement Shares, the Make-whole Shares and any additional shares of Common Stock as to which UBS is named as a selling securityholder in the Shelf Registration (the “Registered Shares”); (iii) the Shelf Registration shall have been filed with the Securities and Exchange Commission not less than five Trading Days prior to December 5, 2007; and (iv) maintain the effectiveness of the Shelf Registration until all Registered Shares have been sold by UBS. Subject to paragraph 3(g) below, if any of the conditions in the preceding sentence are not met, the provisions of this paragraph (c) shall be inoperative and the Issuer shall be obligated to pay any applicable Settlement Amount by wire transfer of immediately available funds. If the Issuer complies with all of its obligations under this paragraph (c), then at 9:30 A.M. on the Payment Date, the Issuer shall deliver to UBS (i) a certificate or certificates representing the fully paid and nonassessable Stock Settlement Shares, in such denominations and in such names as UBS may specify and (ii) the cash payment, if any, in lieu of fractional shares by wire transfer of immediately available funds. The parties understand and agree that the deliveries made pursuant to the preceding sentence and the following paragraph shall be irrevocable and shall satisfy in full the Issuer’s obligations under this Section 3.

If the Issuer delivers Stock Settlement Shares to UBS pursuant to this paragraph (c) and within ten Trading Days after the Payment Date, UBS resells all or any portion of the Stock Settlement Shares and the net proceeds received by UBS upon resale of such shares exceeds the Settlement Amount (or if less than all of the Stock Settlement Shares are resold, the applicable pro rata portion of the Settlement Amount), UBS shall promptly refund in cash such

difference to the Issuer; provided that UBS may, at its option, satisfy its obligation under this sentence by returning to the Issuer any portion of the Stock Settlement Shares that would, if sold, have resulted in net proceeds in excess of the Settlement Amount. In the event that such net proceeds are less than the Settlement Amount (or if less than all of the Stock Settlement Shares are resold, the applicable pro rata portion of the Settlement Amount), the Issuer shall pay in cash or additional shares of Common Stock (the “Make-whole Shares”) such difference (the “Make-whole Amount”) to UBS promptly after receipt of notice thereof. In the event that Issuer elects to pay the Make-whole Amount in additional shares of Common Stock, the requirements set forth in this paragraph (c) with respect to payment of the Settlement Amount in Shares, including Make-whole requirements, shall apply, such that UBS shall pay to the Issuer any such excess and the Issuer shall pay to UBS in cash or Make-Whole Shares any additional Make-Whole Amount. In calculating the net proceeds from the resale of any Stock Settlement Shares there shall be deducted from such proceeds any amount equal to the customary underwriting discount or commission for underwritten offerings of common stock by companies comparable to the Issuer multiplied by the total number of Shares sold for the account of UBS pursuant to a Shelf Registration.

(d) Notwithstanding any other provision in this Agreement, if Issuer exercises its right pursuant to Section 3(c) above, Issuer shall not be obliged to deliver, in connection with this Agreement, in excess of 3,000,000 shares of Common Stock, as recalculated from time to time (the “Determined Amount”). In the event that, but for this Section 3, Issuer would be obliged to deliver a number of shares of Common Stock equal to the Determined Amount plus the Excess Shares, Issuer agrees to (x) satisfy its remaining obligation by cash payment or; (y) (i) use its best efforts to increase its number of authorized shares, thereby increasing the Determined Amount, to the extent necessary so that, but for this Section 3, the number of shares of Common Stock Issuer would be obliged to deliver does not exceed the (recalculated) Determined Amount and (ii) allocate such newly authorized shares of Common Stock in satisfaction of Issuer’s delivery obligations under this Agreement in priority to any other use of such Common Stock. For the avoidance of doubt, the obligation of Issuer to so use its best efforts is an ongoing obligation.

(e) Issuer hereby represents and warrants that it will:

(i) calculate the Determined Amount based on the maximum amount able to be calculated in accordance with EITF 00-19 or any successor financial statement guidance; and

(ii) in respect of all equity derivative transactions in respect of which Issuer’s equity securities constitute (all or part of) the instruments underlying such transactions (the “Derivative Trades”), use the same methodology to derive the Determined Amount (howsoever described) applicable to each Derivative Trade as is used to derive the Determined Amount for this Agreement.

(f) UBS agrees that, in respect of any obligations Issuer has duly elected be satisfied pursuant to Section 3(c) above, in the event of Issuer’s bankruptcy, UBS

shall not have rights in bankruptcy that rank senior to the rights in bankruptcy of common shareholders of Issuer.

(g) If the Issuer has used its best efforts to satisfy the Conditions on Net Share Settlement but has been unable to because the Shelf Registration is not declared effective by the SEC within the time set out in paragraph 3(c) (or, where UBS has previously agreed to extend such period based on a request by the Issuer pursuant to paragraph 3(g)(ii), within such period as extended pursuant to paragraph 3(g)(ii)), then the Issuer may elect to:

(i) deliver the relevant number of Shares to UBS in which case:

(A) the day on which the Issuer makes such an election to deliver such Shares is the “Issuer Election Date”, and

(B) Issuer shall withdraw any Registration Statement filed with the SEC in connection with the Shares, and

(C) Issuer will enter into a private placement purchase agreement with UBS in form and substance acceptable to UBS no later than the next Trading Day following the Issuer Election Date, and

(D) Issuer shall deliver to UBS such Shares on the Settlement Date which, for the purposes of this paragraph 3(g)(i)(D), shall be the third Trading Day following the Issuer Election Date, and

(E) in addition to any Make-whole Amount payable by Issuer pursuant to paragraph 3(c) herein, Issuer shall deliver to UBS such additional Shares until UBS has realized actual net proceeds upon resale of such Shares equal to the Settlement Amount. At its election, UBS may by a written notice to Issuer retain a number of Shares delivered by Issuer pursuant to this paragraph 3(g)(i). If UBS so elects, UBS shall be deemed to have sold each such retained Share for an amount equal to the price per Share obtained by UBS for the last Share sold by UBS prior to sending written notice of its intention to retain Shares to Issuer. In no event will UBS be obligated to exercise its right to retain Shares; or

(ii) request UBS to extend the period within which the Registration Statement is to be declared effective by the SEC for a further period specified in writing by UBS at the time of such extension.

(h) If UBS is required to pay the Settlement Amount to the Issuer pursuant to paragraph (b) of this Section, the Issuer may, at its option, elect that UBS satisfy the obligation by the delivery to the Issuer of a number of whole shares of Common Stock (and a payment of cash in lieu of fractional shares, if any) equal to the Stock Settlement Amount. In order to exercise this option, the Issuer must notify UBS of its election to have any Settlement Amount payable in shares of Common Stock no later than 15 days prior to the Payment Date (the “Stock Election Notice”). If the condition in the preceding sentence is not met, the provisions of this paragraph (h) shall be inoperative and UBS shall be obligated to pay any applicable Settlement Amount by wire transfer of immediately available funds. If the Issuer complies with all of its obligations under this paragraph (h), then at 9:30 A.M. on the Payment Date, UBS shall deliver to the Issuer (i) a certificate or certificates representing the fully paid and nonassessable Stock Settlement Shares, and (ii) the cash payment, if any, in lieu of

fractional shares by wire transfer of immediately available funds. The parties understand and agree that the deliveries made pursuant to the preceding sentence shall be irrevocable and shall satisfy in full UBS' obligations under this Section 3.

Section 4. Anti-dilution Adjustments.

(a) Subdivisions and Combinations of Common Stock. In the event that the outstanding shares of the Common Stock shall be subdivided or split into a greater number of shares of Common Stock where the effective date of such subdivision or the record date for such split occurs during the Execution Period, the number of shares of Common Stock referred to herein shall be deemed to be proportionately increased and the Final VWAP-Minus Price and Discount shall be deemed to be proportionately decreased; conversely, in case outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock through a combination of shares of Common Stock or a reverse stock split where the effective date of such combination or the record date for such reverse stock split occurs during the Execution Period, the number of shares of Common Stock referred to herein shall be deemed to be proportionately decreased and the Final VWAP-Minus Price and Discount shall be deemed to be proportionately increased. Any adjustment pursuant to this paragraph (a) shall become effective (i) in the case of a subdivision or combination of the Common Stock, at the close of business on the record date for such subdivision or combination or (ii) in the case of a stock split or reverse stock split, at the split, at the close of business on the record date for such stock split or reverse stock split.

(b) Merger Events. In respect of each Merger Event, UBS and the Issuer or the person formed by such consolidation or resulting from such merger or which acquired such assets or which acquires the Issuer's Common Stock, as the case may be, shall negotiate in good faith to amend this Agreement to give appropriate effect to such transaction. In the event that the parties are unable to reach an agreement ten (10) Trading Days prior to the effective date of such transaction (the "Termination Date"), (i) the Execution Period shall terminate on the Termination Date, (ii) the Principal Account shall be reduced on such date by an amount equal to the product of (x) an amount equal to the cash and fair market value (as determined by the Issuer's Board of Directors whose good faith determination shall be conclusive and binding) of the securities and/or property payable or distributable upon such transaction in respect of one share of Common Stock and (y) the number of Borrowed Shares as of such date, and (iii) the Settlement Amount shall be further adjusted by the Calculation Agent by the amount that the Calculation Agent reasonably determines in good faith to be UBS's total losses and costs in connection with the early termination of this Agreement, including any loss of bargain, cost of funding, or loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position.

