CINCINNATI FINANCIAL CORP
Form 10-K
February 25, 2011

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

Form 10-K

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

For the fiscal year ended December 31, 2010.

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

For the transition period from ______________________ to ______________________.

Commission file number 0-4604

Cincinnati Financial Corporation
(Exact name of registrant as specified in its charter)

Ohio	31-0746871
(State of incorporation)	(I.R.S. Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
$2.00 par, common stock
(Title of Class)
6.125% Senior Notes due 2034
(Title of Class)
6.9% Senior Debentures due 2028
(Title of Class)
6.92% Senior Debentures due 2028
(Title of Class)

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 if Regulation S-T(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and smaller reporting company in Rule 12b-2 of the Exchange Act.
(Check one): Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant was $3,793,569,013 as of June 30, 2010.

As of February 21, 2011, there were 163,000,007 shares of common stock outstanding.

Document Incorporated by Reference

Portions of the definitive Proxy Statement for Cincinnati Financial Corporation's Annual Meeting of Shareholders to be held on April 30, 2011, are incorporated by reference into Part III of this Form 10-K.

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Part I

Item 1. Business

Cincinnati Financial Corporation – Introduction

We are an Ohio corporation formed in 1968. Our lead subsidiary, The Cincinnati Insurance Company, was founded in 1950. Our main business is property casualty insurance marketed through independent insurance agents in 39 states. Our headquarters is in Fairfield, Ohio. At year-end 2010, we employed 4,060 associates, with 2,838 headquarters associates providing support to 1,222 field associates.

At year-end 2010, Cincinnati Financial Corporation owned 100 percent of three subsidiaries: The Cincinnati Insurance Company, CSU Producer Resources Inc., and CFC Investment Company. In addition, the parent company has an investment portfolio, owns the headquarters property and is responsible for corporate borrowings and shareholder dividends.

The Cincinnati Insurance Company owns 100 percent of our four additional insurance subsidiaries. Our standard market property casualty insurance group includes two of those subsidiaries – The Cincinnati Casualty Company and The Cincinnati Indemnity Company. This group writes a broad range of business, homeowner and auto policies. Other subsidiaries of The Cincinnati Insurance Company include The Cincinnati Life Insurance Company, which provides life insurance, disability income policies and annuities, and The Cincinnati Specialty Underwriters Insurance Company, which began offering excess and surplus lines insurance products in January 2008.

The two non-insurance subsidiaries of Cincinnati Financial Corporation are CSU Producer Resources, which offers insurance brokerage services to our independent agencies so their clients can access our excess and surplus lines insurance products; and CFC Investment Company, which offers commercial leasing and financing services to our agencies, their clients and other customers.

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

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

Our Business and Our Strategy

Introduction

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

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

A select group of agencies in 39 states actively markets our property casualty insurance within their communities. Standard market commercial lines policies are marketed in all of those states, while personal lines policies are marketed in 29 of those states. Excess and surplus lines policies are available in 38 of those states. Within this select group, we also seek to become the life insurance carrier of choice and to help agents and their clients – our policyholders – by offering leasing and financing services.

Three competitive advantages distinguish our company, positioning us to build shareholder value and to be successful overall:

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

Independent Insurance Agency Marketplace

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

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

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

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

For the most part, we compete with standard market insurance companies that market through independent insurance agents. Agencies marketing our commercial lines products typically represent six to 12 standard market insurance carriers for commercial lines products, including both national and regional carriers, most of which are mutual companies. Our agencies typically represent four to six standard personal lines carriers, and we also compete with carriers that market personal lines products through captive agents and direct writers. Distribution through independent insurance agents or brokers represents nearly 60 percent of overall U.S. property casualty insurance premiums and approximately 80 percent of commercial property casualty insurance premiums, according to studies by the Independent Insurance Agents and Brokers of America.

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

In addition to providing standard market property casualty insurance products, we opened our own excess and surplus lines insurance brokerage firm so that we could offer our excess and surplus lines products exclusively to the independent agencies who market our other property casualty insurance products. We also market life insurance products through the agencies that market our property casualty products and through other independent agencies that represent The Cincinnati Life Insurance Company without also representing our other subsidiaries. Offering insurance solutions beyond our standard market property casualty insurance products helps our agencies meet the broader needs of their clients, and also serves to increase and diversify agency revenues and profitability.

The excess and surplus lines market exists due to a regulatory distinction. Generally, excess and surplus lines insurance carriers provide insurance that is unavailable in the standard market due to market conditions or characteristics of the insured person or organization that are caused by nature, the insured's claim history or the characteristics of their business. We established an excess and surplus lines operation in response to requests to help meet the needs of agency clients when insurance is unavailable in the standard market. By providing superior service, we can help our agencies grow while also profitably growing our property casualty business. Insurers operating in the excess and surplus lines marketplace generally market business through excess and surplus lines insurance brokers, whether they are small specialty insurers or specialized divisions of larger insurance organizations.

At year-end 2010, our 1,245 property casualty agency relationships were marketing our standard market insurance products out of 1,544 reporting locations. An increasing number of agencies have multiple, separately identifiable locations, reflecting their growth and consolidation of ownership within the independent agency marketplace.
The number of reporting agency locations indicates our agents' regional scope and the extent of our presence within our 39 active states. At year-end 2009, our 1,180 agency relationships had 1,463 reporting locations. At year-end 2008, our 1,133 agency relationships had 1,387 reporting locations.

We made 93, 87 and 76 new agency appointments in 2010, 2009 and 2008, respectively. Of these new appointments, 70, 65 and 52, respectively, were new relationships. The remainder included new branch offices opened by existing Cincinnati agencies and appointment of agencies that merged with a Cincinnati agency. These new appointments and other changes in agency structures or appointment status led to a net increase in agency relationships of 65, 47 and 41 and a net increase in reporting agency locations of 81, 76 and 60 in 2010, 2009 and 2008, respectively.

On average, we have a 12.4 percent share of the standard lines property casualty insurance purchased through our reporting agency locations. Our share is 17.7 percent in reporting agency locations that have represented us for more than 10 years; 6.7 percent in agencies that have represented us for six to 10 years; 4.1 percent in agencies that have represented us for one to five years; and 0.8 percent in agencies that have represented us for less than one year.

Our largest single agency relationship accounted for approximately 1.2 percent of our total property casualty earned premiums in 2010. No aggregate locations under a single ownership structure accounted for more than 2.2 percent of our earned premiums in 2010.

Financial Strength

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

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

We use various principles and practices such as diversification and enterprise risk management to maintain strong capital. This includes maintaining a diversified investment portfolio by reviewing and applying diversification parameters and tolerances.

- Our $8.383 billion fixed-maturity portfolio is diversified and exceeds total insurance reserves. At December 31, 2010, no corporate bond exposure accounted for more than 0.8 percent of our fixed-maturity portfolio and no municipal exposure accounted for more than 0.3 percent. The portfolio had an average rating of A2/A and its fair value exceeded total insurance reserve liability by approximately 35 percent.

- The strength of our fixed-maturity portfolio provides an opportunity to invest for potential capital appreciation by purchasing equity securities. Our $3.041 billion equity portfolio minimizes concentrations in single stocks or industries. At December 31, 2010, no single security accounted for more than 6 percent of our portfolio of publicly traded common stocks, and no single sector accounted for more than 16 percent.

Strong liquidity increases our flexibility through all periods to maintain our cash dividend and to continue to invest in and expand our insurance operations. At December 31, 2010, we held $1.042 billion of our cash and invested assets at the parent company level, of which $763 million, or 73.2 percent, was invested in common stocks, and $38 million, or 3.6 percent, was cash or cash equivalents.

We minimize reliance on debt as a source of capital, maintaining the ratio of debt-to-total-capital below 20 percent. At December 31, 2010, this ratio at 14.3 percent was well below the target limit as capital remained strong while debt levels were unchanged from year-end 2009. Our long-term debt consists of three non-convertible, non-callable debentures, two due in 2028 and one in 2034.

At year-end 2010 and 2009, risk-based capital (RBC) for our standard and excess and surplus lines property casualty operations and life operations was very strong, far exceeding regulatory requirements.

- We ended 2010 with a 0.8-to-1 ratio of property casualty premiums to surplus, a key measure of property casualty insurance company capacity and security. A lower ratio indicates more security for policyholders and greater capacity for growth by an insurer. Our low ratio, compared with historical averages, gives us ample flexibility to diversify risk by expanding our operations into new geographies and product areas. The estimated industry average ratio was 0.7-to-1 for 2010.

- We ended 2010 with a 14.1 percent ratio of life statutory adjusted risk-based surplus to liabilities, a key measure of life insurance company capital strength. The estimated industry average ratio was 12.0 percent for 2010. A higher ratio indicates an insurer’s stronger security for policyholders and capacity to support business growth.

(Dollars in millions) Statutory Information	At December 31, 2010	2009
Standard market property casualty insurance subsidiary		
Statutory surplus	$3,777	$3,648
Risk-based capital (RBC)	3,793	3,664
Authorized control level risk-based capital	450	437
Ratio of risk-based capital to authorized control level risk-based capital	8.4	8.4
Written premium to surplus ratio	0.8	0.8
Life insurance subsidiary		
Statutory surplus	$303	$300
Risk-based capital (RBC)	318	316
Authorized control level risk-based capital	35	40
Ratio of risk-based capital to authorized control level risk-based capital	9.1	7.9
Total liabilities excluding separate account business	2,266	1,960
Life statutory risk-based adjusted surplus to liabilities ratio	14.1	16.3
Excess and surplus insurance subsidiary		
Statutory surplus	$172	$168
Risk-based capital (RBC)	172	168
Authorized control level risk-based capital	10	8
Ratio of risk-based capital to authorized control level risk-based capital	16.6	21.4
Written premium to surplus ratio	0.3	0.2

The consolidated property casualty insurance group's ratio of investments in common stock to statutory surplus was 55.3 percent at year-end 2010 compared with 58.4 percent at year-end 2009. The life insurance company's ratio was 29.6 percent compared with 32.2 percent a year ago.

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

All of our insurance subsidiaries continue to be highly rated. During 2010, Standard & Poor's Rating Services lowered our ratings as described below. No other rating agency actions occurred during 2010.

As of February 25, 2011, our insurer financial strength ratings were:

Insurer Financial Strength Ratings

Rating Agency	Standard Market Property Casualty Insurance Subsidiary			Life Insurance Subsidiary			Excess and Surplus Insurance Subsidiary			Date of Most Recent Affirmation or Action
			Rating Tier			Rating Tier			Rating Tier	
A. M. Best Co.	A+	Superior	2 of 16	A	Excellent	3 of 16	A	Excellent	3 of 16	Stable outlook (12/13/10)
	A+	Strong	5 of 21	A+	Strong		-	-	-	

Fitch Ratings						5 of 21				Stable outlook (9/2/10)
Moody's Investors Service	A1	Good	5 of 21	-	-	-	-	-	-	Stable outlook (9/25/08)
Standard & Poor's Ratings Services	A	Strong	6 of 21	A	Strong	6 of 21	-	-	-	Stable outlook (7/19/10)

On December 13, 2010, A.M. Best affirmed our ratings that it had assigned in February 2010, continuing its stable outlook. A.M. Best cited our superior risk-adjusted capitalization, conservative reserving philosophy and successful distribution within our targeted regional markets. Concerns noted by A.M. Best included geographic concentration, underwriting losses that began in 2008 and common stock leverage of approximately 50 percent of statutory surplus. A.M. Best said its concerns are offset by our conservative underwriting and reserving philosophies, with loss reserves more than fully covered by a highly rated, diversified bond portfolio, and by strategic initiatives to improve underwriting results.

On September 2, 2010, Fitch Ratings affirmed our ratings that it had assigned in August 2009, continuing its stable outlook. Fitch noted that ratings strengths include conservative capitalization, moderate holding company leverage, ample liquidity and competitive advantages from our distribution system. Fitch said the ratings recognize our steps taken to rebalance our common stock portfolio to reduce volatility of capital and earnings. Fitch noted concerns principally related to challenges from competitive market conditions and exposure to regional natural catastrophes and weather-related losses.

On July 19, 2010, Standard & Poor's Ratings Services lowered the insurer financial strength ratings to A (Strong) from A+ (Strong) on our standard market property casualty companies and our life insurance subsidiary, and raised its outlook to stable. S&P said its actions reflected the recent decline in our earnings and deterioration of underwriting performance from historical levels. Standard & Poor's noted our very strong capitalization and strong competitive position, supported by a very loyal and productive agency force and low-cost infrastructure. S&P also cited our improved enterprise risk management, including a more conservative and risk-averse investment portfolio, which supports capital stability.

Our debt ratings are discussed in Item 7, Liquidity and Capital Resources, Additional Sources of Liquidity, Page 79.

Operating Structure

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

In our 10 highest volume states for consolidated property casualty premiums, 956 reporting agency locations wrote 67.1 percent of our 2010 consolidated property casualty earned premium volume compared with 933 locations and 68.1 percent in 2009.

Property Casualty Insurance Earned Premiums by State

(Dollars in millions)	Earned premiums	% of total earned		Agency locations	Average premium per location
Year ended December 31, 2010					
Ohio	$599	20.5	%	224	$ 2.7
Illinois	243	8.3		122	2.0
Indiana	197	6.8		105	1.9
Pennsylvania	176	6.0		83	2.1
Georgia	149	5.1		77	1.9
North Carolina	143	4.9		80	1.8
Michigan	126	4.3		116	1.1
Virginia	121	4.1		60	2.0
Kentucky	106	3.6		41	2.6
Tennessee	102	3.5		48	2.1
Year ended December 31, 2009					
Ohio	$611	21.0	%	224	$ 2.7
Illinois	253	8.7		119	2.1
Indiana	201	6.9		104	1.9
Pennsylvania	174	6.0		82	2.1
Georgia	148	5.1		71	2.1
North Carolina	138	4.8		75	1.8
Michigan	129	4.4		109	1.2
Virginia	121	4.2		60	2.0
Wisconsin	103	3.5		49	2.1
Kentucky	100	3.5		40	2.5

Field Focus

We rely on our force of 1,222 field associates to provide service and be accountable to our agencies for decisions we make at the local level. These associates live in the communities our agents serve, working from offices in their homes and providing 24/7 availability to our agents. Headquarters associates also provide agencies with underwriting, accounting and technology assistance and training. Company executives, headquarters underwriters and special teams regularly travel to visit agencies, strengthening the personal relationships we have with these organizations. Agents have opportunities for direct, personal conversations with our senior management team, and headquarters associates have opportunities to refresh their knowledge of marketplace conditions and field activities.