If payment is required of Issuer in connection with a Merger Event, the Issuer shall have the right, in its sole discretion, to elect (the "Extraordinary Transaction Election") to satisfy any such payment obligation by Net Share Settlement of this Transaction PROVIDED THAT, in connection with a "Share-for-Combined" Merger Event or "Share-for-Other" Merger Event, the Extraordinary Transaction Election is available to satisfy only the percentage of such payment obligation equal to the percentage of the non-cash consideration over the total

Combined Consideration (in the case of a “Share-for-Combined” Merger Event) or total Other Consideration (in the case of a “Share-for-Other” Merger Event). The remaining percentage of such payment obligation must be satisfied in cash. The Issuer shall make any election to settle the Transaction by way of Net Share Settlement within two Trading Days of the Announcement Date but in any event not less than twenty Trading Days prior to the effective date of such merger.

(c) Tender Offers. In the event an offer is made to the holders of Common Stock to tender shares of Common Stock for cash, UBS may, in its discretion (i) accelerate the Last Averaging Date or (ii) adjust the Number of Shares. UBS shall notify the Issuer in writing as to the terms of any adjustment made pursuant to this Section 4(c) no later than 5 days after the tender offer is made.

(d) Other Events. In the event of any corporate event involving the Issuer or the Common Stock not specifically addressed in subsections (a), (b) or (c) of this Section 4 or in the event that the Calculation Agent, in its good faith judgment, determines that the adjustments described in subsections (a), (b) or (c) of this Section 4 will not result in an equitable adjustment of the terms of the transaction described herein, and provided that, in each case, such corporate event impacts the rights or obligations of a holder of Common Stock, the terms of the transaction described herein shall be subject to adjustment by the Calculation Agent (including, without limitation, the First Averaging Date, the Last Averaging Date and the Number of Shares) as in the exercise of its good faith judgment it deems appropriate under the circumstances in order to result in an equitable adjustment to this transaction. In the event that the Issuer objects to the adjustments, the Issuer shall promptly so notify the Calculation Agent and UBS, and the Issuer and UBS agree to use their good faith best efforts to reach an agreement as to the adjustment. In the further event that the Issuer and UBS are not able to reach an agreement, the Issuer and UBS shall appoint a third party with sufficient expertise to determine the adjustment and such adjustment shall be binding on both parties.

Section 5. Acknowledgement.

The Issuer acknowledges and agrees that it is not relying, and has not relied, upon UBS or Agent with respect to the legal, accounting, tax or other implications of this Agreement and that it has conducted its own analysis of the legal, accounting, tax and other implications of this Agreement. The Issuer further acknowledges and agrees that neither UBS nor Agent have acted as its advisor in any capacity in connection with this Agreement or the transactions contemplated by this Agreement. The Issuer acknowledges that neither UBS nor Agent is acting as the agent for the Issuer in effecting any purchase of Common Stock pursuant to this Agreement. The Issuer understands and acknowledges that UBS and its affiliates may from time to time effect transactions, for their own account or the account of customers, and hold positions, in securities or options on securities of the Issuer and that UBS and its affiliates may continue to conduct such transactions during the Execution Period. The Issuer understands and acknowledges that UBS and its affiliates intend to engage in hedging activity that could affect the market for such securities and/or the Common Stock that is the subject of this transaction, and consequently the cost or proceeds to the Issuer hereunder.

Section 6. Representations and Warranties.

(a) The Issuer hereby represents and warrants to UBS that:

(i) it has (or, in the case of the Registration Rights Agreement, will have when and if executed) all power and authority to enter into this Agreement and the Registration Rights Agreement and the transactions contemplated hereby and thereby;

(ii) this Agreement has been duly authorized, validly executed and delivered by the Issuer and constitutes a valid and legally binding obligation of the Issuer enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(iii) the Registration Rights Agreement, when and if executed and delivered pursuant to Section 3(c) hereof, shall have been duly authorized, validly executed and delivered by the Issuer and shall constitute a valid and legally binding obligation of the Issuer enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(iv) if Stock Settlement Shares are delivered pursuant to Section 3(c) or Section 3(g), as the case may be, the Stock Settlement Shares, when delivered to UBS or to the Issuer, as the case may be, will have been duly authorized and will be duly and validly issued, fully paid and nonassessable and free of preemptive and other rights;

(v) the transactions contemplated by this Agreement, including the delivery of the Stock Settlement Shares pursuant to Section 3(c) or Section 3(g), as the case may be, are consistent with the authorization of the Repurchase Program;

(vi) the Issuer is not entering into this Agreement to facilitate a distribution of the Common Stock (or any security convertible into or exchangeable for Common Stock) or in connection with a future issuance of securities;

(vii) the Issuer is not entering into this Agreement to create actual or apparent trading activity in the Common Stock (or any security convertible into or exchangeable for Common Stock) or to raise or depress the price of the Common Stock (or any security convertible into or exchangeable for Common Stock);

(viii) as of the date hereof and as of the date of any Stock Election Notice hereunder, (i) none of the Issuer and its executive officers and directors is, or will be, as the case may be, aware of any material nonpublic information regarding the Issuer or the Common Stock and (ii) all reports and other documents filed by the Issuer with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, when considered as a whole (with the more recent such reports and documents deemed to

amend inconsistent statements contained in any earlier such reports and documents), do not or will not, as the case may be, contain any untrue statement of a material fact or any omission of a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading;

(ix) the repurchase of the Shares by the Issuer, the compliance by the Issuer with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach (each, a “Breach”) of any of the terms or provisions of, or constitute a default (each a “Default”) under, any indenture, mortgage, deed of trust, loan agreement or any other agreement or instrument to which the Issuer or any of its subsidiaries is a party (collectively, “Contracts”) or by which the Issuer or any of its subsidiaries is bound or to which any of the property or assets of the Issuer or any of its subsidiaries is subject (except such Breach or Default as would not reasonably be expected to materially adversely affect the ability of the Issuer to perform its obligations under any Contract), nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Issuer or any of its subsidiaries is subject, nor will such action result in any violation of the Certificate of Incorporation or By-laws of the Issuer or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Issuer or any of its properties; and

(x) no consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body having jurisdiction over the Issuer or any of its properties is required for the repurchase of the Shares by the Issuer, the compliance by the Issuer with all the terms of this Agreement, or the consummation by the Issuer of the transactions contemplated by this Agreement, other than the registration of the Stock Settlement Shares and any Make-whole Shares under the Securities Act in accordance with the provisions of Section 3(c), which registration shall be completed not less than five Trading Days prior to December 5, 2007, and such authorizations, orders, registrations and qualifications as may be required under state securities or blue sky laws in connection with the resale by UBS of the Registered Shares.

(b) UBS hereby represents and warrants to the Issuer:

(i) it has all power and authority to enter into this Agreement and the Registration Rights Agreement and the transactions contemplated hereby and thereby;

(ii) this Agreement has been duly authorized, validly executed and delivered by UBS and constitutes a valid and legally binding obligation of UBS enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors’ rights and to general equity principles; and

(iii) the Registration Rights Agreement, when and if executed and delivered pursuant to Section 3(c) hereof, shall have been duly authorized, validly executed and delivered by UBS and shall constitute a valid and legally binding obligation of UBS enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency,

fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(c) The Issuer and UBS hereto acknowledge that this transaction is not secured by any collateral that would otherwise secure the obligations of the Issuer.

Section 7. Indemnification.

In the event that UBS becomes involved in any capacity in any action, proceeding or investigation brought by or against any person in connection with any matter referred to in this Agreement, the Issuer periodically will reimburse UBS for its legal and other expenses (including the cost of any investigation and preparation) incurred in connection therewith. The Issuer also will indemnify and hold UBS harmless against any losses, claims, damages or liabilities to which UBS may become subject in connection with any matter referred to in this Agreement, except to the extent that any such loss, claim, damage or liability results from the gross negligence or bad faith of UBS in effecting the transactions which are the subject of this Agreement. If for any reason the foregoing indemnification is unavailable to UBS or insufficient to hold it harmless, then the Issuer shall contribute to the amount paid or payable by UBS as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative benefits received by the Issuer on the one hand and UBS on the other hand in the matters contemplated by this Agreement as well as the relative fault of the Issuer and UBS with respect to such loss, claim, damage or liability and any other relevant equitable considerations. The relative benefits to the Issuer, on the one hand, and UBS, on the other hand, shall be in the same proportion as the aggregate Purchase Price bears to the commissions received by UBS pursuant to the last paragraph of Section 2. The reimbursement, indemnity and contribution obligations of the Issuer under this Section 7 shall be in addition to any liability which the Issuer may otherwise have, shall extend upon the same terms and conditions to any affiliate of UBS and the partners, directors, officers, agents, employees and controlling persons (if any), as the case may be, of UBS and any such affiliate and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of the Issuer, UBS, any such affiliate and any such person. The Issuer also agrees that neither UBS nor any of such affiliates, partners, directors, officers, agents, employees or controlling persons shall have any liability to the Issuer for or, in connection with any matter referred to in this Agreement except to the extent that any losses, claims, damages, liabilities or expenses incurred by the Issuer result from the gross negligence or bad faith of UBS in effecting the transactions that are the subject of this Agreement. The foregoing provisions shall survive any termination or completion of this Agreement.

Section 8. Termination Event.

Upon the occurrence of a Termination Event and so long as such Termination Event shall be continuing, UBS may, in its discretion, by notice to the Issuer (the date of such notice and the notice referred to in the succeeding clause being referred to herein as the "Notice Date"), direct that the Execution Period shall forthwith terminate on the date specified in such notice (the "Termination Event Termination Date"). In such an event, (i) the Execution Period

shall terminate on the Termination Event Termination Date, (ii) the Principal Account shall be reduced on such date by an amount equal to the sum of (A) the product of (x) the number of Hedge Account Shares and (y) the arithmetic average of daily volume-weighted average prices of Shares in each Trading Day from the First Averaging Date up to and excluding the Notice Date, as listed on Bloomberg Screen Volume at Price Page and (B) the total purchase price paid by UBS for the Shares of Common Stock that are purchased by UBS during the period commencing on and including the Notice Date to and including the Termination Event Termination Date in order to cover the remaining number of Borrowed Shares, (iii) the Principal Account shall be increased to reflect an appropriate accrual of interest at the Federal Funds Open Rate, as determined by the Calculation Agent, to reflect interest earned by UBS in respect of the aggregate Purchase Price received from the Issuer, (iv) the Principal Account shall be decreased to reflect UBS's actual cost of borrowing shares of Common Stock to hedge its obligations hereunder, and (v) the Settlement Amount shall be further adjusted by the amount that UBS reasonably determines in good faith to be its total losses and costs in connection with the early termination of this Agreement, including any loss of bargain, cost of funding, or loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position.