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

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

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

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

- allow our field and headquarters associates to collaborate with each other and with agencies more efficiently
- provide our agencies the ability to access our systems and client data to process business transactions from their offices
- allow policyholders to directly access pertinent policy information online in order to further improve efficiency for our agencies
- automate our internal processes so our associates can spend more time serving agents and policyholders, and
- reduce duplicated effort, introducing more efficient processes that reduce company and agency costs

Agencies access our systems and other electronic services via their agency management systems or CinciLink®, our secure agency-only website. CinciLink provides an array of web-based services and content that makes doing business with us easier, such as commercial and personal lines rating and processing systems, policy loss information, sales and marketing materials, educational courses about our products and services, accounting services, and electronic libraries for property and casualty coverage forms and state rating manuals.

Superior Claims Service

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

Our 763 locally based field claims associates work from their homes, assigned to specific agencies. They respond personally to policyholders and claimants, typically within 24 hours of receiving an agency's claim report. We believe we have a competitive advantage because of the person-to-person approach and the resulting high level of service that our field claims representatives provide. We also help our agencies provide prompt service to policyholders by giving agencies authority to immediately pay most first-party claims under standard market policies up to $2,500. We believe this same local approach to handling claims is a competitive advantage for our agents providing excess and surplus lines coverage in their communities. Handling of these claims includes guidance from headquarters-based excess and surplus lines claims managers.

Our property casualty claims operation uses CMS, our claims management system, to streamline processes and achieve operational efficiencies. CMS allows field and headquarters claims associates to collaborate on reported claims through a virtual claim file. Our field claims representatives use tablet computers to view and enter information into CMS from any location, including an insured's home or agent's office, and to print claim checks using portable printers. Agencies also can access selected CMS information such as activity notes on open claims.

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

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

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

Insurance Products

We actively market property casualty insurance in 39 states through a select group of independent insurance agencies. For most agencies that represent us, we believe we offer insurance solutions for approximately 75 percent of the typical insurable risks of their clients. Our standard market commercial lines products are marketed in all 39 states while our standard market personal lines products are marketed in 29. At year-end 2010, CSU Producer Resources marketed our excess and surplus lines products in 38 states to agencies that represent Cincinnati Insurance. We discuss our commercial lines, personal lines and excess and surplus lines insurance operations and products in Commercial Lines Property Casualty Insurance Segment, Page 12, Personal Lines Property Casualty Insurance Segment, Page 15, and Excess and Surplus Lines Property Casualty Insurance Segment, Page 16.

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

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

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

Other Services to Agencies

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

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

In addition to broad education and training support, we make available non-insurance financial services.
CFC Investment Company offers equipment and vehicle leases and loans for independent insurance agencies, their commercial clients and other businesses. It also provides commercial real estate loans to help agencies operate and

expand their businesses. We believe that providing these services enhances agency relationships with the company and their clients, increasing loyalty while diversifying the agency's revenues.

Strategic Initiatives

Management has identified strategies that can position us for long-term success. The board of directors and management expect execution of our strategic plan to create significant value for shareholders over time. We broadly group these strategies into two areas of focus – improving insurance profitability and driving premium growth – correlating with the primary ways we measure our progress toward our long-term financial objectives.

Effective capital management is an important part of creating shareholder value, serving as a foundation to support other strategies focused on profitable growth of our insurance business, with the overall objective of long-term benefit for shareholders. Our capital management philosophy is intended to preserve and build our capital while maintaining appropriate liquidity. A strong capital position provides the capacity to support premium growth, and liquidity provides for our investment in the people and infrastructure needed to implement our other strategic initiatives. Our strong capital and liquidity also provide financial flexibility for shareholder dividends or other capital management actions.

Our strategies seek to position us to compete successfully in the markets we have targeted while optimizing the balance of risk and returns. We believe successful implementation of key initiatives that support our strategies will help us better serve our agent customers, reduce volatility in our financial results and achieve our long-term objectives despite shorter-term effects of difficult economic, market or pricing cycles. We describe our expectations for the results of these initiatives in Item 7, Executive Summary of the Management's Discussion and Analysis, Page 36.

Improve Insurance Profitability

Implementation of the three initiatives below is intended to improve pricing capabilities for our property casualty business, improving our ability to manage our business while also enhancing our efficiency. By improving pricing capabilities through the use of analytics tools, we can better manage profit margins. By improving agency-level planning, we can develop and execute growth and profitability plans that enhance our ability to achieve objectives at all levels in the organization. By improving internal processes and further developing performance metrics, we can be more efficient and effective. These initiatives also support the ability of the agencies that represent us to grow profitably by allowing them to serve clients faster and more efficiently manage expenses. The primary initiatives for 2011 to improve insurance profitability are:

- Improve pricing precision using predictive analytics – We continue efforts to expand our pricing capabilities by using predictive analytics and expect cumulative benefits of these efforts to improve loss ratios over time. Development of additional business data to support accurate underwriting, pricing and other business decisions also continues. A phased project that will continue over the next several years will deploy a full data management program, including a data warehouse for our property casualty and life insurance operations, providing enhanced granularity of pricing data. Specific initiatives that are key to improving pricing precision are summarized below.

  - Commercial lines – In the second half of 2009, we began to use predictive modeling tools that align individual insurance policy pricing to risk attributes for our workers' compensation line of business. During fourth-quarter 2010, we completed development of predictive models for our commercial auto line of business and also for general liability and commercial property coverages in commercial package accounts. We plan in 2011 to integrate these models into our policy processing systems. Underwriters using these tools will be able to target profitability and to provide pricing impacts to agency personnel. Additional reports to monitor use and results at several levels should also contribute to improved pricing.

  - Personal lines – Prior to 2010, we began to use predictive modeling tools for our homeowner line of business, and in late 2010 we began using similar analytics for personal auto. We believe we are successfully attracting more of our agents' preferred business, based on the average quality of our book of business. Quality has improved as measured by the mix of business by insurance score. During 2011, we will continue to develop the models by calibrating pricing precision to allow us to write more business profitably. Further educational support for agency personnel and enhanced reporting to monitor results for all users will also be developed. These tools enable us to increase the speed of introducing new rates and model attributes, more rapidly adapting to changes in market conditions.

- Improve agency-level planning for profitability and growth – Additional use of analytics tools will help us better understand business in more detail and communicate additional quantitative and qualitative information to agents and associates. Development of models at an agency level to predict profitability, along with enhanced reporting of related metrics, should facilitate coordination and consistent decision-making. During 2011, we expect to enhance our agency planning processes to develop multi-year profitability and growth plans. Evaluating agency and state-level plans through models that aggregate company-level results will help determine if executing plans formulated at those levels, in aggregate, are adequate to reach our broader performance objectives.

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Improve internal processes and further deploy performance metrics – Improving processes supports our strategic goals and can reduce internal costs. Use of additional measurements to track progress and accountability for results will improve our overall effectiveness. Completion of development for additional coverages in our commercial lines policy administration system is expected to facilitate important internal process improvement initiatives for 2011. One important initiative aims to develop business rules and parameters for personal lines accounts that will allow processing of some business without intervention by an underwriter, for risks that meet qualifying underwriting criteria. The objective is to streamline processing for our agents and associates, permitting more time for risks that need additional service or attention. The initiative also includes developing technology to integrate automated steps into the current process plus changes in workflow, including auditing for compliance with eligibility requirements. We expect in the future a similar streamlined process will eventually be developed for parts of our commercial lines business.

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

In addition, we expect these initiatives to contribute to our rank as the No. 1 or No. 2 carrier based on premium volume in agencies that have represented us for at least five years. In 2010, we again earned that rank in approximately 75 percent of the agencies that have represented Cincinnati Insurance for more than five years, based on 2009 premiums. We are working to increase the percentage of agencies where we achieve that rank.

Drive Premium Growth

Implementation of the operational initiatives below is intended to further penetrate each market we serve through our independent agency network. We expect strategies aimed at specific market opportunities, along with service enhancements, to help our agents grow and increase our share of their business. The primary initiatives to drive premium growth are:

- Gain a larger share of agency business – We will continue to execute on prior year growth initiatives and add new initiatives to improve our penetration in each market we serve through our independent agencies. Our focus remains on the key components of agent satisfaction based on factors agents tell us are most important.

o Innovate our small business strategy – Additional focus on attributes that agencies weigh heavily in carrier selection for their clients is a key component of this initiative. Those attributes include technology ease of use and integration with agency management systems, flexible billing, product breadth and pricing, and service and marketing support for new business. The initiative includes refining workflows for the entire policy process and providing additional policyholder services. We also are developing and coordinating targeted marketing, including cross-selling opportunities, through our Target Markets department. This area focuses on new commercial product development, including identification and promotional support for promising classes of business. Small business policies are already an important part of our commercial lines property casualty insurance segment. Nearly 90 percent of our commercial in-force policies have annual premiums of $10,000 or less, accounting in total for approximately one-third of our 2010 commercial lines premium volume. Profitably growing our book of small business is expected to provide significant growth opportunities for the agencies that represent us while also benefiting the company. Small business does not typically trend quite as severely with pricing cycles, producing a more stable block of premium. This strategy also is expected to improve profitability due to lower expenses through more automation of data gathering and use of predictive analytics.

o New agency appointments – We continue to appoint new agencies to develop additional points of distribution, focusing on markets where our market share is less than 1 percent while also considering economic and catastrophe risk factors. In 2011, we are targeting approximately 120 appointments of independent agencies, with a significant portion in the five states we entered since late 2008. We seek to build a close, long-term relationship with each agency we appoint. We carefully evaluate the marketing reach of each new appointment to ensure the territory can support both current and new agencies. In counting new agency appointments, we include appointment of new agency relationships with The Cincinnati Insurance Companies. For those that we believe will produce a meaningful amount of new business premiums, we also count appointments of agencies that merge with a Cincinnati agency and new branch offices opened by existing Cincinnati agencies. We made 93, 87 and 76 new appointments in 2010, 2009 and 2008, respectively, with 70, 65 and 52 representing new relationships. One-quarter of the agencies appointed during 2010 were in the five states we entered since late 2008: Texas, Colorado, Wyoming, Connecticut and Oregon. The contribution of those states to our property casualty premium growth should occur over several years as time is required to fully realize the benefits of our agency relationships. We generally earn a 10 percent share of an agency’s business within 10 years of its appointment. We also help our agents grow their business by attracting more clients in their communities through unique Cincinnati-style service.

- Improve consumer relationships we undertake on behalf of our agencies – Improved interactions with consumers who are clients and prospects of our agents can drive more business to agents and help them grow. Through this initiative, we expect to identify the various ways we interact with consumers on behalf of our agencies and ensure that we do so in a manner that reinforces the value of the independent agent while establishing the value and service of a Cincinnati policy. By understanding and monitoring trends that drive consumer purchasing decisions, we can create positive interactions. We expect online policyholder services to continue evolving and will continue to work with agencies to meet the needs of their clients.

We measure the overall success of this strategy to drive premium growth primarily through changes in net written premiums, which we believe can grow faster than the industry average over any five-year period. On a compound annual growth rate basis over the five-year period 2006 through 2010, our property casualty net written premiums registered negative 0.7 percent, compared with an estimated negative 0.5 percent for the industry. Our premium mix is more heavily weighted in commercial lines, relative to the industry, and premium growth rates for the commercial lines segment of the industry have lagged the personal lines segment in recent years.

Our Segments

Consolidated financial results primarily reflect the results of our five reporting segments. In the fourth quarter of 2010, we revised our reportable operating segments to include excess and surplus lines. This segment includes results of The Cincinnati Specialty Underwriters Insurance Company and CSU Producer Resources. Historically, the excess and surplus lines results were reflected in Item 7, Other. We began offering excess and surplus lines insurance products in 2008. The line continues to grow since inception and separating it into a reportable segment allows readers to view this business in a manner similar to how it is managed internally when making operating decisions. Prior period data included in this annual report has been recasted to represent this new segment. These segments are defined based on financial information we use to evaluate performance and to determine the allocation of assets.

- Commercial lines property casualty insurance
- Personal lines property casualty insurance
- Excess and surplus lines property casualty insurance
- Life insurance
- Investments

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

Revenues, income before income taxes and identifiable assets for each segment are shown in a table in Item 8, Note 18 of the Consolidated Financial Statements, Page 127. Some of that information also is discussed in this section of this report, where we explain the business operations of each segment. The financial performance of each segment is discussed in the Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, which begins on Page 36.

Commercial Lines Property Casualty Insurance Segment

The commercial lines property casualty insurance segment contributed net earned premiums of $2.154 billion to consolidated total revenues, or 57.1 percent of that total, and reported a gain before income taxes of $15 million in 2010. Commercial lines net earned premiums declined 2 percent in 2010, 5 percent in 2009 and 4 percent in 2008.

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

- Commercial casualty – Provides coverage to businesses against third-party liability from accidents occurring on their premises or arising out of their operations, including liability coverage for injuries sustained from products sold as well as coverage for professional services, such as dentistry. Specialized casualty policies may include liability coverage for employment practices liability (EPLI), which protects businesses against claims by employees that their legal rights as employees of the company have been violated, and against other acts or failures to act under specified circumstances; and excess insurance and umbrella liability, including personal umbrella liability written as an endorsement to commercial umbrella coverages. The commercial casualty business line includes liability coverage written on both a discounted and nondiscounted basis as part of commercial package policies.

- Commercial property – Provides coverage for loss or damage to buildings, inventory and equipment caused by covered causes of loss such as fire, wind, hail, water, theft and vandalism, as well as business interruption resulting from a covered loss. Commercial property also includes crime insurance, which provides coverage for losses such as embezzlement or misappropriation of funds by an employee, among others; and inland marine insurance, which provides coverage for a variety of mobile equipment, such as contractor’s equipment, builder’s risk, cargo and electronic data processing equipment. Various property coverages can be written as stand-alone policies or can be added to a package policy. The commercial property business line includes property coverage written on both a nondiscounted and discounted basis as part of commercial package policies.

- Commercial auto – Protects businesses against liability to others for both bodily injury and property damage, medical payments to insureds and occupants of their vehicles, physical damage to an insured’s own vehicle from collision and various other perils, and damages caused by uninsured motorists.

- Workers’ compensation – Protects employers against specified benefits payable under state or federal law for workplace injuries to employees. We write workers’ compensation coverage in all of our active states except North Dakota, Ohio and Washington, where coverage is provided solely by the state instead of by private insurers.

- Specialty packages – Includes coverages for property, liability and business interruption tailored to meet the needs of specific industry classes such as artisan contractors, dentists, garage operators, financial institutions, metalworkers, printers, religious institutions, or smaller main street businesses. Businessowners policies, which combine property, liability and business interruption coverages for small businesses, are included in specialty packages.

- Surety and executive risk – This business line includes:

  - Contract and commercial surety bonds, which guarantee a payment or reimbursement for financial losses resulting from dishonesty, failure to perform and other acts.

  - Fidelity bonds, which cover losses that policyholders incur as a result of fraudulent acts by specified individuals or dishonest acts by employees.

  - Director and officer liability insurance, which covers liability for actual or alleged errors in judgment, breaches of duty or other wrongful acts related to activities of for-profit or nonprofit organizations. Approximately 70 percent of new policies and almost 40 percent of director and officer new business premiums written in 2010 were for nonprofit entities. Our director and officer liability policy can optionally include EPLI coverage.

- Machinery and equipment – Specialized coverage provides protection for loss or damage to boilers and machinery, including production and computer equipment, from sudden and accidental mechanical breakdown, steam explosion or artificially generated electrical current.

Our emphasis is on products that agents can market to small to midsized businesses in their communities. Of our 1,544 reporting agency locations, 16 market only our surety and executive risk products and 11 market only our personal lines products. The remaining 1,517 locations, located in all states in which we actively market, offer some or all of our standard market commercial insurance products.

In 2010, our 10 highest volume commercial lines states generated 64.3 percent of our earned premiums compared with 65.3 percent in the prior year as we continued efforts to geographically diversify our property casualty risks. Earned premiums in the 10 highest volume states decreased 4 percent in 2010 and increased 1 percent in the remaining 29 states. The number of reporting agency locations in our 10 highest volume states increased to 954 in 2010 from 933 in 2009.

Commercial Lines Earned Premiums by State

(Dollars in millions)	Earned premiums	% of total earned	Agency locations	Average premium per location
Year ended December 31, 2010				
Ohio	$347	16.1 %	223	$ 1.6
Illinois	187	8.7	120	1.6
Pennsylvania	157	7.3	83	1.9
Indiana	133	6.2	104	1.3
North Carolina	120	5.6	78	1.5
Virginia	100	4.6	60	1.7
Michigan	96	4.5	115	0.8
Georgia	82	3.8	75	1.1
Wisconsin	81	3.8	48	1.7
Tennessee	79	3.7	48	1.6
Year ended December 31, 2009				

Ohio	$359	16.3 %	223	$ 1.6
Illinois	202	9.2	117	1.7
Pennsylvania	157	7.1	82	1.9
Indiana	140	6.4	103	1.4
North Carolina	127	5.8	74	1.7
Michigan	102	4.6	108	0.9
Virginia	101	4.6	60	1.7
Georgia	85	3.9	71	1.2
Wisconsin	83	3.8	49	1.7
Iowa	79	3.6	46	1.7

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

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

Our emphasis on small to midsized businesses is reflected in the mix of our commercial lines premium volume by policy size. Nearly 90 percent of our commercial in-force policies have annual premiums of $10,000 or less, accounting in total for approximately one-third of our 2010 commercial lines premium volume. The remainder for policies with annual premiums greater than $10,000 includes in-force policies with annual premiums greater than $100,000 that account for slightly less than 15 percent of our 2010 commercial lines premium volume.

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

Although we offer three-year policy terms, premiums for some coverages within those policies are adjustable at anniversary for the next annual period, and policies may be canceled at any time at the discretion of the policyholder. Contract terms often provide that rates for property, general liability, inland marine and crime coverages, as well as policy terms and conditions, are fixed for the term of the policy. The general liability exposure basis may be audited annually. Commercial auto, workers' compensation, professional liability and most umbrella liability coverages within multi-year packages are rated at each of the policy's annual anniversaries for the next one-year period. The annual pricing could incorporate rate changes approved by state insurance regulatory authorities between the date the policy was written and its annual anniversary date, as well as changes in risk exposures and premium credits or debits relating to loss experience and other underwriting judgment factors. We estimate that approximately 75 percent of 2010 commercial premiums were subject to annual rating or were written on a one-year policy term.

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

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

We support our commercial lines operations with a variety of technology tools. e-CLAS® CPP for commercial package and auto coverages now has rolled out to all of our appointed agencies in 30 states. It is being developed for additional coverages and states that will be deployed over time. Since the initial deployment of e-CLAS in late 2009, approximately one-third of our non-workers' compensation commercial lines policies in force at the end of 2010 have been processed through e-CLAS. Due to the three-year policy term for much of our commercial lines business, some policies will not be due for renewal processing in e-CLAS until 2012. In addition to increasing efficiency for our associates, the system allows our agencies to quote and print commercial package policies in their offices, increasing their ease of doing business with us. The e-CLAS platform also makes use of our real-time agency interface, CinciBridge®, which allows the automated movement of key underwriting data from an agency's management system to e-CLAS. This reduces agents' data entry tasks and allows seamless quoting, rating and issuance capability.

Personal Lines Property Casualty Insurance Segment

The personal lines property casualty insurance segment contributed net earned premiums of $721 million to consolidated total revenues, or 19.1 percent of the total, and reported a loss before income taxes of $54 million in 2010. Personal lines net earned premiums grew 5 percent in 2010, after declining less than 1 percent in 2009 and 3 percent in 2008.

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

- Personal auto – Protects against liability to others for both bodily injury and property damage, medical payments to insureds and occupants of their vehicle, physical damage to an insured's own vehicle from collision and various other perils, and damages caused by uninsured motorists. In addition, many states require policies to provide first-party personal injury protection, frequently referred to as no-fault coverage.

- Homeowners – Protects against losses to dwellings and contents from a wide variety of perils, as well as liability arising out of personal activities both on and off the covered premises. The company also offers coverage for condominium unit owners and renters.

- Other personal lines – This includes the variety of other types of insurance products we offer to individuals such as dwelling fire, inland marine, personal umbrella liability and watercraft coverages.

At year-end, we marketed personal lines insurance products through 1,123 or approximately 73 percent of our 1,544 reporting agency locations. The 1,123 personal lines agency locations are in 29 of the 39 states in which we offer standard market commercial lines insurance and represent nearly 80 percent of the reporting agency locations in the 29 states. During 2010, we largely completed an initiative that began in 2008 to appoint for personal lines existing agencies marketing only our commercial lines insurance products. We continue to evaluate opportunities to expand our marketing of personal lines to other states. Primary factors considered in the evaluation of a potential new state include weather-related catastrophe history and the legal climate. The number of reporting agency locations in our 10 highest volume states increased 5 percent to 749 in 2010 from 711 in 2009.

In 2010, our 10 highest volume personal lines states generated 82.2 percent of our earned premiums compared with 84.1 percent in the prior year. Earned premiums in the 10 highest volume states increased 3 percent in 2010 while increasing 18 percent in the remaining states, reflecting progress toward our long-term objective of geographic diversification through new states for our personal lines operation.

Personal Lines Earned Premiums by State

(Dollars in millions)	Earned premiums	% of total earned		Agency locations	Average premium per location
Year ended December 31, 2010					
Ohio	$246	34.1	%	199	$ 1.2
Georgia	63	8.8		69	0.9
Indiana	59	8.2		82	0.7
Illinois	52	7.2		86	0.6
Alabama	42	5.9		38	1.1

Kentucky	40	5.5	37	1.1
Michigan	28	3.8	90	0.3
Tennessee	22	3.1	43	0.5
North Carolina	20	2.8	67	0.3
Virginia	20	2.8	38	0.5
Year ended December 31, 2009				
Ohio	$248	36.1 %	202	$ 1.2
Georgia	61	8.9	63	1.0
Indiana	57	8.4	79	0.7
Illinois	48	7.1	84	0.6
Alabama	41	5.9	36	1.1
Kentucky	36	5.3	35	1.0
Michigan	26	3.8	80	0.3
Tennessee	20	2.9	36	0.6
Florida	20	2.9	10	2.0
Virginia	19	2.8	35	0.5

New and renewal personal lines business reflects our risk-specific underwriting philosophy. Each agency selects personal lines business primarily from within the geographic territory that it serves, based on the agent's knowledge of the risks in those communities or familiarity with the policyholder. Personal lines activities are supported by headquarters associates assigned to individual agencies. At year-end, we had seven full-time personal lines marketing representatives who have underwriting authority and visit agencies on a regular basis. They focus primarily on key states targeted for growth, reinforcing the advantages of our personal lines products and offering training in the use of our processing system.

Competitive advantages of our personal lines operation include broad coverage forms, flexible underwriting, superior claims service, generous credit structure and customizable endorsements for both the personal auto and homeowner policies. Our personal lines products are processed through Diamond, our web-based real-time personal lines policy processing system that supports and allows streamlined processing. Diamond incorporates features frequently requested by our agencies such as pre-filling of selected data for improved efficiency, easy-to-use screens, local and headquarters policy printing options, data transfer to and from popular agency management systems and real-time integration with third-party data such as insurance scores, motor vehicle reports and address verification.

Excess and Surplus Lines Property Casualty Insurance Segment

The excess and surplus lines property casualty segment contributed net earned premiums of $49 million to consolidated total revenues, or 1.3 percent of the total, and reported a loss before income taxes of $8 million in 2010, its third year of operation. Excess and surplus lines net earned premium increased 81 percent in 2010. Net earned premiums increased 440 percent to $27 million in 2009.

Our excess and surplus lines policies typically cover business risks with unique characteristics, such as the nature of the business or its claim history, that are difficult to profitably insure in the standard commercial lines market. Excess and surplus lines insurers have more flexibility in coverage terms and rates compared with standard lines companies, generally resulting in policies with higher rates and terms and conditions customized for specific risks, including restricted coverage where appropriate. We target small to midsized risks, seeking to avoid those we consider exotic in nature. Our average excess and surplus lines policy size is approximately $5,000 in annual premiums, and policyholders in many cases also have standard market insurance with one of The Cincinnati Insurance Companies. Approximately 80 percent of our 2010 premium volume for the excess and surplus lines segment provided commercial casualty coverages and about 20 percent provided commercial property coverages. Those coverages are described below.

- Commercial casualty – Covers businesses for third-party liability from accidents occurring on their premises or arising out of their operations, including products and completed operations. The majority of these policies have coverage limits of $1 million or less. Miscellaneous errors and omissions and professional coverage for liability from actual or alleged errors in judgment, breaches of duty or other wrongful acts related to activities of insured businesses is also available, as is excess liability coverage that adds another layer of protection to other liability insurance policies. Typical businesses covered include contractors, consultants, bars or taverns, and manufacturers. Policies covering liability at special events are also available.

- Commercial property – Insures loss or damage to buildings, inventory, equipment and business income from causes of loss such as fire, wind, hail, water, theft and vandalism. Examples of property we commonly insure with excess and surplus lines policies include temporarily vacant buildings, restaurants and relatively higher-hazard manufacturing classes.

At the end of 2010, we marketed excess and surplus lines insurance products in 38 of the 39 states in which we offer standard market commercial lines insurance. Offering excess and surplus lines helps agencies representing The Cincinnati Insurance Companies meet the insurance needs of their clients when coverage is unavailable in the standard market. By providing outstanding service, we can help agencies grow and prosper while also profitably growing our property casualty business.

In 2010, our 10 highest volume excess and surplus lines states generated 65.1 percent of our earned premiums compared with 74.2 percent in the prior year.

Excess and Surplus Lines Earned Premiums by State

(Dollars in millions)	Earned premiums	% of total earned	
Year ended December 31, 2010			
Ohio	$7	13.2	%
Indiana	5	11.0	
Illinois	4	8.3	
Georgia	4	7.3	
Missouri	2	4.7	
Michigan	2	4.7	
Pennsylvania	2	4.2	
North Carolina	2	4.1	
Texas	2	3.9	
Kentucky	2	3.7	
Year ended December 31, 2009			
Ohio	$4	16.4	%
Indiana	4	13.8	
Illinois	3	11.5	
Georgia	2	8.3	
Michigan	1	5.3	
North Carolina	1	4.8	
Missouri	1	3.9	
Wisconsin	1	3.7	
Minnesota	1	3.3	
Virginia	1	3.2	

Agencies representing The Cincinnati Insurance Companies write over $2 billion in annual premiums for excess and surplus lines business for all carriers in total that they represent. We estimate that approximately half of that premium volume matches the targeted business types and coverages we offer through our excess and surplus lines segment. We structured the operations of this segment to meet the needs of these agencies and market exclusively through them.

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

We seek to earn a share of each agency's best excess and surplus lines accounts by offering several unique benefits. Agency producers have direct access through CSU Producer Resources to a group of our underwriters who focus exclusively on excess and surplus lines business. Those underwriters can tap into agencies' broader Cincinnati relationships to bring their policyholders services such as experienced and responsive loss control and claims handling. CSU Producer Resources gives extra support to our producers by remitting surplus lines taxes and stamping fees and retaining admitted market diligent search affidavits, where required. Agencies marketing through CSU Producer Resources generally receive a higher commission because use of our internal brokerage subsidiary eliminates some of the intermediary costs. This business is also factored in their profit-sharing agreement with The Cincinnati Insurance Companies.