Section 9. Miscellaneous.

(a) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and obligations set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

(b) Assignment. Neither the rights under this Agreement nor the obligations created by this Agreement shall be assignable or delegable, in whole or in part, by either party hereto without the prior written consent of the other (which consent shall not be unreasonably withheld), and any attempt to assign or delegate any rights or obligations arising under this Agreement without such consent shall be void.

(c) Waivers, etc. No failure or delay on the part of either party in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No amendment, modification or waiver of any provision of this Agreement nor consent to any departure by either party therefrom shall in any event be effective unless the same shall be in writing and, in the case of a waiver or consent, shall be effective only in the specific instance and for the purpose for which given.

(d) Beneficiaries. This Agreement shall be binding upon, and inure solely to the benefit of, the Issuer, UBS and, to the extent provided in Section 7 hereof, the affiliates, partners, directors, officers, agents, employees and controlling persons, if any, of UBS, and their respective successors, assigns, heirs and personal representatives, and no other person shall acquire any rights hereunder.

(e) Rights of Set-Off. In addition to any rights of set-off a party may have as a matter of law or otherwise, upon occurrence of an Event of Default with respect to the Issuer, UBS shall have the right, without prior notice to the Issuer or any other person, to (i) set off any obligation of the Issuer owing to UBS or any affiliate of UBS against any obligations of UBS or any affiliate of UBS owing to the Issuer, or (ii) for the purpose of cross-currency set-off, convert any obligation to another currency at the market rate determined by UBS, or (iii) if an obligation is unascertained, in good faith estimate that obligation and set off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained. Nothing in this Section 9(e) will have the effect of creating a charge or other security interest.

(f) Changes of Law. If, due to any change in applicable law or regulations or the interpretation thereof by any court of law or other body having jurisdiction subsequent to the date of this Agreement, performance of any provision of this Agreement or any transaction contemplated thereby shall become impracticable or impossible, the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as contemplated by such provision.

(g) Confidentiality. Subject to Section 5(a), to any contrary requirement of law and to the right of each party to enforce its rights hereunder in any legal action, each party shall keep strictly confidential and shall cause its employees and agents to keep strictly confidential the terms of this Agreement and any information of or concerning the other party which it or any of its agents or employees may acquire pursuant to, or in the course of performing its obligations under, any provision of this Agreement. In the event disclosure is permitted pursuant to the preceding sentence, the disclosing party shall (i) provide prior notice of such disclosure to the other party, (ii) use its best efforts to minimize the extent of such disclosure and (iii) comply with all reasonable requests of the other party to minimize the extent of such disclosure. This Section 9(g) shall not prevent either party from disclosing information as necessary to third-party advisors in connection with the transactions contemplated hereby provided that such advisors agree in writing to be bound by this Section 9(g) as if a party hereto.

(h) Agent. UBS Securities LLC shall act as “agent” for UBS and the Issuer within the meaning of Rule 15a-6 under the Exchange Act. The Agent is not a principal to this Agreement and shall have no responsibility or liability to UBS or the Issuer in respect of this Agreement, including, without limitation, in respect of the failure of UBS or the Issuer to pay or perform under this Agreement. Each of UBS and the Issuer agrees to proceed solely against the other to collect or recover any securities or money owing to it in connection with or as a result of this Agreement. The Agent shall otherwise have no liability in respect of this Agreement, except for its gross negligence or willful misconduct in performing its duties as Agent hereunder. As a broker-dealer registered with the Securities and Exchange Commission, UBS Securities LLC, in its capacity as agent, will be responsible for (i) effecting the transaction contemplated in this Agreement, (ii) issuing all required notices, confirmations and statements to Buyer and Seller and (iii) maintaining books and records relating to this Agreement.

(i) Headings. Descriptive headings herein are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

(j) Counterparts. This Agreement may be executed by the parties hereto in counterparts, and each such executed counterpart shall be, and shall be deemed to be, an original instrument and all such counterparts, taken together, shall constitute one and the same instrument.

(k) Notices. All notices, consents, requests, instructions, approvals and other communications provided for herein shall be validly given, made or served if in writing and delivered personally, by telegram, by telecopy or sent by overnight courier, postage prepaid, to:

UBS AG, London Branch at:

c/o UBS Securities LLC
299 Park Avenue
New York, NY 10171
Attention of: Paul Stowell and Sanjeet Dewal
Fax Number: 212-821-4610

With a copy to such address to attention of:
Legal and External Affairs

the Issuer at:

Cincinnati Financial Corporation
6200 South Gilmore Road
Fairfield, OH 45014

Attention of: Martin F. Hollenbeck, Investment Department
Fax Number: 513-870-0609

With a copy to such address to attention of:
Legal Department—Corporate Division

or to such other address as any party may, from time to time, designate in a written notice given in a like manner. Notice given by telegram or telecopy shall be deemed delivered when evidence of the transmission is received by the sender and shall be confirmed in writing by overnight courier, postage prepaid. Notice given by overnight courier as set out above shall be deemed delivered the business day after the date the same is mailed.

(l) Account Details.

UBS:

Cash Payments for Stock Purchase

Citibank, New York

ABA# 021 000 089

A/C# 4065 2556

UBS Securities, LLC

Cash Payments for Settlement

UBS AG Stamford

f/o UBS AG London Branch

ABA# 026-007-993

AC# 101-WA-140007-000

Issuer:

(To be provided)

(m) Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the state of New York without reference to conflict of law principles. Each party hereto irrevocably submits to the extent permitted under applicable law to the non-exclusive jurisdiction of the federal and state courts located in the Borough of Manhattan, State of New York. Each party waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any suit, action or proceeding relating to this Agreement.

IN WITNESS WHEREOF, UBS and the Issuer have caused this Agreement to be duly authorized, executed and delivered as of the date first written above.

UBS AG, LONDON BRANCH

By: _____
Name:
Title:

By: _____
Name:
Title:

UBS SECURITIES LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

CINCINNATI FINANCIAL CORPORATION

By: _____
Name:
Title:

PURCHASE AGREEMENT (TRANCHE 4 OF 4)

PURCHASE AGREEMENT, dated as of **October 24, 2007** (the “Agreement”), by and between Cincinnati Financial Corporation (the “Issuer”), and UBS AG, London Branch (“UBS”) acting through UBS Securities LLC (“Agent”) as agent.

W I T N E S S E T H

WHEREAS, the Issuer has publicly announced its intention to repurchase shares of its common stock, par value \$2.00 per share (the “Common Stock”), from time to time (the “Repurchase Program”); and

WHEREAS, the Issuer desires to enter into the Agreement with UBS in order to effect the Repurchase Program;

NOW, THEREFORE, in consideration of the premises, the covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Definitions.

As used herein the following terms shall have the meanings set forth below:

“Announcement Date” means in respect of a Merger Event, the date of the first public announcement of a firm intention to merge or to make an offer that leads to the Merger Event, as determined by the Calculation Agent.

“Bankruptcy” means the Issuer is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured

party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

“Bloomberg Screen Volume at Price Page” shall mean the display designated as page “CINF Equity AQR” on the Bloomberg Financial Service or such page as may replace the Volume at Price page on that service for the purpose of displaying daily volume and volume-weighted trading prices of equity securities during the normal trading hours of 9:30 a.m. to 4:00 p.m., New York Time or, if such service does not then publish daily volume and volume-weighted trading prices of the Common Stock, such other page and services selected by the Calculation Agent that reports daily volume and weighted trading prices of the Common Stock.

“Borrowed Shares” means, as of any date, the number of Shares borrowed by UBS in connection with this Transaction, as determined by the Calculation Agent.

“Calculation Agent” shall mean UBS Securities LLC.

“Calculation Date” means the first Trading Day after the Last Averaging Date.

“Closing Price” of the Common Stock on any day shall mean the last reported sales price regular way on such day or, in case no such sales price is reported on such day, the average of the reported closing bid and asked prices regular way of the Common Stock, in each case on the Exchange, or, if not then traded on the Exchange, the principal securities exchange or quotation system on which the Common Stock is then listed or admitted to trading, or, if not then listed or admitted to trading on a securities exchange or quotation system, the average of the closing bid and asked prices of the Common Stock in the over-the-counter market on the day in question as reported by the National Quotations Bureau Incorporated, or a similarly generally accepted reporting service, or, if not so available in such manner, as furnished by any New York Stock Exchange member firm selected by the Calculation Agent.

“Combined Consideration” means New Shares in combination with Other Consideration.

“Cross Default” means the occurrence or existence of (1) a default, event of default or other similar condition or event (however described) in respect of the Issuer under one or more agreements or instruments relating to the payment of money in an aggregate amount of not less than \$10 million which has resulted in such agreement or instrument becoming, or becoming capable at such time of being declared, due and payable before it would otherwise have been due and payable or (2) a default by the Issuer in making one or more payments on the due date thereof in an aggregate amount of not less than \$10 million

under such agreements or instruments (after giving effect to any applicable notice requirement or grace period).

“Determined Amount” has the meaning ascribed to it in Section 3(d).

“Discount” means the product of (a) 1.30%, and (b) the arithmetic average of daily volume-weighted average prices of Shares on each Trading Day from the First Averaging Date up to and including the Last Averaging Date, as listed on Bloomberg Screen Volume at Price Page.

“Dividend Amount” shall mean, as of each of the dates set out below (each a “Dividend Adjustment Date”), the amount set forth opposite such Dividend Adjustment Date:

<u>Dividend Adjustment Date</u>	<u>Dividend Amount</u>
The date immediately preceding the ex-dividend date for the Issuer’s regularly scheduled fourth quarter 2007 dividend, (such ex-dividend date currently anticipated to be December 20, 2007)	\$0.355

“Dividend Event” means the payment of an ordinary or extraordinary dividend of distribution by the Issuer in any of the time periods specified above with a value, as determined by the Calculation Agent in good faith, that exceeds the amount specified above for such period by \$0.01 or more.

“Early Closure” means the closure on any Trading Day of the Exchange or any Related Exchange(s) prior to its regularly scheduled closing time.

“Excess Shares” means the number of Shares (if any) equal to (a)(i) the Settlement Amount divided by (ii) the Reference Price minus (b) the Determined Amount.

“Exchange” means the NASDAQ Global Select Market or any successor thereto or any substitute exchange or quotation system to which trading in the Shares has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the Shares on such temporary substitute exchange or quotation system as on the original Exchange).

“Exchange Disruption” means any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (i) to effect transactions in, or obtain market values for, the Shares on the Exchange, or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to the Shares on the Related Exchange(s).

“Execution Period” shall mean the period commencing on the First Averaging Date and ending on the earliest of (i) the Last Averaging Date, (ii) the Termination Date or (iii) the Termination Event Termination Date.

“Failure to Pay or Deliver” means failure by the Issuer to make, when due, any payment under this Agreement or any delivery of Shares under this Agreement required to be made by it if such failure is not remedied on or before the third Trading Day after notice of such failure is given to the Issuer by UBS or the Agent.

“Final VWAP-Minus Price” means (i) the arithmetic average of daily volume-weighted average prices of Shares on each Trading Day from the First Averaging Date up to and including the Last Averaging Date, as listed on Bloomberg Screen Volume at Price Page, minus (ii) the Discount.

“First Averaging Date” means October 25, 2007; provided, however, that the First Averaging Date may be extended by the Calculation Agent in its discretion by one Trading Day for each Scheduled Trading Day following the date hereof and prior to the First Averaging Date that ceases to be a Scheduled Trading Day or is not a Trading Day due to the occurrence of a Market Disruption Event.

“Hedge Account Shares” means, as of any date, the Number of Shares minus the Borrowed Shares.

“Last Averaging Date” means a trading day between and including December 19, 2007 and January 30, 2008, as determined by UBS; provided, however, that each of such dates may be extended by the Calculation Agent in its discretion by one Trading Day for each Scheduled Trading Day during the Execution Period that ceases to be a Scheduled Trading Day or is not a Trading Day due to the occurrence of a Market Disruption Event. Notice of the Last Averaging Date shall be given by UBS not later than 8:00 pm New York time on the Trading Day following the Last Averaging Date. Notice shall be irrevocable once provided to Issuer. If no notice is provided, then the Last Averaging Date shall be January 30, 2008.

“Market Disruption Event” means the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption or (iii) an Early Closure, which in each case the Calculation Agent determines is material.

“Merger Event” means, in respect of any relevant Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding, (ii) consolidation, amalgamation or merger of the Issuer with or into another entity (other than a consolidation, amalgamation or merger in which such Issuer is the continuing entity and which does not result in any such reclassification or change of all of such Shares outstanding) or (iii) other takeover offer for such Shares that results in a transfer or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by the offeror), in each case if the Merger Date is on or before the Last Averaging Date.

“Net Share Settlement” shall mean settlement by the Issuer of its obligations hereunder in accordance with Section 3(c).

“New Shares” means shares (whether of the offeror or a third party).

“Number of Shares” has the meaning ascribed to it in Section 2.

“Other Consideration” means cash and/or any securities (other than New Shares) or assets (whether of the offeror or a third party).

“Payment Date” has the meaning ascribed to it in Section 3(b).

“Principal Account” means the notional principal account referred to in Section 3(a).

“Purchase Price” means the product of (a) the Number of Shares and (b) the Closing Price of the Common Stock on October 24, 2007.

“Purchasing Date” means any Trading Day during the Execution Period.

“Reference Price” means the Closing Price of the Common Stock on the last Trading Day of the Execution Period.

“Related Exchange(s)” means each exchange or quotation system where trading has a material effect (as determined by the Calculation Agent) on the overall market for futures or options contracts relating to the Shares.

“Scheduled Trading Day” means any day on which the Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions.

“Settlement Amount” shall mean (i) in the case of the Issuer, the amount of any negative balance in the Principal Account as of the Calculation Date, and (ii) in the case of UBS, the amount of any positive balance in the Principal Account as of the Calculation Date, in each case as determined by the Calculation Agent, and as adjusted by the Calculation Agent to reflect the accrual of interest thereon at the rate set forth for that day opposite the caption “Open” under the caption “Federal Funds” as displayed on Bloomberg Page BTMM, from and excluding the third Trading Day following the Calculation Date hereunder to and including the actual Payment Date, if the Payment Date occurs following the third Trading Day following the Calculation Date hereunder.

“Share-for-Combined” means, in respect of a Merger Event, that the consideration for the relevant Shares consists of Combined Consideration.

“Share-for-Other” means, in respect of a Merger Event, that the consideration for the relevant Shares consists solely of Other Consideration.

“Share-for-Share” means, in respect of a Merger Event, that the consideration for the relevant Shares consists (or, at the option of the holder of such Shares, may consist) solely of New Shares.

“Shelf Registration” means a registration statement in form and substance reasonably acceptable to UBS for an offering to be made on a continuous basis pursuant to Rule 415 under the Securities Act, registering UBS’s resale, in any manner or manners designated by UBS, of all the Stock Settlement Shares, any Make-Whole Shares, and any other Shares held by UBS in connection with this transaction which, in the opinion of counsel to UBS, are required to be included in the Shelf Registration to be resold by UBS to the public.

“Short Squeeze” shall mean a situation where (i) UBS has determined, in its judgment, that it is unable to hedge its exposure to the transaction contemplated hereby because of the lack of sufficient shares of Common Stock being made available for borrowing from lenders, including without limitation UBS’s being required to redeliver shares of Common Stock to any lender at the demand of such lender and not being able to meet such obligation in full in a timely manner by reasonable efforts to borrow shares of Common Stock from another lender or lenders, or (ii) UBS would incur a cost to borrow shares of Common Stock to hedge its exposure to the transaction contemplated hereby that is greater than a rate equal to 50 basis points per annum.

“Stock Settlement Amount” shall mean (i) in the case that the Issuer is required to pay the Settlement Amount to UBS and has elected to pay the Settlement Amount by delivery of shares of Common Stock to UBS pursuant to Section 3(c), an amount, determined by the Calculation Agent, equal to the Settlement Amount to be paid by the Issuer pursuant to Section 3(b), divided by the Reference Price, and (ii) in the case that UBS is required to pay the Settlement Amount to the Issuer and the Issuer has elected to require UBS to satisfy the obligation by delivery of shares of Common Stock to the Issuer pursuant to Section 3(h), an amount, determined by the Calculation Agent, equal to the Settlement Amount to be paid by UBS pursuant to Section 3(b), divided by the weighted average price per share actually paid by UBS to purchase such Stock Settlement Shares.

“Stock Settlement Shares” shall mean such whole number of shares included in the Stock Settlement Amount.

“Termination Date” has the meaning ascribed to it in Section 4(b).

“Termination Event” shall mean the occurrence of a (i) Bankruptcy, (ii) Cross Default, (iii) Failure to Pay or Deliver, (iv) Short Squeeze or (v) Dividend Event.

“Termination Event Termination Date” has the meaning ascribed to it in Section 8 below.

“Trading Day” shall mean any day on which the Common Stock is traded on the Exchange or, if not then traded on the Exchange, the principal securities exchange or quotation

system on which such securities are then traded or, if not then traded on a securities exchange or quotation system, in the over-the-counter market, and on which no Market Disruption Event occurs.

“Trading Disruption” means any suspension of or limitation imposed on trading by the Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Exchange or Related Exchange or otherwise (i) relating to the Shares on the Exchange or (ii) in futures or options contracts relating to the Shares on any Related Exchange.

Section 2. Purchase and Sale.

Subject to the terms and conditions set forth herein, UBS agrees to sell to the Issuer, and the Issuer agrees to purchase from UBS, 1,000,000 shares (the “Number of Shares”) of Common Stock (the “Shares”) at a purchase price per Share equal to the Closing Price of the Common Stock on **October 24, 2007** or on such other date and at such other time as the parties may mutually agree (the “Execution Date”). At 4:00 P.M. on the third Trading Day after the Execution Date (the “Settlement Date”), UBS shall deliver or cause to be delivered the Shares through the facilities of The Depository Trust Company to the Issuer against payment by the Issuer of the Purchase Price by wire transfer of immediately available funds. The parties understand and agree that the delivery of the Shares by or on behalf of UBS upon the payment of the aggregate Purchase Price by the Issuer is irrevocable and that as of the Settlement Date the Issuer will be the sole beneficial owner of the Shares for all purposes.

As compensation to UBS for its commitment and services hereunder, the Issuer on the Settlement Date will pay to UBS by wire transfer of immediately available funds an additional amount equal to \$143,642.36. This amount payable to UBS shall not be subject to refund.

Section 3. Settlement.