We use a web-based excess and surplus lines policy administration system to quote, bind, issue and deliver policies electronically to agents. This system also provides integration to existing document management and data management systems, allowing for real-time processing of policies and billing. It provides a specimen policy detailing coverages when a policy is quoted and delivers electronic copies of policies to producers within minutes of underwriting approval and policy issue. In 2010, more than 95 percent of policies were issued within 24 hours of a request to bind a policy. Also in 2010, we received the Celent Model Insurer Award, recognizing our efficient use of technology. We successfully leveraged our policy administration system to quickly enter a new market, developing our miscellaneous errors and omissions product in only three months and then issuing the first 50 policies within two weeks.

Life Insurance Segment

The life insurance segment contributed $158 million of net earned premiums, representing 4.2 percent of consolidated total revenues, and $7 million of income before income taxes in 2010. Life insurance segment profitability is discussed in detail in Item 7, Life Insurance Results of Operations, Page 73. Life insurance net earned premiums grew 10 percent in 2010, 13 percent in 2009 and less than 1 percent in 2008.

The Cincinnati Life Insurance Company supports our agency-centered business model. Cincinnati Life helps meet the needs of our agencies, including increasing and diversifying agency revenues. We primarily focus on life products that produce revenue growth through a steady stream of premium payments. By diversifying revenue and profitability for both the agency and our company, this strategy enhances the already strong relationship built by the combination of the property casualty and life companies.

Life Insurance Business Lines

Four lines of business – term insurance, universal life insurance, worksite products and whole life insurance – account for approximately 96.9 percent of the life insurance segment's revenues:

- Term insurance – policies under which a death benefit is payable only if the insured dies during a specific period of time. For policies without a return of premium provision, no benefit is payable if the insured person survives to the end of the term. For policies inforce with a return of premium provision, a benefit equal to the sum of all paid base premiums is payable if the insured person survives to the end of the term. Premiums are fixed and they must be paid as scheduled. The policies are fully underwritten.

- Universal life insurance – long-duration life insurance policies. Contract premiums are neither fixed nor guaranteed; however, the contract does specify a minimum interest crediting rate and a maximum cost of insurance charge and expense charge. Premiums are not fixed and may be varied by the contract owner. The cash values, available as a loan collateralized by the cash surrender value, are not guaranteed and depend on the amount and timing of actual premium payments and the amount of actual contract assessments. The policies are fully underwritten. Contracts with death benefit guarantees are available for individuals as well as for two lives on contracts called survivor universal life.

- Worksite products – term insurance, return of premium term insurance, whole life insurance, universal life and disability insurance offered to employees through their employer. Premiums are collected by the employer using payroll deduction. Policies are issued using a simplified underwriting approach and on a guaranteed issue basis. Worksite insurance products provide our property casualty agency force with excellent cross-serving opportunities for both commercial and personal accounts. Agents report that offering worksite marketing to employees of their commercial accounts provides a benefit to the employees at no cost to the employer. Worksite marketing also connects agents with new customers who may not have previously benefited from receiving the services of a professional independent insurance agent.

- Whole life insurance – policies that provide life insurance for the entire lifetime of the insured. The death benefit is guaranteed never to decrease and premiums are guaranteed never to increase. While premiums are fixed, they must be paid as scheduled. These policies provide guaranteed cash values that are available as loans collateralized by the cash surrender value. The policies are fully underwritten.

In addition, Cincinnati Life markets:

- Disability income insurance that provides monthly benefits to offset the loss of income when the insured person is unable to work due to accident or illness.

- Deferred annuities that provide regular income payments that commence after the end of a specified period or when the annuitant attains a specified age. During the deferral period, any payments made under the contract accumulate at the crediting rate declared by the company but not less than a contract-specified guaranteed minimum interest rate. A deferred annuity may be surrendered during the deferral period for a cash value equal to the accumulated payments plus interest less the surrender charge, if any.

- Immediate annuities that provide some combination of regular income and lump sum payments in exchange for a single premium.

Life Insurance Distribution

Cincinnati Life seeks to become the life insurance carrier of choice for the independent agencies that work with our property casualty operations. We emphasize up-to-date products, responsive underwriting and high quality service as well as competitive commissions. At year-end 2010, almost 90 percent of our 1,544 property casualty reporting agency locations offered Cincinnati Life's products to their clients. We also develop life business from approximately 500 other independent life insurance agencies. We are careful to solicit business from these other agencies in a manner that does not conflict with or compete with the marketing and sales efforts of our property casualty agencies.

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

- Because our property casualty operations are held in high regard, property casualty agency management is predisposed to consider selling our life products.

- Marketing efforts for both our property casualty and life insurance businesses are directed by our field marketing department, which assures consistency of communication and operations. Life field marketing representatives are available to meet face-to-face with agency personnel and their clients as well.

- Our life headquarters underwriters and other associates are available to the agents and field team to assist in the placement of business. Fewer and fewer of our competitors provide direct, personal support between the agent and the insurance carrier.

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

- We primarily offer products addressing the needs of businesses with key person and buy-sell coverages. We offer personal and commercial clients of our agencies quality, personal life insurance coverage.

- Term insurance is our largest life insurance product line. We continue to introduce new term products with features our agents indicate are important, such as a return of premium benefit, and we have restructured our underwriting classifications to better meet the needs of their clients.

Because of our strong capital position, we can offer a competitive product portfolio including guaranteed products, giving our agents a marketing edge. Our life insurance company maintains strong insurer financial strength ratings: A.M. Best – A (Excellent), Fitch – A+ (Strong) and Standard & Poor's – A (Strong), as discussed in Financial Strength, Page 5. Our life insurance company has chosen not to establish a Moody's rating.

Investment Segment

Revenues of the investment segment are primarily from net investment income and from realized investment gains and losses from investment portfolios managed for the holding company and each of the operating subsidiaries.

Our investment department operates under guidelines set forth in our investment policy statement along with oversight of the investment committee of our board of directors. These guidelines set parameters for risk tolerances governing, among other items, the allocation of the portfolio as well as security and sector concentrations. These parameters are part of an integrated corporate risk management program.

The fair value of our investment portfolio was $11.424 billion and $10.562 billion at year-end 2010 and 2009, respectively. The overall portfolio remained in an unrealized gain position as strong returns in the equity and corporate bond markets more than offset a decline in the municipal bond market.

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

- Fixed-maturity investments – Includes taxable and tax-exempt bonds and redeemable preferred stocks. During 2010 and 2009, purchases and market value gains served to more than offset sales and calls.

- Equity investments – Includes common and nonredeemable preferred stocks. During 2010, purchases and fair value gains more than offset sales. During 2009, sales slightly offset fair value appreciation of equity securities.

- Short-term investments – Primarily commercial paper.

(In millions)	At December 31, 2010				At December 31, 2009			
	Book value	% of BV	Fair value	% of FV	Book value	% of BV	Fair value	% of FV
Taxable fixed maturities	$5,139	50.5 %	$5,533	48.4 %	$4,644	48.6 %	$4,863	46.0 %
Tax-exempt fixed maturities	2,749	27.0	2,850	25.0	2,870	30.1	2,992	28.3
Common equities	2,211	21.7	2,940	25.7	1,941	20.4	2,608	24.7
Preferred equities	75	0.8	101	0.9	75	0.8	93	0.9
Short-term investments	0	0.0	0	0.0	6	0.1	6	0.1

Total	$10,174	100.0 %	$11,424	100.0 %	$9,536	100.0 %	$10,562	100.0 %

We actively determine the portion of new cash flow to be invested in fixed-maturity and equity securities at the parent and insurance subsidiary levels. During 2010, approximately one-quarter of new cash flow was invested in equity securities, consistent with our long-term average. We consider internal measures, as well as insurance department regulations and rating agency guidance. We monitor a variety of metrics, including after-tax yields, the ratio of investments in common stocks to statutory surplus for the property casualty and life insurance operations, and the parent company's ratio of investment assets to total assets.

At year-end 2010, less than 1 percent of the value of our investment portfolio was made up of securities that do not actively trade on a public market and require management's judgment to develop pricing or valuation techniques (Level 3 assets). We generally obtain at least two outside valuations for these assets and generally use the more conservative estimate. These investments include private placements, small issues and various thinly traded securities. See Item 7, Fair Value Measurements, Page 46, and Item 8, Note 3 of the Consolidated Financial Statements Page 114, for additional discussion of our valuation techniques.

In addition to securities held in our investment portfolio, at year-end 2010, other invested assets included $40 million of life policy loans, $28 million of venture capital fund investments, $5 million of investment in real estate and $11 million of other invested assets.

Fixed-maturity and Short-term Investments

By maintaining a well diversified fixed-maturity portfolio, we attempt to manage overall interest rate, reinvestment, credit and liquidity risk. We pursue a buy-and-hold strategy and do not attempt to make large-scale changes to the portfolio in anticipation of rate movements. By investing new money on a regular basis and analyzing risk-adjusted after-tax yields, we work to achieve a laddering effect to our portfolio that may mitigate some of the effects of adverse interest rate movements.

Fixed-maturity and Short-term Portfolio Ratings

As of year-end 2010, this portfolio's fair value was 106.3 percent of book value, up from last year due to both a decline in the general level of treasury rates and a continued tightening of credit spreads.

The portfolio grew in 2010 due to a large volume of purchases. These purchases were most concentrated in the investment grade corporate bond market. Although the average rating of our bond portfolio remained unchanged, the number of bonds rated Aaa/AAA decreased and the number of bonds rated Aa/AA increased. The rating distribution change was driven by net redemptions of U.S. agency (government-sponsored enterprises) bonds due to call activity and an increase in purchases of Build America Bonds. The majority of our non-rated securities are tax-exempt municipal bonds from smaller municipalities that chose not to pursue a credit rating. Credit ratings at year-end 2010 for the fixed-maturity and short-term portfolios were:

(In millions)	At December 31, 2010			At December 31, 2009		
	Fair value	Percent of total		Fair value	Percent of total	
Moody's Ratings and Standard & Poor's Ratings combined:						
Aaa, Aa, A, AAA, AA, A	$5,216	62.2	%	$4,967	63.2	%
Baa, BBB	2,656	31.7		2,302	29.3	
Ba, BB	241	2.9		279	3.5	
B, B	42	0.5		44	0.6	
Caa, CCC	19	0.2		29	0.4	
Ca, CC	0	0.0		3	0.0	
Daa, Da, D	1	0.0		0	0.0	
Non-rated	208	2.5		237	3.0	
Total	$8,383	100.0	%	$7,861	100.0	%

Our fixed-maturity portfolio as of December 31, 2010, included approximate maturing amounts with pretax average yields-to-book value as follows: 3.4 percent maturing in 2011 with a 5.9 percent yield, 5.4 percent in 2012 with a 5.5 percent yield, and 8.6 in 2013 percent with a 4.7 percent yield, Additional maturity periods for our fixed-maturity portfolio are shown in Item 8, Note 2 of the Consolidated Financial Statements, Page 111. Attributes of the fixed-maturity portfolio include:

	At December 31, 2010		2009	
Weighted average yield-to-book value	5.5	%	5.9	%
Weighted average maturity	6.2	yrs	7.5	yrs
Effective duration	5.0	yrs	5.3	yrs

Taxable Fixed Maturities

Our $5.533 billion taxable fixed-maturity portfolio (at fair value) at year-end included:

(In millions)	At December 31, 2010	2009

Investment-grade corporate	$4,695	$3,941
States, municipalities and political subdivisions	293	137
Below investment-grade corporate	268	309
Government sponsored enterprises	200	347
Convertibles and bonds with warrants attached	69	91
United States government	5	4
Foreign government	3	3
Collateralized mortgage obligations	-	31
Short-term investments	-	6
Total	$5,533	$4,869

While our strategy typically is to buy and hold fixed-maturity investments to maturity, we monitor credit profiles and fair value movements when determining holding periods for individual securities. With the exception of U.S. agency issues, no individual issuer's securities accounted for more than 1.1 percent of the taxable fixed-maturity portfolio at year-end 2010. Investment grade corporate bonds had an average rating of Baa1 by Moody’s or BBB+ by Standard & Poor’s and represented 84.8 percent of the taxable fixed maturity portfolio’s fair value at year end 2010, compared with 80.9 percent in 2009.

The investment-grade corporate bond portfolio is most heavily concentrated in the financial-related sectors, including banking, financial services and insurance. The financial sectors represented 28.9 percent of fair value of this portfolio at year-end 2010, compared with 25.3 percent, at year-end 2009. Although the financial-related sectors make up our largest group of investment-grade corporate bonds, we believe our concentration is below the average for the corporate bond market as a whole. Energy was the only other sector that exceeded 10 percent of our investment-grade corporate bond portfolio, at 10.0 percent of fair value at year-end 2010.

Most of the $293 million of securities issued by states, municipalities and political subdivisions securities included in our taxable fixed maturity portfolio at the end of 2010 were Build America Bonds.