(a) On the Settlement Date, the Calculation Agent shall establish a notional Principal Account in an amount equal to the Purchase Price. The Calculation Agent shall adjust the Principal Account daily as follows:

The Principal Account shall be reduced on the third day following the Last Averaging Date in an amount equal to the product of (x) the Number of Shares and (y) the Final VWAP-Minus Price.

On the first Trading Day immediately following the last day of the Execution Period, the Calculation Agent will calculate the Settlement Amount and, if applicable, the Stock Settlement Amount, notify (the “Settlement Amount Notification”) the Issuer of the Settlement Amount and, if applicable, the Stock Settlement Amount and provide a schedule of its calculations thereof. The Calculation Agent shall respond promptly to all questions raised by the Issuer relating to such calculations. If the Issuer objects to the calculation of the Settlement

Amount, the Issuer shall promptly notify the Calculation Agent, and the Issuer and UBS agree to use their good faith best efforts to reach an agreement as to the Settlement Amount. In the further event that the Issuer and UBS are not able to reach an agreement, the Issuer and UBS shall appoint a third party with sufficient expertise to determine the calculation of the Settlement Amount, and such calculations shall be binding on both parties.

(b) On the third Trading Day immediately following the Calculation Date (the “Payment Date”), if the Settlement Amount is positive, UBS shall pay the Settlement Amount to the Issuer and, if the Settlement Amount is negative, the Issuer shall pay the absolute value of such Settlement Amount to UBS. Except as provided in paragraphs (c) and (d) of this Section, all payments to be made under this Section 3 shall be made on the Payment Date by wire transfer of immediately available funds.

(c) If the Issuer is required to pay the Settlement Amount to UBS pursuant to paragraph (b) of this Section, the Issuer may, at its option, satisfy the obligation by the delivery to UBS of a number of whole shares of Common Stock (and a payment of cash in lieu of fractional shares, if any) equal to the Stock Settlement Amount. In order to exercise this option, the Issuer must (each, a “Condition on Net Share Settlement”) (i) notify UBS of its election to have any Settlement Amount payable in shares of Common Stock no later than 10 days prior to December 19, 2007 (the “Stock Election Notice”), (ii) enter into a registration rights agreement with UBS in form and substance acceptable to UBS (the “Registration Rights Agreement”) not later than 7 days prior to December 19, 2007, which agreement will contain, among other things, customary representations and warranties and indemnification and other rights, including rights to customary opinions of counsel and accountant’s “comfort letters,” relating to the registration of the Stock Settlement Shares, the Make-whole Shares and any additional shares of Common Stock as to which UBS is named as a selling securityholder in the Shelf Registration (the “Registered Shares”); (iii) the Shelf Registration shall have been filed with the Securities and Exchange Commission not less than five Trading Days prior to December 19, 2007; and (iv) maintain the effectiveness of the Shelf Registration until all Registered Shares have been sold by UBS. Subject to paragraph 3(g) below, if any of the conditions in the preceding sentence are not met, the provisions of this paragraph (c) shall be inoperative and the Issuer shall be obligated to pay any applicable Settlement Amount by wire transfer of immediately available funds. If the Issuer complies with all of its obligations under this paragraph (c), then at 9:30 A.M. on the Payment Date, the Issuer shall deliver to UBS (i) a certificate or certificates representing the fully paid and nonassessable Stock Settlement Shares, in such denominations and in such names as UBS may specify and (ii) the cash payment, if any, in lieu of fractional shares by wire transfer of immediately available funds. The parties understand and agree that the deliveries made pursuant to the preceding sentence and the following paragraph shall be irrevocable and shall satisfy in full the Issuer’s obligations under this Section 3.

If the Issuer delivers Stock Settlement Shares to UBS pursuant to this paragraph (c) and within ten Trading Days after the Payment Date, UBS resells all or any portion of the Stock Settlement Shares and the net proceeds received by UBS upon resale of such shares exceeds the Settlement Amount (or if less than all of the Stock Settlement Shares are resold, the applicable pro rata portion of the Settlement Amount), UBS shall promptly refund in cash such

difference to the Issuer; provided that UBS may, at its option, satisfy its obligation under this sentence by returning to the Issuer any portion of the Stock Settlement Shares that would, if sold, have resulted in net proceeds in excess of the Settlement Amount. In the event that such net proceeds are less than the Settlement Amount (or if less than all of the Stock Settlement Shares are resold, the applicable pro rata portion of the Settlement Amount), the Issuer shall pay in cash or additional shares of Common Stock (the “Make-whole Shares”) such difference (the “Make-whole Amount”) to UBS promptly after receipt of notice thereof. In the event that Issuer elects to pay the Make-whole Amount in additional shares of Common Stock, the requirements set forth in this paragraph (c) with respect to payment of the Settlement Amount in Shares, including Make-whole requirements, shall apply, such that UBS shall pay to the Issuer any such excess and the Issuer shall pay to UBS in cash or Make-Whole Shares any additional Make-Whole Amount. In calculating the net proceeds from the resale of any Stock Settlement Shares there shall be deducted from such proceeds any amount equal to the customary underwriting discount or commission for underwritten offerings of common stock by companies comparable to the Issuer multiplied by the total number of Shares sold for the account of UBS pursuant to a Shelf Registration.

(d) Notwithstanding any other provision in this Agreement, if Issuer exercises its right pursuant to Section 3(c) above, Issuer shall not be obliged to deliver, in connection with this Agreement, in excess of 3,000,000 shares of Common Stock, as recalculated from time to time (the “Determined Amount”). In the event that, but for this Section 3, Issuer would be obliged to deliver a number of shares of Common Stock equal to the Determined Amount plus the Excess Shares, Issuer agrees to (x) satisfy its remaining obligation by cash payment or; (y) (i) use its best efforts to increase its number of authorized shares, thereby increasing the Determined Amount, to the extent necessary so that, but for this Section 3, the number of shares of Common Stock Issuer would be obliged to deliver does not exceed the (recalculated) Determined Amount and (ii) allocate such newly authorized shares of Common Stock in satisfaction of Issuer’s delivery obligations under this Agreement in priority to any other use of such Common Stock. For the avoidance of doubt, the obligation of Issuer to so use its best efforts is an ongoing obligation.

(e) Issuer hereby represents and warrants that it will:

(i) calculate the Determined Amount based on the maximum amount able to be calculated in accordance with EITF 00-19 or any successor financial statement guidance; and

(ii) in respect of all equity derivative transactions in respect of which Issuer’s equity securities constitute (all or part of) the instruments underlying such transactions (the “Derivative Trades”), use the same methodology to derive the Determined Amount (howsoever described) applicable to each Derivative Trade as is used to derive the Determined Amount for this Agreement.

(f) UBS agrees that, in respect of any obligations Issuer has duly elected be satisfied pursuant to Section 3(c) above, in the event of Issuer’s bankruptcy, UBS

shall not have rights in bankruptcy that rank senior to the rights in bankruptcy of common shareholders of Issuer.

(g) If the Issuer has used its best efforts to satisfy the Conditions on Net Share Settlement but has been unable to because the Shelf Registration is not declared effective by the SEC within the time set out in paragraph 3(c) (or, where UBS has previously agreed to extend such period based on a request by the Issuer pursuant to paragraph 3(g)(ii), within such period as extended pursuant to paragraph 3(g)(ii)), then the Issuer may elect to:

(i) deliver the relevant number of Shares to UBS in which case:

(A) the day on which the Issuer makes such an election to deliver such Shares is the “Issuer Election Date”, and

(B) Issuer shall withdraw any Registration Statement filed with the SEC in connection with the Shares, and

(C) Issuer will enter into a private placement purchase agreement with UBS in form and substance acceptable to UBS no later than the next Trading Day following the Issuer Election Date, and

(D) Issuer shall deliver to UBS such Shares on the Settlement Date which, for the purposes of this paragraph 3(g)(i)(D), shall be the third Trading Day following the Issuer Election Date, and

(E) in addition to any Make-whole Amount payable by Issuer pursuant to paragraph 3(c) herein, Issuer shall deliver to UBS such additional Shares until UBS has realized actual net proceeds upon resale of such Shares equal to the Settlement Amount. At its election, UBS may by a written notice to Issuer retain a number of Shares delivered by Issuer pursuant to this paragraph 3(g)(i). If UBS so elects, UBS shall be deemed to have sold each such retained Share for an amount equal to the price per Share obtained by UBS for the last Share sold by UBS prior to sending written notice of its intention to retain Shares to Issuer. In no event will UBS be obligated to exercise its right to retain Shares; or

(ii) request UBS to extend the period within which the Registration Statement is to be declared effective by the SEC for a further period specified in writing by UBS at the time of such extension.

(h) If UBS is required to pay the Settlement Amount to the Issuer pursuant to paragraph (b) of this Section, the Issuer may, at its option, elect that UBS satisfy the obligation by the delivery to the Issuer of a number of whole shares of Common Stock (and a payment of cash in lieu of fractional shares, if any) equal to the Stock Settlement Amount. In order to exercise this option, the Issuer must notify UBS of its election to have any Settlement Amount payable in shares of Common Stock no later than 15 days prior to the Payment Date (the “Stock Election Notice”). If the condition in the preceding sentence is not met, the provisions of this paragraph (h) shall be inoperative and UBS shall be obligated to pay any applicable Settlement Amount by wire transfer of immediately available funds. If the Issuer complies with all of its obligations under this paragraph (h), then at 9:30 A.M. on the Payment Date, UBS shall deliver to the Issuer (i) a certificate or certificates representing the fully paid and nonassessable Stock Settlement Shares, and (ii) the cash payment, if any, in lieu of

fractional shares by wire transfer of immediately available funds. The parties understand and agree that the deliveries made pursuant to the preceding sentence shall be irrevocable and shall satisfy in full UBS' obligations under this Section 3.

Section 4. Anti-dilution Adjustments.

(a) Subdivisions and Combinations of Common Stock. In the event that the outstanding shares of the Common Stock shall be subdivided or split into a greater number of shares of Common Stock where the effective date of such subdivision or the record date for such split occurs during the Execution Period, the number of shares of Common Stock referred to herein shall be deemed to be proportionately increased and the Final VWAP-Minus Price and Discount shall be deemed to be proportionately decreased; conversely, in case outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock through a combination of shares of Common Stock or a reverse stock split where the effective date of such combination or the record date for such reverse stock split occurs during the Execution Period, the number of shares of Common Stock referred to herein shall be deemed to be proportionately decreased and the Final VWAP-Minus Price and Discount shall be deemed to be proportionately increased. Any adjustment pursuant to this paragraph (a) shall become effective (i) in the case of a subdivision or combination of the Common Stock, at the close of business on the record date for such subdivision or combination or (ii) in the case of a stock split or reverse stock split, at the split, at the close of business on the record date for such stock split or reverse stock split.

(b) Merger Events. In respect of each Merger Event, UBS and the Issuer or the person formed by such consolidation or resulting from such merger or which acquired such assets or which acquires the Issuer's Common Stock, as the case may be, shall negotiate in good faith to amend this Agreement to give appropriate effect to such transaction. In the event that the parties are unable to reach an agreement ten (10) Trading Days prior to the effective date of such transaction (the "Termination Date"), (i) the Execution Period shall terminate on the Termination Date, (ii) the Principal Account shall be reduced on such date by an amount equal to the product of (x) an amount equal to the cash and fair market value (as determined by the Issuer's Board of Directors whose good faith determination shall be conclusive and binding) of the securities and/or property payable or distributable upon such transaction in respect of one share of Common Stock and (y) the number of Borrowed Shares as of such date, and (iii) the Settlement Amount shall be further adjusted by the Calculation Agent by the amount that the Calculation Agent reasonably determines in good faith to be UBS's total losses and costs in connection with the early termination of this Agreement, including any loss of bargain, cost of funding, or loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position.

If payment is required of Issuer in connection with a Merger Event, the Issuer shall have the right, in its sole discretion, to elect (the "Extraordinary Transaction Election") to satisfy any such payment obligation by Net Share Settlement of this Transaction PROVIDED THAT, in connection with a "Share-for-Combined" Merger Event or "Share-for-Other" Merger Event, the Extraordinary Transaction Election is available to satisfy only the percentage of such payment obligation equal to the percentage of the non-cash consideration over the total

Combined Consideration (in the case of a “Share-for-Combined” Merger Event) or total Other Consideration (in the case of a “Share-for-Other” Merger Event). The remaining percentage of such payment obligation must be satisfied in cash. The Issuer shall make any election to settle the Transaction by way of Net Share Settlement within two Trading Days of the Announcement Date but in any event not less than twenty Trading Days prior to the effective date of such merger.

(c) Tender Offers. In the event an offer is made to the holders of Common Stock to tender shares of Common Stock for cash, UBS may, in its discretion (i) accelerate the Last Averaging Date or (ii) adjust the Number of Shares. UBS shall notify the Issuer in writing as to the terms of any adjustment made pursuant to this Section 4(c) no later than 5 days after the tender offer is made.

(d) Other Events. In the event of any corporate event involving the Issuer or the Common Stock not specifically addressed in subsections (a), (b) or (c) of this Section 4 or in the event that the Calculation Agent, in its good faith judgment, determines that the adjustments described in subsections (a), (b) or (c) of this Section 4 will not result in an equitable adjustment of the terms of the transaction described herein, and provided that, in each case, such corporate event impacts the rights or obligations of a holder of Common Stock, the terms of the transaction described herein shall be subject to adjustment by the Calculation Agent (including, without limitation, the First Averaging Date, the Last Averaging Date and the Number of Shares) as in the exercise of its good faith judgment it deems appropriate under the circumstances in order to result in an equitable adjustment to this transaction. In the event that the Issuer objects to the adjustments, the Issuer shall promptly so notify the Calculation Agent and UBS, and the Issuer and UBS agree to use their good faith best efforts to reach an agreement as to the adjustment. In the further event that the Issuer and UBS are not able to reach an agreement, the Issuer and UBS shall appoint a third party with sufficient expertise to determine the adjustment and such adjustment shall be binding on both parties.

Section 5. Acknowledgement.

The Issuer acknowledges and agrees that it is not relying, and has not relied, upon UBS or Agent with respect to the legal, accounting, tax or other implications of this Agreement and that it has conducted its own analysis of the legal, accounting, tax and other implications of this Agreement. The Issuer further acknowledges and agrees that neither UBS nor Agent have acted as its advisor in any capacity in connection with this Agreement or the transactions contemplated by this Agreement. The Issuer acknowledges that neither UBS nor Agent is acting as the agent for the Issuer in effecting any purchase of Common Stock pursuant to this Agreement. The Issuer understands and acknowledges that UBS and its affiliates may from time to time effect transactions, for their own account or the account of customers, and hold positions, in securities or options on securities of the Issuer and that UBS and its affiliates may continue to conduct such transactions during the Execution Period. The Issuer understands and acknowledges that UBS and its affiliates intend to engage in hedging activity that could affect the market for such securities and/or the Common Stock that is the subject of this transaction, and consequently the cost or proceeds to the Issuer hereunder.

Section 6. Representations and Warranties.

(a) The Issuer hereby represents and warrants to UBS that:

(i) it has (or, in the case of the Registration Rights Agreement, will have when and if executed) all power and authority to enter into this Agreement and the Registration Rights Agreement and the transactions contemplated hereby and thereby;

(ii) this Agreement has been duly authorized, validly executed and delivered by the Issuer and constitutes a valid and legally binding obligation of the Issuer enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(iii) the Registration Rights Agreement, when and if executed and delivered pursuant to Section 3(c) hereof, shall have been duly authorized, validly executed and delivered by the Issuer and shall constitute a valid and legally binding obligation of the Issuer enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(iv) if Stock Settlement Shares are delivered pursuant to Section 3(c) or Section 3(g), as the case may be, the Stock Settlement Shares, when delivered to UBS or to the Issuer, as the case may be, will have been duly authorized and will be duly and validly issued, fully paid and nonassessable and free of preemptive and other rights;

(v) the transactions contemplated by this Agreement, including the delivery of the Stock Settlement Shares pursuant to Section 3(c) or Section 3(g), as the case may be, are consistent with the authorization of the Repurchase Program;

(vi) the Issuer is not entering into this Agreement to facilitate a distribution of the Common Stock (or any security convertible into or exchangeable for Common Stock) or in connection with a future issuance of securities;

(vii) the Issuer is not entering into this Agreement to create actual or apparent trading activity in the Common Stock (or any security convertible into or exchangeable for Common Stock) or to raise or depress the price of the Common Stock (or any security convertible into or exchangeable for Common Stock);

(viii) as of the date hereof and as of the date of any Stock Election Notice hereunder, (i) none of the Issuer and its executive officers and directors is, or will be, as the case may be, aware of any material nonpublic information regarding the Issuer or the Common Stock and (ii) all reports and other documents filed by the Issuer with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, when considered as a whole (with the more recent such reports and documents deemed to

amend inconsistent statements contained in any earlier such reports and documents), do not or will not, as the case may be, contain any untrue statement of a material fact or any omission of a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading;

(ix) the repurchase of the Shares by the Issuer, the compliance by the Issuer with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach (each, a “Breach”) of any of the terms or provisions of, or constitute a default (each a “Default”) under, any indenture, mortgage, deed of trust, loan agreement or any other agreement or instrument to which the Issuer or any of its subsidiaries is a party (collectively, “Contracts”) or by which the Issuer or any of its subsidiaries is bound or to which any of the property or assets of the Issuer or any of its subsidiaries is subject (except such Breach or Default as would not reasonably be expected to materially adversely affect the ability of the Issuer to perform its obligations under any Contract), nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Issuer or any of its subsidiaries is subject, nor will such action result in any violation of the Certificate of Incorporation or By-laws of the Issuer or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Issuer or any of its properties; and

(x) no consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body having jurisdiction over the Issuer or any of its properties is required for the repurchase of the Shares by the Issuer, the compliance by the Issuer with all the terms of this Agreement, or the consummation by the Issuer of the transactions contemplated by this Agreement, other than the registration of the Stock Settlement Shares and any Make-whole Shares under the Securities Act in accordance with the provisions of Section 3(c), which registration shall be completed not less than five Trading Days prior to December 19, 2007, and such authorizations, orders, registrations and qualifications as may be required under state securities or blue sky laws in connection with the resale by UBS of the Registered Shares.

(b) UBS hereby represents and warrants to the Issuer:

(i) it has all power and authority to enter into this Agreement and the Registration Rights Agreement and the transactions contemplated hereby and thereby;

(ii) this Agreement has been duly authorized, validly executed and delivered by UBS and constitutes a valid and legally binding obligation of UBS enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors’ rights and to general equity principles; and

(iii) the Registration Rights Agreement, when and if executed and delivered pursuant to Section 3(c) hereof, shall have been duly authorized, validly executed and delivered by UBS and shall constitute a valid and legally binding obligation of UBS enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency,

fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(c) The Issuer and UBS hereto acknowledge that this transaction is not secured by any collateral that would otherwise secure the obligations of the Issuer.

Section 7. Indemnification.