Tax-exempt Fixed Maturities

Our tax-exempt fixed maturity portfolio's fair value was $2.850 billion at December 31, 2010. We traditionally have purchased municipal bonds focusing on general obligation and essential services, such as sewer, water or others. The portfolio is well diversified among approximately 1,000 municipal bond issuers. No single municipal issuer accounted for more than 0.7 percent of the tax-exempt fixed maturity portfolio at year-end 2010. Municipal bond holdings in our larger states were:

(In millions) At December 31, 2010	State issued general obligation bonds	Local issued general obligation bonds	Special revenue bonds	Total	Percent of total
Texas	$ -	$ 425	$ 107	$ 532	18.7 %
Indiana	-	21	328	349	12.2
Michigan	-	245	12	257	9.0
Illinois	-	219	23	242	8.5
Ohio	-	131	107	238	8.4
Washington	-	166	32	198	6.9
Wisconsin	-	116	19	135	4.7
Florida	-	19	67	86	3.0
Pennsylvania	-	67	9	76	2.7
Arizona	-	46	30	76	2.7
Colorado	-	37	15	52	1.8
New Jersey	-	28	17	45	1.6
Kansas	-	24	20	44	1.5
New York	3	15	21	39	1.4
Utah	-	20	17	37	1.3
All other states	-	233	211	444	15.6
Total	$ 3	$ 1,812	$ 1,035	$ 2,850	100.0 %
At December 31, 2009					
Texas	$ -	$ 455	$ 112	$ 567	19.0 %
Indiana	-	21	356	377	12.6
Michigan	-	246	15	261	8.7
Illinois	-	223	28	251	8.4
Ohio	-	128	105	233	7.8
Washington	-	170	39	209	7.0
Wisconsin	-	130	20	150	5.0
Florida	-	19	69	88	2.9
Arizona	-	46	32	78	2.6
Pennsylvania	-	67	10	77	2.6
Colorado	-	37	16	53	1.8
Kansas	-	23	21	44	1.5
New Jersey	-	25	17	42	1.4

Missouri		-		19		21		40	1.3	
New York		3		13		22		38	1.3	
All other states		-		263		221		484	16.1	
Total	$	3	$	1,885	$	1,104	$	2,992	100.0	%

At year-end 2010, our tax-exempt fixed maturity portfolio, with a fair value of $2.850 billion, had an average rating of Aa2/AA. Almost 80 percent or $2.245 billion of the portfolio is insured, and approximately 93 percent of the insured portion carried an underlying rating of at least A3 or A- by Moody’s or Standard & Poor’s at year end. We strongly prefer general obligation or essential services bonds, which we believe provide a superior risk profile.

Equity Investments

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

Common Stocks

Our cash allocation for common stock purchases is implemented only after we ensure that insurance reserves are adequately covered by our fixed-maturity investments. We believe our strategy of primarily investing in a diversified selection of larger capitalization, high quality, dividend-increasing companies generally results in reduced volatility relative to the broader equity markets.

At December 31, 2010, one holding had a fair value equal to or greater than 5 percent of our publicly traded common stock portfolio compared with two holdings at that level at year-end 2009. The Procter & Gamble Company (NYSE:PG) is our largest single common stock investment, comprising 5.2 percent of the publicly traded common stock portfolio and 1.3 percent of the investment portfolio.

At year-end 2010, 26.0 percent of our common stock holdings (measured by fair value) were held at the parent company level.

Common Stock Portfolio Industry Sector Distribution

	Percent of Publicly Traded Common Stock Portfolio							
	At December 31, 2010				At December 31, 2009			
	Cincinnati Financial		S&P 500 Industry Weightings		Cincinnati Financial		S&P 500 Industry Weightings	
Sector:								
Consumer staples	15.4	%	10.6	%	15.5	%	11.4	%
Healthcare	14.1		10.9		18.0		12.6	
Information technology	13.0		18.7		11.0		19.8	
Energy	12.9		12.0		11.0		11.5	
Industrials	11.7		11.0		9.2		10.2	
Financial	11.7		16.1		10.2		14.4	
Consumer discretionary	8.3		10.6		9.6		9.6	
Materials	5.2		3.7		5.1		3.6	
Utilities	4.2		3.3		6.7		3.7	
Telecomm services	3.5		3.1		3.7		3.2	
Total	100.0	%	100.0	%	100.0	%	100.0	%

Preferred Stocks

We evaluate preferred stocks in a manner similar to our evaluation of fixed-maturity investments, seeking attractive relative yields. We generally focus on investment-grade preferred stocks issued by companies with strong histories of paying common dividends, providing us with another layer of protection. When possible, we seek out preferred stocks that offer a dividend received deduction for income tax purposes. Events in the fall of 2008 and into early 2009 led us to re-evaluate the riskiness of all preferred securities, particularly those of banking institutions. As a result, during 2009 we downsized this portfolio by $82 million of fair value to $93 million. We made no additional purchases or sales for this portfolio during 2010.

Short-Term Investments

At December 31, 2010, we had no short-term investments, compared with $6 million at year-end 2009. Our short-term investments consisted primarily of commercial paper, demand notes or bonds purchased within one year of maturity.

Additional information about the composition of investments is included in Item 8, Note 2 of the Consolidated Financial Statements, Page 111. A detailed listing of our portfolio is updated on our website, www.cinfin.com/investors, each quarter when we report our quarterly financial results.

Other

We report as Other the non-investment operations of the parent company and its subsidiary CFC Investment Company. This subsidiary offers commercial leasing and financing services to our agencies, their clients and other customers. As of year-end 2010, CFC Investment Company had 2,227 accounts and $73 million in receivables, compared with 2,286 accounts and $75 million in receivables at year-end 2009.

Regulation

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

- Insurance Holding Company Regulation – We are regulated as an insurance holding company system in the respective states of domicile of our standard market property casualty company subsidiary and its surplus lines and life insurance subsidiaries. These regulations require that we annually furnish financial and other information about the operations of the individual companies within the holding company system. All transactions within a holding company affecting insurers must be fair and equitable. Notice to the state insurance commissioner is required prior to the consummation of transactions affecting the ownership or control of an insurer and prior to certain material transactions between an insurer and any person or entity in its holding company group. In addition, some of those transactions cannot be consummated without the commissioner's prior approval.

- Subsidiary Dividends – The Cincinnati Insurance Company is 100 percent owned by Cincinnati Financial Corporation. The dividend-paying capacity of The Cincinnati Insurance Company and its 100 percent owned subsidiaries is regulated by the laws of the applicable state of domicile. Under these laws, our insurance subsidiaries must provide a 10-day advance informational notice to the insurance commissioner for the domiciliary state prior to payment of any dividend or distribution to its shareholders. Generally, the most our insurance subsidiary can pay without prior regulatory approval is the greater of 10 percent of policyholder surplus or 100 percent of statutory net income for the prior calendar year. Dividends exceeding these limitations may be paid only with approval of the insurance department of the domiciliary state.

The insurance company subsidiaries must give 30 days notice to and obtain prior approval from the state insurance commissioner before the payment of an extraordinary dividend as defined by the state's insurance code. You can find information about the dividends paid by our insurance subsidiary in 2010 in Item 8, Note 9 of the Consolidated Financial Statements, Page 118.

- Insurance Operations – All of our insurance subsidiaries are subject to licensing and supervision by departments of insurance in the states in which they do business. The nature and extent of such regulations vary, but generally have their source in statutes that delegate regulatory, supervisory and administrative powers to state insurance departments. Such regulations, supervision and administration of the insurance subsidiaries include, among others, the standards of solvency that must be met and maintained; the licensing of insurers and their agents and brokers; the nature and limitations on investments; deposits of securities for the benefit of policyholders; regulation of standard market policy forms and premium rates; policy cancellations and non-renewals; periodic examination of the affairs of insurance companies; annual and other reports required to be filed on the financial condition of insurers or for other purposes; requirements regarding reserves for unearned premiums, losses and other matters; the nature of and limitations on dividends to policyholders and shareholders; the nature and extent of required participation in insurance guaranty funds; the involuntary assumption of hard-to-place or high-risk insurance business, primarily workers' compensation insurance; and the collection, remittance and reporting of certain taxes and fees. In 2010, our primary insurance regulators adopted the Model Audit Rule for annual statutory financial reporting. This regulation closely mirrors the Sarbanes-Oxley Act on matters such as auditor independence, corporate governance and internal controls over financial reporting. The regulation permits the audit committee of Cincinnati Financial Corporation's board of directors to also serve as the audit committee of each of our insurance subsidiaries for purposes of this regulation.

The legislative and regulatory climate in Florida continues to create uncertainty for the insurance industry. In February 2007, we adopted a marketing stance of continuing to service existing accounts while writing no new business relationships in Florida. This remained our stance through 2009, except in the lines of directors and officers, surety, machinery and equipment and life insurance, which we resumed writing in June 2007, subject to existing guidelines. In 2009, we cautiously resumed writing additional commercial lines new business while working to more actively manage the associated catastrophe risk, carefully underwriting new commercial submissions and non-renewing commercial and personal lines policies that present the most risk of loss because of their age, construction and geographic characteristics. In 2010, our property casualty net written premiums from Florida agencies were 1.7 percent of net written premiums, compared with 1.9 percent in 2009.

On August 24, 2007, the company received administrative subpoenas from the Florida Office of Insurance Regulation seeking documents and testimony concerning insurance for residential risks located in Florida and communications with reinsurers, risk modeling companies, rating agencies and insurance trade associations. We produced documents to respond to the subpoenas. The Office of Insurance Regulation canceled and has not rescheduled the hearing noticed in the subpoena for October 18, 2007. Although inactive, these subpoenas remain outstanding as of December 31, 2010. We continue to assess the changing insurance environment in Florida and hope to resume writing our complete portfolio of insurance products in the state as the market stabilizes.

- Insurance Guaranty Associations – Each state has insurance guaranty association laws under which the associations may assess life and property casualty insurers doing business in the state for certain obligations of insolvent insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the insurer's proportionate share of business written by all member insurers in the state. Our insurance companies received a savings of less than $3 million from guaranty associations in 2010 and a savings of less than $2 million in 2009. We cannot predict the amount and timing of any future assessments or refunds on our insurance subsidiaries under these laws.

- Shared Market and Joint Underwriting Plans – State insurance regulation requires insurers to participate in assigned risk plans, reinsurance facilities and joint underwriting associations, which are mechanisms that generally provide applicants with various basic insurance coverages when they are not available in voluntary markets. Such mechanisms are most commonly instituted for automobile and workers' compensation insurance, but many states also mandate participation in FAIR Plans or Windstorm Plans, which provide basic property coverages. Participation is based upon the amount of a company's voluntary market share in a particular state for the classes of insurance involved. Underwriting results related to these organizations could be adverse to our company.

- Statutory Accounting – For public reporting, insurance companies prepare financial statements in accordance with GAAP. However, certain data also must be calculated according to statutory accounting rules as defined in the NAIC's Accounting Practices and Procedures Manual. While not a substitute for any GAAP measure of performance, statutory data frequently is used by industry analysts and other recognized reporting sources to facilitate comparisons of the performance of insurance companies.

- Insurance Reserves – State insurance laws require that property casualty and life insurers annually analyze the adequacy of reserves. Our appointed actuaries must submit an opinion that reserves are adequate for policy claims-paying obligations and related expenses.

- Risk-Based Capital Requirements – The NAIC's risk-based capital (RBC) requirements for property casualty and life insurers serve as an early warning tool for the NAIC and state regulators to identify companies that may be undercapitalized and may merit further regulatory action. The NAIC has a standard formula for annually assessing RBC. The formula for calculating RBC for property casualty companies takes into account asset and credit risks but places more emphasis on underwriting factors for reserving and pricing. The formula for calculating RBC for life insurance companies takes into account factors relating to insurance, business, asset and interest rate risks.

Although the federal government and its regulatory agencies generally do not directly regulate the business of insurance, federal legislation and administrative rules adopted to implement them do affect our business. Privacy laws, such as the Gramm-Leach-Bliley Act, the Fair Credit Reporting Act and the Health Insurance Portability and Accounting Act (HIPAA) are the federal laws that most affect our day-to-day operations. These apply to us because we gather and use personal non-public information to underwrite insurance and process claims. We also are subject to other federal laws, such as the Terrorism Risk Insurance Act (TRIA), anti-money laundering statute (AML), and the rules and regulations of the Office of Foreign Assets Control (OFAC).

Title V of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) created the Federal Insurance Office to monitor the insurance industry and gather information to identify issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry of the United States financial system, and to recommend to the Financial Stability Oversight counsel that it designate an insurer as a systemically significant entity requiring additional supervision by the Federal Reserve Board. Although rules have not yet been proposed or implemented to govern the determination that a non-bank financial company, such as an insurance company, presents systemic risk, we do not expect such rules, when adopted, to result in federal oversight of our operations as a systemically significant entity.

We do not expect to have any material effects on our expenditures, earnings or competitive position as a result of compliance with any federal, state, or local provisions enacted or adopted relating to the protection of the environment. We currently do not have any material estimated capital expenditures for environmental control facilities.

Item 1A. Risk Factors

Our business involves various risks and uncertainties that may affect achievement of our business objectives. Many of the risks could have ramifications across our organization. For example, while risks related to setting insurance rates and establishing and adjusting loss reserves are insurance activities, errors in these areas could have an impact on our investment activities, growth and overall results.

The following discussion should be viewed as a starting point for understanding the significant risks we face. It is not a definitive summary of their potential impacts or of our strategies to manage and control the risks. Please see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Page 36, for a discussion of those strategies.

If any risks or uncertainties discussed here develop into actual events, they could have a material adverse effect on our business, financial condition or results of operations. In that case, the market price of our common stock could decline materially.

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

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

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

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

- Downgrade of the financial strength ratings of our insurance subsidiaries. We believe our strong insurer financial strength ratings, in particular the A+ (Superior) rating from A.M. Best for our standard market property casualty insurance subsidiaries, are an important competitive advantage. Ratings agencies could change or expand their requirements. If our property casualty ratings were to be downgraded, our agents might find it more difficult to market our products or might choose to emphasize the products of other carriers. See Item 1, Our Business and Our Strategy, Page 3, for additional discussion of our financial strength ratings.

- Concerns that doing business with us is difficult or not profitable, perceptions that our level of service is no longer a distinguishing characteristic in the marketplace, perceptions that our products do not meet the needs of our agents' clients or perceptions that our business practices are not compatible with agents' business models.

- Delays in the development, implementation, performance and benefits of technology projects and enhancements or independent agent perceptions that our technology solutions are inadequate to match their needs.

A reduction in the number of independent agencies marketing our products, the failure of agencies to successfully market our products or pay their accounts due to us, changes in the strategy or operations of agencies or the choice of agencies to reduce their writings of our products could affect our results of operations if we were unable to replace them with agencies that produce adequate and profitable premiums.