In the event that UBS becomes involved in any capacity in any action, proceeding or investigation brought by or against any person in connection with any matter referred to in this Agreement, the Issuer periodically will reimburse UBS for its legal and other expenses (including the cost of any investigation and preparation) incurred in connection therewith. The Issuer also will indemnify and hold UBS harmless against any losses, claims, damages or liabilities to which UBS may become subject in connection with any matter referred to in this Agreement, except to the extent that any such loss, claim, damage or liability results from the gross negligence or bad faith of UBS in effecting the transactions which are the subject of this Agreement. If for any reason the foregoing indemnification is unavailable to UBS or insufficient to hold it harmless, then the Issuer shall contribute to the amount paid or payable by UBS as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative benefits received by the Issuer on the one hand and UBS on the other hand in the matters contemplated by this Agreement as well as the relative fault of the Issuer and UBS with respect to such loss, claim, damage or liability and any other relevant equitable considerations. The relative benefits to the Issuer, on the one hand, and UBS, on the other hand, shall be in the same proportion as the aggregate Purchase Price bears to the commissions received by UBS pursuant to the last paragraph of Section 2. The reimbursement, indemnity and contribution obligations of the Issuer under this Section 7 shall be in addition to any liability which the Issuer may otherwise have, shall extend upon the same terms and conditions to any affiliate of UBS and the partners, directors, officers, agents, employees and controlling persons (if any), as the case may be, of UBS and any such affiliate and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of the Issuer, UBS, any such affiliate and any such person. The Issuer also agrees that neither UBS nor any of such affiliates, partners, directors, officers, agents, employees or controlling persons shall have any liability to the Issuer for or, in connection with any matter referred to in this Agreement except to the extent that any losses, claims, damages, liabilities or expenses incurred by the Issuer result from the gross negligence or bad faith of UBS in effecting the transactions that are the subject of this Agreement. The foregoing provisions shall survive any termination or completion of this Agreement.

Section 8. Termination Event.

Upon the occurrence of a Termination Event and so long as such Termination Event shall be continuing, UBS may, in its discretion, by notice to the Issuer (the date of such notice and the notice referred to in the succeeding clause being referred to herein as the "Notice Date"), direct that the Execution Period shall forthwith terminate on the date specified in such notice (the "Termination Event Termination Date"). In such an event, (i) the Execution Period

shall terminate on the Termination Event Termination Date, (ii) the Principal Account shall be reduced on such date by an amount equal to the sum of (A) the product of (x) the number of Hedge Account Shares and (y) the arithmetic average of daily volume-weighted average prices of Shares in each Trading Day from the First Averaging Date up to and excluding the Notice Date, as listed on Bloomberg Screen Volume at Price Page and (B) the total purchase price paid by UBS for the Shares of Common Stock that are purchased by UBS during the period commencing on and including the Notice Date to and including the Termination Event Termination Date in order to cover the remaining number of Borrowed Shares, (iii) the Principal Account shall be increased to reflect an appropriate accrual of interest at the Federal Funds Open Rate, as determined by the Calculation Agent, to reflect interest earned by UBS in respect of the aggregate Purchase Price received from the Issuer, (iv) the Principal Account shall be decreased to reflect UBS's actual cost of borrowing shares of Common Stock to hedge its obligations hereunder, and (v) the Settlement Amount shall be further adjusted by the amount that UBS reasonably determines in good faith to be its total losses and costs in connection with the early termination of this Agreement, including any loss of bargain, cost of funding, or loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position.

Section 9. Miscellaneous.

(a) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and obligations set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

(b) Assignment. Neither the rights under this Agreement nor the obligations created by this Agreement shall be assignable or delegable, in whole or in part, by either party hereto without the prior written consent of the other (which consent shall not be unreasonably withheld), and any attempt to assign or delegate any rights or obligations arising under this Agreement without such consent shall be void.

(c) Waivers, etc. No failure or delay on the part of either party in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No amendment, modification or waiver of any provision of this Agreement nor consent to any departure by either party therefrom shall in any event be effective unless the same shall be in writing and, in the case of a waiver or consent, shall be effective only in the specific instance and for the purpose for which given.

(d) Beneficiaries. This Agreement shall be binding upon, and inure solely to the benefit of, the Issuer, UBS and, to the extent provided in Section 7 hereof, the affiliates, partners, directors, officers, agents, employees and controlling persons, if any, of UBS, and their respective successors, assigns, heirs and personal representatives, and no other person shall acquire any rights hereunder.

(e) Rights of Set-Off. In addition to any rights of set-off a party may have as a matter of law or otherwise, upon occurrence of an Event of Default with respect to the Issuer, UBS shall have the right, without prior notice to the Issuer or any other person, to (i) set off any obligation of the Issuer owing to UBS or any affiliate of UBS against any obligations of UBS or any affiliate of UBS owing to the Issuer, or (ii) for the purpose of cross-currency set-off, convert any obligation to another currency at the market rate determined by UBS, or (iii) if an obligation is unascertained, in good faith estimate that obligation and set off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained. Nothing in this Section 9(e) will have the effect of creating a charge or other security interest.

(f) Changes of Law. If, due to any change in applicable law or regulations or the interpretation thereof by any court of law or other body having jurisdiction subsequent to the date of this Agreement, performance of any provision of this Agreement or any transaction contemplated thereby shall become impracticable or impossible, the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as contemplated by such provision.

(g) Confidentiality. Subject to Section 5(a), to any contrary requirement of law and to the right of each party to enforce its rights hereunder in any legal action, each party shall keep strictly confidential and shall cause its employees and agents to keep strictly confidential the terms of this Agreement and any information of or concerning the other party which it or any of its agents or employees may acquire pursuant to, or in the course of performing its obligations under, any provision of this Agreement. In the event disclosure is permitted pursuant to the preceding sentence, the disclosing party shall (i) provide prior notice of such disclosure to the other party, (ii) use its best efforts to minimize the extent of such disclosure and (iii) comply with all reasonable requests of the other party to minimize the extent of such disclosure. This Section 9(g) shall not prevent either party from disclosing information as necessary to third-party advisors in connection with the transactions contemplated hereby provided that such advisors agree in writing to be bound by this Section 9(g) as if a party hereto.

(h) Agent. UBS Securities LLC shall act as “agent” for UBS and the Issuer within the meaning of Rule 15a-6 under the Exchange Act. The Agent is not a principal to this Agreement and shall have no responsibility or liability to UBS or the Issuer in respect of this Agreement, including, without limitation, in respect of the failure of UBS or the Issuer to pay or perform under this Agreement. Each of UBS and the Issuer agrees to proceed solely against the other to collect or recover any securities or money owing to it in connection with or as a result of this Agreement. The Agent shall otherwise have no liability in respect of this Agreement, except for its gross negligence or willful misconduct in performing its duties as Agent hereunder. As a broker-dealer registered with the Securities and Exchange Commission, UBS Securities LLC, in its capacity as agent, will be responsible for (i) effecting the transaction contemplated in this Agreement, (ii) issuing all required notices, confirmations and statements to Buyer and Seller and (iii) maintaining books and records relating to this Agreement.

(i) Headings. Descriptive headings herein are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

(j) Counterparts. This Agreement may be executed by the parties hereto in counterparts, and each such executed counterpart shall be, and shall be deemed to be, an original instrument and all such counterparts, taken together, shall constitute one and the same instrument.

(k) Notices. All notices, consents, requests, instructions, approvals and other communications provided for herein shall be validly given, made or served if in writing and delivered personally, by telegram, by telecopy or sent by overnight courier, postage prepaid, to:

UBS AG, London Branch at:

c/o UBS Securities LLC
299 Park Avenue
New York, NY 10171
Attention of: Paul Stowell and Sanjeet Dewal
Fax Number: 212-821-4610

With a copy to such address to attention of:
Legal and External Affairs

the Issuer at:

Cincinnati Financial Corporation
6200 South Gilmore Road
Fairfield, OH 45014

Attention of: Martin F. Hollenbeck, Investment Department
Fax Number: 513-870-0609

With a copy to such address to attention of:
Legal Department—Corporate Division

or to such other address as any party may, from time to time, designate in a written notice given in a like manner. Notice given by telegram or telecopy shall be deemed delivered when evidence of the transmission is received by the sender and shall be confirmed in writing by overnight courier, postage prepaid. Notice given by overnight courier as set out above shall be deemed delivered the business day after the date the same is mailed.

(l) Account Details.

UBS:

Cash Payments for Stock Purchase

Citibank, New York

ABA# 021 000 089

A/C# 4065 2556

UBS Securities, LLC

Cash Payments for Settlement

UBS AG Stamford

f/o UBS AG London Branch

ABA# 026-007-993

AC# 101-WA-140007-000

Issuer:

(To be provided)

(m) Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the state of New York without reference to conflict of law principles. Each party hereto irrevocably submits to the extent permitted under applicable law to the non-exclusive jurisdiction of the federal and state courts located in the Borough of Manhattan, State of New York. Each party waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any suit, action or proceeding relating to this Agreement.

IN WITNESS WHEREOF, UBS and the Issuer have caused this Agreement to be duly authorized, executed and delivered as of the date first written above.

UBS AG, LONDON BRANCH

By: _____
Name:
Title:

By: _____
Name:
Title:

UBS SECURITIES LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

CINCINNATI FINANCIAL CORPORATION

By: _____
Name:
Title:

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (Agreement), dated September 5, 2007, is by and between Cincinnati Financial Corporation, an Ohio Corporation (Cincinnati Financial), and The Huntington National Bank, Trustee of the E. Perry Webb Marital Trust, Number 1315022309 originally dated February 9, 1978 (Trust) and as amended from time to time.

WHEREAS, the Trust currently owns and desires to sell 193,750 shares (the Stock) of Cincinnati Financial's common stock, par value of \$2.00 per share (the Common Stock); and

WHEREAS, the Trust desires to sell to Cincinnati Financial and Cincinnati Financial desires to purchase from the Trust the Stock upon the terms and conditions hereinafter provided;

NOW THEREFORE, in consideration of the foregoing, in reliance upon representations and warranties contained here, and subject to the conditions contained here, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I**PURCHASE AND SALE OF SHARES**

Section 1.1 Purchase and Sale of Common Stock. Subject to the terms and conditions set forth in this Agreement, the Trust hereby agrees to sell, transfer, convey and assign to Cincinnati Financial, and Cincinnati Financial hereby agrees to purchase from the Trust, the Stock at a cash purchase price determined in accordance with Section 1.2 below.

Section 1.2 Purchase Price. The aggregate purchase price (the Purchase Price) which Cincinnati Financial shall pay to the Trust for the Stock on the Closing Date in accordance with Section 1.4 below, shall be equal to the product of (a) 193,750 multiplied by (b) the average of the high and low sales prices of the Common Stock on the NASDAQ National Market on September 6, 2007 and September 7, 2007.

Section 1.3 Closing. The closing of the purchase and sale of the Stock (the Closing) shall be at 10:00am Eastern Time at the offices of Cincinnati Financial, 6200 S. Gilmore Road, Fairfield, Ohio 45014-5141 on 10th day of September, 2007 (the Closing Date); provided, that the conditions set forth in Article III of this Agreement have been satisfied or waived; and provided further, that the Closing may occur on such other date or at such other time or place as the parties may mutually agree in writing in order to satisfy delivery of the Stock subject to this Agreement as provided in Section 1.4, below.

1.4 Closing Deliveries. At the Closing, Trustee shall deliver the above referenced 193,750 shares of the Common Stock to Cincinnati Financial or for the

account of Cincinnati Financial according to delivery instructions provided to Trustee and Cincinnati Financial shall pay to the Trust the Purchase Price by direct deposit of the Purchase Price directly into one or more accounts designated by the Trust in writing to Cincinnati Financial.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1 Representations of Cincinnati Financial. Cincinnati Financial hereby represents and warrants to the Trust as follows:

- (a) Cincinnati Financial is an Ohio corporation validly subsisting and in good standing under the laws of the State of Ohio and has all requisite corporate power and authority to enter into this Agreement and consummate the transaction contemplated hereby.
- (b) Upon execution of this Agreement by Cincinnati Financial, this Agreement will be duly authorized, executed and delivered by Cincinnati Financial, and will constitute a valid and binding obligation of Cincinnati Financial, enforceable against Cincinnati Financial in accordance with its terms, subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and general principles of equity.
- (c) No authorization, consent or approval of or with any third person, any court, any public body or any regulatory or other authority is necessary for the consummation by Cincinnati Financial of the transactions contemplated by this Agreement, except for those which if not obtained would not materially adversely affect Cincinnati Financial's ability to perform its obligations hereunder. The execution, delivery and performance of this Agreement by Cincinnati Financial will not constitute a breach, violation or default (or an event which, with notice or lapse of time or both, will constitute a default) under, or result in the termination or acceleration under, or result in a creation of any lien or encumbrance upon any of the properties or assets of Cincinnati Financial under any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or any other instrument as to which Cincinnati Financial is a party and by which its properties or assets are bound, except any of such which would not materially adversely affect Cincinnati Financial's ability to perform its obligations hereunder.

Section 2.2 Representations of the Trust. The Trust hereby represents and warrants to Cincinnati Financial as follows:

- (a) The Trust has the power and authority to enter into this Agreement and to consummate the transactions contemplated hereby.

- (b) The Trust has good and valid title to the Stock free and clear of any lien, claim, pledge, security interest or other encumbrance whatsoever.
- (c) Upon execution of this Agreement by the Trust, this Agreement will have been duly and validly executed and delivered by the Trust, and will constitute a valid and binding obligation of the Trust, enforceable against the Trust in accordance with its terms, subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and general principles of equity.
- (d) No authorization, consent or approval of or with any third person, any court, any public body or any authority is necessary for the consummation by the Trust of the transactions contemplated by this Agreement, except for those which if not obtained would not materially adversely affect the Trust's ability to perform its obligations hereunder. The execution, delivery and performance of this Agreement by the Trust will not constitute a breach, violation or default (or an event which, with notice or lapse of time or both, will constitute a default) under, or result in the termination of, accelerate the performance required by, result in the right of termination or acceleration under, or result in a creation of any lien or encumbrance upon any of the properties or assets of the Trust under, any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument as to which the Trust is a party and by which its properties or assets are bound, except for any of such which would not materially adversely affect the Trust's ability to perform its obligations hereunder.
- (e) The Trust has entered into this Agreement, and the transactions contemplated by this Agreement, freely and without any pressure from Cincinnati Financial to sell the Stock to Cincinnati Financial.

ARTICLE III

CONDITION PRECEDENT

Cincinnati Financial's and the Trust's obligation to consummate the transactions contemplated by this Agreement are subject to the fulfillment on or prior to the Closing Date of the following conditions, unless waived by Cincinnati Financial or the Trust, as applicable.

Section 3.1 Injunction and Litigation. There shall be pending or in effect no injunction, writ, preliminary restraining order, statute, law, rule, regulation, executive order or any other order of any nature directing that the transactions contemplated by this Agreement not be consummated as herein provided or otherwise seeking to restrain or prohibit the transactions contemplated by this Agreement, or which have the effect of so restraining or prohibiting, and none of such shall be threatened, and there shall not be any suit, action, investigation, inquiry or other proceeding instituted, pending or threatened by

any governmental entity challenging or seeking to make illegal or otherwise directly or indirectly restrain or prohibit or make materially more costly to Cincinnati Financial or the Trust the consummation of the transaction contemplated hereby or seeking to obtain material damages in connection with such transaction.

Section 3.2 Deliveries. The deliveries contemplated by Section 1.4 shall have been made.

ARTICLE VI.

MISCELLANEOUS

Section 4.1 Governing Law. This Agreement shall be construed under and governed by the laws of the State of Ohio, without regard to the conflicts of laws rules of such state.

Section 4.2 Further Instruments and Actions. Each party agrees to deliver any further instruments and to take any further actions that may be responsibly requested by the other, or counsel for the other, in order to carry out the provisions and purposes of this Agreement.

Section 4.3 Notices. All notices, requests or other communications to be given hereunder shall be in writing and shall be delivered personally, sent by registered or certified mail, postage prepaid, by overnight courier with written confirmation of delivery or by facsimile transmission with written confirmation of error-free transmission:

If to Cincinnati Financial:

Cincinnati Financial Corporation
6200 S. Gilmore Road
Fairfield, Ohio 45014-5141
Attn: Lisa A. Love, Esq.
Telephone No.: (513) 870-2288
Facsimile No.: (513) 603-5700

With a copy to:

Dinsmore & Shohl LLP
1900 Chemed Center
255 East Fifth Street
Cincinnati, Ohio 45202-4720
Attn: Charles F. Hertlein, Jr., Esq.
Telephone No.: (513) 977-8315
Facsimile No.: (513) 977-8327

If to the Trust:

Robert J. Meredith, Esq.
P.O. Box 1217
Lima, Ohio 45802-1217
Telephone No.: (419) 228-6365
Facsimile No.: (419) 228-5319

Section 4.4 Headings. The descriptive article and section headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

Section 4.5 Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the sale and transfer of the Stock, and there are no agreements, conditions or understandings, either oral or written, between Cincinnati Financial and the Trust relating to these matters other than those that are contained in this Agreement. This Agreement may be altered or amended only by a written agreement signed by both Cincinnati Financial and the Trust.

Section 4.6 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

CINCINNATI FINANCIAL CORPORATION

By: _____
Name: Kenneth W. Stecher
Title: Chief Financial Officer, Executive Vice President,
Secretary and Treasurer

THE HUNTINGTON NATIONAL BANK,
TRUSTEE OF E. PERRY WEBB
MARITAL
TRUST, NUMBER 1315022309

By: _____
Name: Robert E. Shenk
Title: Vice President, Trust Officer

EXHIBIT 11**STATEMENTS RE: COMPUTATION OF PER SHARE EARNINGS**

(Dollars in millions except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Numerator:				
Net income—basic and diluted	<u>\$ 124</u>	<u>\$ 115</u>	<u>\$ 669</u>	<u>\$ 800</u>
Denominator:				
Weighted-average common shares outstanding	171,068,956	173,224,254	171,804,376	173,555,925
Effect of stock options and nonvested shares	<u>1,330,583</u>	<u>2,035,809</u>	<u>1,618,823</u>	<u>1,986,691</u>
Adjusted weighted-average shares	<u>172,399,539</u>	<u>175,260,063</u>	<u>173,423,199</u>	<u>175,542,616</u>
Earnings per share:				
Basic	\$ 0.72	\$ 0.67	\$ 3.89	\$ 4.61
Diluted	0.72	0.66	3.86	4.56

ANTI-DILUTIVE SECURITIES

Certain option shares were not included in the computation of diluted earnings per share, since inclusion of these option shares would have anti-dilutive effects.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Number of anti-dilutive option shares	2,502,959	1,343,850	1,874,979	2,777,770
Exercise price range of anti-dilutive option shares	\$41.62 - 45.26	\$ 45.26	\$44.79 - 45.26	\$41.62 - 45.26

Cincinnati Financial Corporation
Form 10-Q for the quarterly period ended September 30, 2007

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: November 2, 2007

/S/ John J. Schiff, Jr.

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

Cincinnati Financial Corporation
Form 10-Q for the quarterly period ended September 30, 2007

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: November 2, 2007

/s/ Kenneth W. Stecher

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

Cincinnati Financial Corporation
Form 10-Q for the quarterly period ended September 30, 2007

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: November 2, 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)

Cincinnati Financial Corporation
Form 10-Q for the quarterly period ended September 30, 2007