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

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

In the normal course of our business, we provide coverage against perils for which estimates of losses are highly uncertain, in particular catastrophic and terrorism events. Catastrophes can be caused by a number of events, including hurricanes, tornadoes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Due to the nature of these events, we are unable to predict precisely the frequency or potential cost of catastrophe occurrences. Various scientists and other experts believe that changing climate conditions have added to the unpredictability, frequency and severity of such natural disasters in certain parts of the world and have created additional uncertainty as to future trends and exposures. We cannot predict the impact that changing climate conditions may have on our results of operations nor can we predict how any legal, regulatory or social responses to concerns about climate change may impact our business.

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

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

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

The occurrence of terrorist attacks in the geographic areas we serve could result in substantially higher claims under our insurance policies than we have anticipated. While we do insure terrorism risk in all areas we serve, we have identified our major terrorism exposure as general commercial risks in the metropolitan Chicago area, small co-op utilities, small shopping malls and small colleges throughout our 39 active states and, because of the number of associates located there, our Fairfield headquarters. Additionally, our life insurance subsidiary could be adversely affected in the event of a terrorist event or an epidemic such as the avian or swine flu, particularly if the epidemic were to affect a broad range of the population beyond just the very young or the very old. Our associate health plan is self-funded and could similarly be affected.

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

Our geographic concentration ties our performance to business, economic, environmental and regulatory conditions in certain states. We market our standard market property casualty insurance products in 39 states, but our business is concentrated in the Midwest and Southeast. We also have exposure in states where we do not actively market insurance when clients of our independent agencies have businesses or properties in multiple states.

The Cincinnati Insurance Company also participates in three assumed reinsurance treaties with two reinsurers that spread the risk of very high catastrophe losses among many insurers. In 2010, the largest treaty had exposure of up to \$7 million of assumed losses in three layers, from \$1.0 billion to \$1.7 billion, from a single event under an assumed reinsurance treaty for Munich Re Group. Amounts related to the other two treaties are immaterial.

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

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

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

Investment income is an important component of our revenues and net income. The ability to increase investment income and generate longer-term growth in book value is affected by factors beyond our control, such as inflation; economic growth; interest rates; world political conditions; changes in laws and regulations; terrorism attacks or threats; adverse events affecting other companies in our industry or the industries in which we invest; market events leading to credit constriction; and other widespread unpredictable events. These events may adversely affect the economy generally and could cause our investment income or the value of securities we own to decrease. A significant decline in our investment income could have an adverse effect on our net income, and thereby on our shareholders' equity and our policyholders' surplus. For example, a significant increase in the general level of interest rates could lead to falling bond values. For more detailed discussion of risks associated with our investments, please refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risk, Page 93.

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

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

At year-end 2010, common stock holdings made up 25.5 percent of our invested assets. Adverse news or events affecting the global or U.S. economy or the equity markets could affect our net income, book value and overall results, as well as our ability to pay our common stock dividend. See Item 7, Investments Results of Operations, Page 75, and Item 7A, Quantitative and Qualitative Disclosures About Market Risk, Page 93, for discussion of our investment activities.

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

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

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

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

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

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

To properly price our products, we must collect, properly analyze and use data to make decisions and take appropriate action; the data must be sufficient, reliable and accessible; we need to develop appropriate rating methodologies and formulae; and we may need to identify and respond to trends quickly. Inflation trends, especially outside of historical norms, may make it more difficult to determine adequate pricing. If rates are not accurate, we may not generate enough premiums to offset losses and expenses or we may not be competitive in the marketplace.

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

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

- Competitiveness of premiums charged
- Relationships among carriers, agents, brokers and policyholders
- Underwriting and pricing methodologies that allow insurers to identify and flexibly price risks
- Compensation provided to agents
- Underwriting discipline

- Terms and conditions of insurance coverage
- Speed with which products are brought to market
- Product and marketing innovations, including advertising
- Technological competence and innovation
- Ability to control expenses
- Adequacy of financial strength ratings by independent ratings agencies such as A.M. Best
- Quality of services provided to agents and policyholders
- Claims satisfaction and reputation

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

Please see the discussion of our Commercial Lines, Personal Lines, Excess and Surplus Lines and Life Insurance Segments in Item 1, Page 12, Page 15 and Page 16, for a discussion of our competitive position in the insurance marketplace.

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

Our consolidated financial statements are prepared using GAAP. These principles require us to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. Actual results could differ materially from those estimates. For a discussion of the significant accounting policies we use to prepare our financial statements and the material implications of uncertainties associated with the methods, assumptions and estimates underlying our critical accounting policies, please refer to Item 8, Note 1 of the Consolidated Financial Statements, Page 105, and Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves and Life Insurance Policy Reserves, Page 41 and Page 44.

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

The process used to determine our loss reserves is discussed in Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves and Life Insurance Policy Reserves, Page 41 and Page 44.

Unforeseen losses, the type and magnitude of which we cannot predict, may emerge in the future. These additional losses could arise from changes in the legal environment, laws and regulations, climate change, catastrophic events, increases in loss severity or frequency, or other causes. Such future losses could be substantial. Inflationary scenarios may cause the cost of claims, especially medical claims, to rise, impacting reserve adequacy and our results of operations.

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

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

In addition, we are subject to credit risk with respect to our reinsurers. Although we purchase reinsurance to manage our risks and exposures to losses, this reinsurance does not discharge our direct obligations under the policies we write. We would remain liable to our policyholders even if we were unable to recover what we believe we are entitled to receive under our reinsurance contracts. Reinsurers might refuse or fail to pay losses that we cede to them, or they might delay payment. For long-tail claims, the creditworthiness of our reinsurers may change before we can recover amounts to which we are entitled. A reinsurer’s insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement with our insurance subsidiaries could have a material adverse effect on our financial position, results of operations and cash flows.

We participated in USAIG, a joint underwriting association of individual insurance companies that collectively functions as a worldwide insurance market for all types of aviation and aerospace accounts. Our participation was terminated after policy year 2002. At year-end 2010, 19 percent, or $110 million, of our total reinsurance receivables were related to USAIG, primarily for events of September 11, 2001, offset by $118 million of amounts ceded to other pool participants and reinsurers. If the pool participants and reinsurers were unable to fulfill their financial obligations and all security collateral that supports the participants' obligations became worthless, we could be liable for an additional pool liability of $230 million and our financial position and results of operations could be materially affected. Currently all pool participants and reinsurers are financially solvent.

Please see Item 7, 2011 Reinsurance Programs, Page 90, for a discussion of our reinsurance treaties.

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

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

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

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

We are required to adopt new or revised accounting standards issued by recognized authoritative organizations, including the Financial Accounting Standards Board and the SEC. Future changes required to be adopted could change the current accounting treatment that we apply and could result in material adverse effects on our results of operations and financial condition.

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

Federal laws and regulations, including those that may be enacted in the wake of the financial and credit crises, may have adverse affects on our business, potentially including a change from a state-based system of regulation to a system of federal regulation, the repeal of the McCarran Ferguson Act, and/or measures under the Dodd-Frank Act that establish the Federal Insurance Office and provide for a determination that a non-bank financial company presents systemic risk and therefore should be subject to heightened supervision by the Federal Reserve Board. Adoption or implementation of any of these measures may restrict our ability to conduct our insurance business, govern our corporate affairs or increase our cost of doing business.

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

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

While technology can streamline many business processes and ultimately reduce the cost of operations, technology initiatives present short-term cost, and also have implementation and operational risks. In addition, we may have inaccurate expense projections, implementation schedules or expectations regarding the effectiveness and user acceptance of the end product. These issues could escalate over time. If we were unable to find and retain employees with key technical knowledge, our ability to develop and deploy key technology solutions could be hampered.

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

Please see Item 1, Strategic Initiatives, Page 9 for a discussion of our technology initiatives.

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

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

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

Please see Item 1, Regulation, Page 22, and Item 8, Note 9 of the Consolidated Financial Statements, Page 118, for discussion of insurance holding company dividend regulations.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Cincinnati Financial Corporation owns our headquarters building located on 100 acres of land in Fairfield, Ohio. This building has approximately 1,508,200 total square feet of available space. The property, including land, is carried in our financial statements at $159 million as of December 31, 2010, and is classified as land, building and equipment, net, for company use. John J. & Thomas R. Schiff & Co. Inc., a related party, occupies approximately 6,750 square feet (less than 1 percent).

Cincinnati Financial Corporation also owns the Fairfield Executive Center, which is located on the northwest corner of our headquarters property. This four-story office building has approximately 124,000 square feet of available space. The property is carried in the financial statements at $5 million as of December 31, 2010, and is classified as an other invested asset. Unaffiliated tenants occupy approximately 5 percent. All unoccupied space is currently available for lease.

The Cincinnati Insurance Company owns a building used for business continuity, with approximately 48,000 square feet of available space, located approximately six miles from our headquarters. The property, including land, is carried on our financial statements at $11 million as of December 31, 2010, and is classified as land, building and equipment, net, for company use.

Item 3. Legal Proceedings

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

Item 4. (Removed and Reserved)

Part II

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

Cincinnati Financial Corporation had approximately 13,000 shareholders of record as of December 31, 2010. This number does not represent the total number of shareholders because some shares are beneficially held in "street name" by brokers and others on behalf of individual owners of our shares. Many of our independent agent representatives and most of the 4,060 associates of our subsidiaries own the company's common stock.

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

(Source: Nasdaq Global Select Market)	2010				2009			
Quarter:	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High	$ 29.65	$ 30.38	$ 29.39	$ 32.27	$ 29.66	$ 26.94	$ 26.31	$ 26.89
Low	25.50	25.65	25.25	28.68	17.84	21.40	21.30	25.05
Period-end close	28.91	25.87	28.82	31.69	22.87	22.35	25.99	26.24
Cash dividends declared	0.395	0.395	0.40	0.40	0.39	0.39	0.395	0.395

We discuss the factors that affect our ability to pay cash dividends and repurchase shares in Item 7, Liquidity and Capital Resources, Page 78. One factor we address is regulatory restrictions on the dividends our insurance subsidiary can pay to the parent company, which also is discussed in Item 8, Note 9 of the Consolidated Financial Statements, Page 118.

The following summarizes securities authorized for issuance under our equity compensation plans as of December 31, 2010:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights at December 31, 2010 (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) at December 31, 2010 (c)
Equity compensation plans approved by security holders	9,689,800	$ 36.59	5,980,147
Equity compensation plans not approved by security holders	-	-	-
Total	9,689,800	$ 36.59	5,980,147

The number of securities remaining available for future issuance includes: 5,627,553 shares available for issuance under the Cincinnati Financial Corporation 2006 Stock Compensation Plan, which can be issued as stock options, service-based, or performance-based restricted stock units, stock appreciation rights or other equity-based grants; 83,904 shares of stock options available for issuance under the Cincinnati Financial Corporation Stock Option Plan VII and 268,690 shares available for issuance of share grants under the Director's Stock Plan of 2009. Additional information about stock-based associate compensation granted under our equity compensation plans is available in Item 8, Note 17 of the Consolidated Financial Statements, Page 125.

Period	Total number of shares	Average price paid	Total number of shares purchased as part of	Maximum number of shares that may yet be

	purchased	per share	publicly announced plans or programs	purchased under the plans or programs
January 1-31, 2010	0	$ 0.00	0	9,044,097
February 1-28, 2010	0	0.00	0	9,044,097
March 1-31, 2010	0	0.00	0	9,044,097
April 1-30, 2010	0	0.00	0	9,044,097
May 1-31, 2010	332,748	26.49	332,748	8,711,349
June 1-30, 2010	45,000	26.49	45,000	8,666,349
July 1-31, 2010	0	0.00	0	8,666,349
August 1-31, 2010	0	0.00	0	8,666,349
September 1-30, 2010	0	0.00	0	8,666,349
October 1-31, 2010	0	0.00	0	8,666,349
November 1-30, 2010	0	0.00	0	8,666,349
December 1-31, 2010	0	0.00	0	8,666,349
Totals	377,748	26.49	377,748	

We did not sell any of our shares that were not registered under the Securities Act during 2010. The board of directors has authorized share repurchases since 1996. 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, subject to U.S. Securities and Exchange Commission (SEC) regulations. During 2010, we repurchased 377,748 shares at an average cost of $26.49 per share.

On October 24, 2007, the board of directors expanded the existing repurchase authorization to approximately 13 million shares. The prior repurchase program for 10 million shares was announced in 2005, replacing a program that had been in effect since 1999. No repurchase program has expired during the period covered by the above table. Neither the 2005 nor 1999 program had an expiration date, but no further repurchases will occur under the 1999 program.

Cumulative Total Return

As depicted in the graph below, the five–year total return on a $100 investment made December 31, 2005, assuming the reinvestment of all dividends, was a negative 10.3 percent for Cincinnati Financial Corporation's common stock compared with a negative 12.9 percent for the Standard & Poor's Composite 1500 Property & Casualty Insurance Index and a 12.0 percent return for the Standard & Poor's 500 Index.

The Standard & Poor's Composite 1500 Property & Casualty Insurance Index includes 25 companies: Ace Ltd., Allstate Corporation, Amerisafe Inc., W. R. Berkley Corporation, Berkshire Hathaway, Chubb Corporation, Cincinnati Financial Corporation, Employers Holdings Inc., Fidelity National Financial Inc., First American Financial Corporation, Hanover Insurance Group Inc., Infinity Property & Casualty Corporation, Mercury General Corporation, Navigators Group Inc., Old Republic International Corporation, Proassurance Corporation, Progressive Corporation, RLI Corporation, Safety Insurance Group Inc., Selective Insurance Group Inc., Stewart Information Services, Tower Group Inc., Travelers Companies Inc., United Fire & Casualty Company and XL Capital Ltd.

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

Item 6. Selected Financial Data

(In millions except per share data)	Years ended December 31, 2010	2009	2008	2007
Consolidated Income Statement Data				
Earned premiums	$3,082	$3,054	$3,136	$3,250
Investment income, net of expenses	518	501	537	608
Realized investment gains and losses*	159	336	138	382
Total revenues	3,772	3,903	3,824	4,259
Net income	377	432	429	855
Net income per common share:				
Basic	$2.32	$2.66	$2.63	$5.01
Diluted	2.31	2.65	2.62	4.97
Cash dividends per common share:				
Declared	1.59	1.57	1.56	1.42
Paid	1.585	1.565	1.525	1.40
Shares Outstanding				
Weighted average, diluted	163	163	163	172
Consolidated Balance Sheet Data				
Invested assets	$11,508	$10,643	$8,890	$12,261
Deferred policy acquisition costs	488	481	509	461
Total assets	15,095	14,440	13,369	16,637
Gross loss and loss expense reserves	4,200	4,142	4,086	3,967
Life policy reserves	2,034	1,783	1,551	1,478
Long-term debt	790	790	791	791
Shareholders' equity	5,032	4,760	4,182	5,929
Book value per share	30.91	29.25	25.75	35.70
Value creation ratio	11.1 %	19.7 %	(23.5) %	(5.7) %
Consolidated Property Casualty Operations				
Earned premiums	$2,924	$2,911	$3,010	$3,125
Unearned premiums	1,551	1,507	1,542	1,562
Gross loss and loss expense reserves	4,137	4,096	4,040	3,925
Investment income, net of expenses	348	336	350	393
Loss ratio	56.5 %	58.6 %	57.7 %	46.6 %
Loss expense ratio	12.4	13.1	10.6	12.0
Underwriting expense ratio	32.8	32.8	32.3	31.7
Combined ratio	101.7 %	104.5 %	100.6 %	90.3 %

Per share data adjusted to reflect all stock splits and dividends prior to December 31, 2010.

* Realized investment gains and losses are integral to our financial results over the long term, but our substantial discretion in the timing of investment sales may cause this value to fluctuate substantially. Also, applicable accounting standards require us to recognize gains and losses from certain changes in fair values of securities and embedded derivatives without actual realization of those gains and losses. We discuss realized investment gains for the past three years in Item 7, Investments Results of Operations, Page 75.

2006	2005	2004	2003	2002	2001	2000
$3,278	$3,164	$3,020	$2,748	$2,478	$2,152	$1,907
570	526	492	465	445	421	415
684	61	91	(41)	(94)	(25)	(2)
4,550	3,767	3,614	3,181	2,843	2,561	2,331
930	602	584	374	238	193	118
$5.36	$3.44	$3.30	$2.11	$1.33	$1.10	$0.67
5.30	3.40	3.28	2.10	1.32	1.07	0.67
1.34	1.205	1.04	0.90	0.81	0.76	0.69
1.31	1.162	1.02	0.89	0.80	0.74	0.67
175	177	178	178	180	179	181
$13,759	$12,702	$12,677	$12,485	$11,226	$11,534	$11,276
453	429	400	372	343	286	259
17,222	16,003	16,107	15,509	14,122	13,964	13,274
3,896	3,661	3,549	3,415	3,176	2,887	2,473
1,409	1,343	1,194	1,025	917	724	641
791	791	791	420	420	426	449
6,808	6,086	6,249	6,204	5,598	5,998	5,995
39.38	34.88	35.60	35.10	31.43	33.62	33.80
16.7 %	1.4 %	4.4 %	14.5 %	(4.1)%	1.7 %	13.6
$3,164	$3,058	$2,919	$2,653	$2,391	$2,073	$1,828
1,576	1,557	1,537	1,444	1,317	1,060	920
3,860	3,629	3,514	3,386	3,150	2,894	2,416
367	338	289	245	234	223	223
51.9 %	49.2 %	49.8 %	56.1 %	61.5 %	66.6 %	71.1
11.6	10.0	10.3	11.6	11.4	10.1	11.3
30.8	30.0	29.7	27.0	26.8	28.2	30.4
94.3 %	89.2 %	89.8 %	94.7 %	99.7 %	104.9 %	112.8

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

Introduction

The purpose of Management's Discussion and Analysis is to provide an understanding of Cincinnati Financial Corporation's consolidated results of operations and financial condition. Our Management's Discussion and Analysis should be read in conjunction with Item 6, Selected Financial Data, Pages 34 and 35, and Item 8, Consolidated Financial Statements and related Notes, beginning on Page 105. We present per share data on a diluted basis unless otherwise noted, adjusting those amounts for all stock splits and stock dividends.

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

Executive Summary

Through The Cincinnati Insurance Company, Cincinnati Financial Corporation is one of the 25 largest property casualty insurers in the nation, based on 2009 written premium volume for approximately 2,000 U.S. stock and mutual insurer groups. We market our insurance products through a select group of independent insurance agencies in 39 states as discussed in Item 1, Our Business and Our Strategy, Page 3.

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

To measure our progress, we have defined a measure of value creation that we believe captures the contribution of our insurance operations, the success of our investment strategy and the importance we place on paying cash dividends to shareholders. We refer to this measure as our value creation ratio, or VCR, and it is made up of two primary components: (1) our rate of growth in book value per share plus (2) the ratio of dividends declared per share to beginning book value per share. For the period 2010 through 2014, an annual value creation ratio averaging 12 percent to 15 percent is our primary performance target. Management believes this non-GAAP measure is a useful supplement to GAAP information. With heightened economic and market uncertainty since 2008, we believe the long-term nature of this ratio is an appropriate way to measure our long-term progress in creating shareholder value.

	One year	Three-year % average	Five-year % average
Value creation ratio			
as of December 31, 2010	11.1 %	2.4 %	3.7 %
as of December 31, 2009	19.7	(3.2)	1.7
as of December 31, 2008	(23.5)	(4.2)	(1.3)

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

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Premium growth – We believe over any five-year period our agency relationships and initiatives can lead to a property casualty written premium growth rate that exceeds the industry average. The compound annual growth rate of our net written premiums was negative 0.7 percent over the five-year period 2006 through 2010, slightly lower than the negative 0.5 percent estimated growth rate for the property casualty insurance industry.

- Combined ratio – We believe our underwriting philosophy and initiatives can generate a GAAP combined ratio over any five-year period that is consistently below 100 percent. Our GAAP combined ratio has averaged 98.3 percent over the five-year period 2006 through 2010. Our combined ratio was below 100 percent in 2006 and 2007, but was above 100 percent for 2008 through 2010, when we averaged 102.3 percent, including an average catastrophe loss ratio that was 2.1 percentage points higher than the average for the 10-year period prior to 2008. Performance as measured by the combined ratio is discussed in Consolidated Property Casualty Insurance Results of Operations, Page 49 . Our statutory combined ratio averaged 98.2 percent over the five-year period 2006 through 2010 compared with an estimated 99.5 percent for the property casualty industry.

- Investment contribution - We believe our investment philosophy and initiatives can drive investment income growth and lead to a total return on our equity investment portfolio over a five-year period that exceeds the five-year return of the Standard & Poor's 500 Index.

  - Investment income growth, on a before-tax basis, declined at a compound annual rate of 0.3 percent over the five-year period 2006 through 2010. It grew in each year except 2008 and 2009, when we experienced a dramatic reduction in dividend payouts by financial services companies held in our equity portfolio, a risk we addressed aggressively during 2008, completing that effort in early 2009.

  - Over the five years ended December 31, 2010, our compound annual equity portfolio return was a negative 3.0 percent compared with a compound annual total return of 2.3 percent for the Index. Our equity portfolio underperformed the market for the five-year period primarily because of the 2008 decline in the market value of our previously large holdings in the financial services sector. For the year 2010, our compound annual equity portfolio return was 11.0 percent, compared with 15.1 percent for the Index, as the broad market rally did not favor the higher quality, dividend-paying stocks we prefer.

The board of directors is committed to rewarding shareholders directly through cash dividends and through authorizing share repurchases. The board also has periodically declared stock dividends and splits. Through 2010, the company has increased the indicated annual cash dividend rate for 50 consecutive years, a record we believe is matched by only 10 other publicly traded companies. The board regularly evaluates relevant factors in dividend-related decisions, and the increase reflects confidence in our strong capital, liquidity and financial flexibility, as well as progress through our initiatives to improve earnings performance. We discuss our financial position in more detail in Liquidity and Capital Resources, Page 78 .

Strategic Initiatives Highlights

Management has worked to identify a strategy that can lead to long-term success, with concurrence by the board of directors. Our strategy is intended to position us to compete successfully in the markets we have targeted while appropriately managing risk. We discuss our long-term, proven strategy in Item 1, Our Business and Our Strategy, Page 3. We believe successful implementation of initiatives that support our strategy will help us better serve our agent customers and reduce volatility in our financial results while we also grow earnings and book value over the long-term, successfully navigating challenging economic, market or industry pricing cycles.

- Improve insurance profitability – Implementation of these initiatives is intended to improve pricing capabilities for our property casualty business, increasing our ability to manage our business while also enhancing our efficiency. Improved pricing capabilities through the use of technology and analytics can lead to better profit margins. Improved planning for growth and profitability plans can enhance our ability to achieve objectives at all levels in the organization. Improved internal processes with additional performance metrics can help us be more efficient and effective. These initiatives also support the ability of the agencies that represent us to grow profitably by allowing them to serve clients faster and to more efficiently manage agency expenses.

- Drive premium growth – Implementation of these initiatives is intended to further penetrate each market we serve through our independent agency network. Strategies aimed at specific market opportunities, along with service enhancements, can help our agents grow and increase our share of their business. Diversified growth also may reduce variability of losses from weather-related catastrophes.

We discuss these strategic initiatives, along with related metrics to assess progress, in Item 1, Strategic Initiatives, Page 9 , Factors Influencing Our Future Performance

In 2010, our value creation ratio of 11.1 percent was slightly below our target annual average of 12 percent to 15 percent for the period 2010 through 2014. In 2009, the ratio exceeded our target and in 2008, it was below our target, as discussed in the review of our financial highlights below. For the year 2011, we believe our value creation ratio may be below our long-term target for several reasons.

- The rally in financial markets during 2009 and 2010 had a highly favorable impact on our value creation ratio, offsetting much of the unfavorable impact of the sharp decline in financial markets during 2008. Should financial markets decline during 2011, which could occur as part of typical market volatility patterns, the related component of our 2011 value creation ratio could also register a weak or negative result.

- Lingering effects of soft insurance market pricing are expected to affect growth rates and earned premium levels into 2011 and for some time into the future, depending on insurance market conditions. Current conditions continue to weaken loss ratios and hamper near-term profitability. Economic factors, including inflation, may increase our claims and settlement expenses related to medical care, litigation and construction.

- The slowly recovering economy is expected to continue to affect policyholders by minimizing growth in value of their business and personal insurable assets. Until the economy significantly strengthens, we may experience only modest premium growth for the property casualty industry or our commercial lines segment, which represented approximately 73 percent of our 2010 property casualty net written premiums. Property casualty written premium growth also may lag as some of our growth initiatives require more time to reach their full contribution.

- We will incur the cost of continued investment in our business, including technology, recent entry in new states and process initiatives to create long-term value. In addition, we will not see the full advantage of many of these investments for several years.

Our view of the value we can create over the next five years relies on two assumptions about the external environment. First, we anticipate some firming of commercial insurance pricing by the end of 2011. Second, we assume that the economy can continue on a growth track during 2011. If those assumptions prove to be inaccurate, we may not be able to achieve our performance targets even if we accomplish our strategic objectives.

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

- We expect the insurance marketplace to remain competitive, which is likely to cause carriers to pursue strategies that they believe could lead to economies of scale, market share gains or the potential for an improved competitive posture.

- We expect the independent insurance agency system to remain strong and viable, with continued agency consolidation, especially as agency margins come under more pressure due to soft pricing and the difficult economic environment. The soft commercial market that has extended into 2011 creates additional risk for agencies. We expect the soft market to continue for much of 2011, or perhaps longer, particularly in non-catastrophe-event-prone states and lines of business, absent a significant event or events.

- We expect initiatives that make it easier for agents to do business with us will continue to be a significant factor in agency relationships, with technology being a major driver. Policyholders will increasingly demand online services and access from agents or carriers.

We discuss in our Item 1A, Risk Factors, Page 24, many potential risks to our business and our ability to achieve our qualitative and quantitative objectives. These are real risks, but their probability of occurring may not be high. We also believe that our risk management programs generally could mitigate their potential effects, in the event they would occur. We continue to study emerging risks, including climate change risk and its potential financial effects on our results of operation and those we insure. These effects include deterioration in credit quality of our municipal or corporate bond portfolios and increased losses without sufficient corresponding increases in premiums. As with any risk, we seek to identify the extent of the risk exposure and possible actions to mitigate potential negative effects of risk, at an enterprise level.

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

Below we review highlights of our financial results for the past three years. Detailed discussion of these topics appears in Results of Operations, Page 48, and Liquidity and Capital Resources, Page 78.

Corporate Financial Highlights

The value creation ratio discussed in the Executive Summary, Page 36, was 11.1 percent in 2010, 19.7 percent in 2009 and negative 23.5 percent in 2008. The book value per share growth component of the value creation ratio was 5.7 percent during 2010 and 13.6 percent during 2009, largely reflecting improved valuation of our investment portfolio in addition to earnings. In 2008, a decline in unrealized gains on our investment portfolio was the most significant factor in the 27.9 percent decline in book value. Net income declined 13 percent in 2010 after growing 1 percent in 2009, reflecting lower realized investment gains. In 2008, net income was down 47 percent. Cash dividends declared per share rose approximately 1 percent in 2010, 1 percent in 2009 and 10 percent in 2008.

Balance Sheet Data

(Dollars in millions except share data)	At December 31, 2010	At December 31, 2009
Balance sheet data		
Invested assets	$ 11,508	$ 10,643
Total assets	15,095	14,440
Short-term debt	49	49
Long-term debt	790	790
Shareholders' equity	5,032	4,760
Book value per share	30.91	29.25
Debt-to-total-capital ratio	14.3 %	15.0 %

Invested assets grew significantly during both 2010 and 2009 primarily due to strong performance in the financial markets, reversing the trend of 2008 from lower fair values for portfolio investments, largely due to economic factors. Entering 2011, the portfolio continues to be well-diversified and we believe it is well-positioned to withstand short-term fluctuations. We discuss our investment strategy in Item 1, Investments Segment, Page 19, and results for the segment in Investment Results of Operations, Page 75.

Our ratio of debt to total capital (debt plus shareholders' equity) decreased in both 2010 and 2009 and is comfortably within our target range.

Income Statement and Per Share Data

(Dollars in millions except share data)	Twelve months ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Income statement data					
Earned premiums	$3,082	$3,054	$3,136	1	(3)
Investment income, net of expenses (pretax)	518	501	537	3	(7)
Realized investment gains and losses (pretax)	159	336	138	(53)	143
Total revenues	3,772	3,903	3,824	(3)	2
Net income	377	432	429	(13)	1
Per share data					
Net income - diluted	$2.31	$2.65	$2.62	(13)	1
Cash dividends declared	1.59	1.57	1.56	1	1

Weighted average shares outstanding	163,274,491	162,866,863	163,362,409	0	0

Net income in 2010 was $55 million or 13 percent lower than in 2009, due primarily to the after-tax effects of net realized investment gains that were $114 million lower, partially offset by a $53 million improvement from property casualty underwriting results plus $9 million growth in investment income. Net income increased $3 million in 2009, reflecting the after-tax net effect of three major contributing items: a $132 million increase from net realized investment gains, partially offset by a $48 million decrease from investment income and a $74 million decrease from property casualty underwriting results.

Weighted average shares outstanding may fluctuate from period to period due to repurchases of shares under board authorizations or issuance of shares through equity compensation plans. Weighted average shares outstanding on a diluted basis increased by less than 1 million in 2010, after declining by less than 1 million in 2009 and by 9 million in 2008.

As discussed in Investment Results of Operations, Page 75, security sales led to realized investment gains in all three years, although 2008 gains were tempered by $510 million in other-than-temporary impairment (OTTI) charges. Realized investment gains and losses are integral to our financial results over the long term. We have substantial discretion in the timing of investment sales and, therefore, the gains or losses that are recognized in any period. That discretion generally is independent of the insurance underwriting process. Also, applicable accounting standards require us to recognize gains and losses from certain changes in fair values of securities and for securities with embedded derivatives without actual realization of those gains and losses.

Higher interest income drove 3 percent growth in 2010 pretax investment income. Lower income from common stock dividends led to a 7 percent decline in 2009 pretax net investment income, improving on a 12 percent decline for 2008, which was the first decline for this measure in company history. The primary reason for the decline was dividend reductions by common and preferred holdings, including reductions during the year on positions sold or reduced.

Contribution from Insurance Operations

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
Consolidated property casualty highlights					
Net written premiums	$2,963	$2,911	$3,010	2	(3)
Earned premiums	2,924	2,911	3,010	0	(3)
Underwriting loss	(47)	(128)	(16)	63	nm
				Pt. Change	Pt. Change
GAAP combined ratio	101.7 %	104.5 %	100.6 %	(2.8)	3.9
Statutory combined ratio	101.8	104.4	100.4	(2.6)	4.0
Written premium to statutory surplus	0.8	0.8	0.9	0.0	(0.1)

Property casualty written premiums grew 2 percent in 2010, reversing the trend of 3 percent declines in both 2009 and 2008. Earned premiums also reversed the prior year trend, growing slightly in 2010. Trends and related factors discussed in Commercial Lines, Personal Lines and Excess and Surplus Lines Insurance Results of Operations, beginning on Page 54, Page 64 and Page 70, respectively.

Our property casualty insurance operations reported an underwriting loss in each of the last three years, but the amount of loss in 2010 was less than half that of 2009. We measure property casualty underwriting profitability primarily by the combined ratio. Our combined ratio measures the percentage of each earned premium dollar spent on claims plus all expenses related to our property casualty operations. A lower ratio indicates more favorable results and better underlying performance. Our combined ratio was over 100 percent in each of the last three years. Initiatives to improve our combined ratio are discussed in Item 1, Strategic Initiatives, Page 9. In 2010, 2009 and 2008, favorable development on reserves for claims that occurred in prior accident years helped offset other incurred loss and loss expenses. Reserve development is discussed further in Property Casualty Loss and Loss Expense Obligations and Reserves, beginning on Page 82. Losses from weather-related catastrophes are another important item influencing the combined ratio and are discussed along with other factors in Commercial Lines, Personal Lines and Excess and Surplus Lines Insurance Results of Operations, beginning on Page 54, Page 64 and Page 70, respectively.

Our life insurance segment continued to provide a consistent source of profit. We discuss results for the segment in Life Insurance Results of Operations, Page 73. Investment income and realized investment gains from the life insurance investment portfolio are included in Investments segment results.

Critical Accounting Estimates

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

The significant accounting policies used in the preparation of the financial statements are discussed in Item 8, Note 1 of the Consolidated Financial Statements, Page 105 In conjunction with that discussion, material implications of uncertainties associated with the methods, assumptions and estimates underlying the company's critical accounting policies are discussed below. The audit committee of the board of directors reviews the annual financial statements with management and the independent registered public accounting firm. These discussions cover the quality of earnings, review of reserves and accruals, reconsideration of the suitability of accounting principles, review of highly judgmental areas including critical accounting policies, audit adjustments and such other inquiries as may be appropriate.

Property Casualty Insurance Loss and Loss Expense Reserves

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

For some lines of business that we write, a considerable and uncertain amount of time can elapse between the occurrence, reporting and payment of insured claims. The amount we will actually have to pay for such claims also can be highly uncertain. This uncertainty, together with the size of our reserves, makes the loss and loss expense reserves our most significant estimate. Gross loss and loss expense reserves were $4.137 billion at year-end 2010 compared with $4.096 billion at year-end 2009.

How Reserves Are Established

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

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

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

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

We also establish IBNR reserves to provide for all unpaid loss and loss expenses not accounted for by case reserves:

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

- For asbestos and environmental claims, we calculate IBNR reserves by deriving an actuarially based estimate of total unpaid loss and loss expenses. We then reduce the estimate by total case reserves. We discuss the reserve analysis that applies to asbestos and environmental reserves in Asbestos and Environmental Reserves, Page 84.

- For all other claims and events, IBNR reserves are calculated as the difference between an actuarial estimate of the ultimate cost of total loss and loss expenses incurred reduced by the sum of total loss and loss expense payments and total case reserves estimated for individual claims. We discuss below the development of actuarially based estimates of the ultimate cost of total loss and loss expenses incurred.

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

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

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

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

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

These trends and measures include:

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

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

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

- large loss activity and trends in large losses
- new business activity
- judicial decisions
- general economic trends such as inflation
- trends in litigiousness and legal expenses
- product and underwriting changes
- changes in claims practices

The determination of management's best estimate, like the preparation of the reserve analysis that supports it, involves considerable judgment. Changes in reserving data or the trends and factors that influence reserving data may signal fundamental shifts or may simply reflect single-period anomalies. Even if a change reflects a fundamental shift, the full extent of the change may not become evident until years later. Moreover, since our methods and models do not explicitly relate many of the factors we consider directly to reserve levels, we typically cannot quantify the precise impact of such factors on the adequacy of reserves prospectively or retrospectively.

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

Key Assumptions - Loss Reserving

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

- Emergence of loss and allocated loss expenses on an accident year basis. Historical paid loss, reported loss and paid allocated loss expense data for the business lines we analyze contain patterns that reflect how unpaid losses, unreported losses and unpaid allocated loss expenses as of a financial statement date will emerge in the future on an accident year basis. Unless our actuarial staff or management identifies reasons or factors that invalidate the extension of historical patterns into the future, these patterns can be used to make projections necessary for estimating IBNR reserves. Our actuaries significantly rely on this assumption in the application of all methods and models mentioned above.

- Calendar year inflation. For long-tail and mid-tail business lines, calendar year inflation trends for future paid losses and paid allocated loss expenses will not vary significantly from a stable, long-term average. Our actuaries base reserve estimates derived from probabilistic trend family models on this assumption.

- Exposure levels. Historical earned premiums, when adjusted to reflect common levels of product pricing and loss cost inflation, can serve as a proxy for historical exposures. Our actuaries require this assumption to estimate expected loss ratios and expected allocated loss expense ratios used by the Bornhuetter-Ferguson reserving methods. They also use this assumption to establish exposure levels for recent accident years, characterized by "green" or immature data, when working with probabilistic trend family models.

- Claims having atypical emergence patterns. Characteristics of certain subsets of claims, such as high frequency, high severity, or mass tort claims, have the potential to distort patterns contained in historical paid loss, reported loss and paid allocated loss expense data. When testing indicates this to be the case for a particular subset of claims, our actuaries segregate these claims from the data and analyze them separately. Subsets of claims that could fall into this category include hurricane claims, individual large claims and asbestos and environmental claims.

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

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

Reserve Estimate Variability

Management believes that the standard error of a reserve estimate, a measure of the estimate's variability, provides the most appropriate measure of the estimate's sensitivity. The reserves we establish depend on the models we use and the related parameters we estimate in the course of conducting reserve analyses. However, the actual amount required to settle all outstanding insured claims, including IBNR claims, as of a financial statement date depends on stochastic, or random, elements as well as the systematic elements captured by our models and estimated model parameters. For the lines of business we write, process uncertainty – the inherent variability of loss and loss expense payments – typically contributes more to the imprecision of a reserve estimate than parameter uncertainty.

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

The table below provides standard errors and reserve ranges by property casualty line of business and in total for loss and loss expense reserves as well as the potential effects on our net income, assuming a 35 percent federal tax rate. Standard errors and reserve ranges for assorted groupings of these lines of business cannot be computed by simply adding the standard errors and reserve ranges of the component lines of business, since such an approach would ignore the effects of product diversification. See Range of Reasonable Reserves, Page 83, for more details on our total reserve range. While the table reflects our assessment of the most likely range within which each line's actual unpaid loss and loss expenses may fall, one or more lines' actual unpaid loss and loss expenses could nonetheless fall outside of the indicated ranges.

(In millions)	Net loss and loss expense range of reserves				
	Carried reserves	Low point	High point	Standard error	Net income effect
At December 31, 2010					
Total	$3,811	$3,571	$3,952		
Commercial casualty	$1,644	$1,455	$1,781	$163	$106
Commercial property	155	136	176	20	13
Commercial auto	356	336	376	20	13
Workers' compensation	1,010	906	1,079	87	57
Personal auto	153	145	161	8	5
Homeowners	105	95	114	9	6
At December 31, 2009					
Total	$3,661	$3,459	$3,774		
Commercial casualty	$1,605	$1,459	$1,691	$116	$75
Commercial property	115	93	136	21	14
Commercial auto	374	355	393	19	12
Workers' compensation	975	887	1,035	74	48
Personal auto	154	146	161	8	5
Homeowners	89	80	98	9	6

If actual unpaid loss and loss expenses fall within these ranges, our cash flow and fixed maturity investments should provide sufficient liquidity to make the subsequent payments. To date, our cash flow has covered our loss and loss expense payments, and we have never had to sell investments to make these payments. If this were to become necessary, however, our fixed maturity investments should provide us with ample liquidity. At year-end 2010, consolidated fixed maturity investments exceeded total insurance reserves (including life policy reserves) by $2.149 billion.

Life Insurance Policy Reserves

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

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

Asset Impairment

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

The application of our impairment policy resulted in OTTI charges that reduced our income before income taxes by $36 million in 2010, $131 million in 2009 and $510 million in 2008. Impairment charges are recorded for other-than-temporary declines in value, if, in the asset impairment committee's judgment, the value is not expected to be recouped within a designated recovery period. OTTI losses represent non-cash charges to income and are reported as realized investment losses.

Our investment portfolio managers monitor their assigned portfolios. If a security is trading below book value, the portfolio managers undertake additional reviews. Such declines often occur in conjunction with events taking place in the overall economy and market, combined with events specific to the industry or operations of the issuing organization. Managers review quantitative measurements such as a declining trend in fair value, the extent of the fair value decline and the length of time the value of the security has been depressed, as well as qualitative measures such as pending events, credit ratings and issuer liquidity. We are even more proactive when these declines in valuation are greater than might be anticipated when viewed in the context of overall economic and market conditions. We provide information about valuation of our invested assets in Item 8, Note 2 of the Consolidated Financial Statements, Page 111.

All securities valued below 100 percent of book value are reported to the asset impairment committee for evaluation. Securities valued between 95 percent and 100 percent of book value are reviewed but not monitored separately by the committee.

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

When determining OTTI charges for our fixed-maturity portfolio, management places significant emphasis on whether issuers of debt are current on contractual payments and whether future contractual amounts are likely to be paid. Our fixed maturity invested asset impairment policy states that OTTI is considered to have occurred (1) if we intend to sell the impaired fixed maturity security; (2) if it is more likely than not we will be required to sell the fixed maturity security before recovery of its amortized cost basis; or (3) the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. If we intend to sell or it is more likely than not we will be required to sell, the book value of any such securities is reduced to fair value as the new cost basis, and a realized loss is recorded in the quarter in which it is recognized. When we believe that full collection of interest and/or principal is not likely, we determine the net present value of future cash flows by using the effective interest rate implicit in the security at the date of acquisition as the discount rate and compare that amount to the amortized cost and fair value of the security. The difference between the net present value of the expected future cash flows and amortized cost of the security is considered a credit loss and recognized as a realized loss in the quarter in which it occurred. The difference between the fair value and the net present value of the cash flows of the security, the non-credit loss, is recognized in other comprehensive income as an unrealized loss.

When determining OTTI charges for our equity portfolio, our invested asset impairment policy considers qualitative and quantitative factors, including facts and circumstances specific to individual securities, asset classes, the financial condition of the issuer, changes in dividend payment, the length of time fair value had been less than book value, the severity of the decline in fair value below book value, the volatility of the security and our ability and intent to hold each position until its forecasted recovery.

For each of our equity securities in an unrealized loss position at December 31, 2010, we applied the objective quantitative and qualitative criteria of our invested asset impairment policy for OTTI. Our long-term equity investment philosophy, emphasizing companies with strong indications of paying and growing dividends, combined with our strong surplus, liquidity and cash flow, provide us the ability to hold these investments through what we believe to be slightly longer recovery periods occasioned by the recession and historic levels of market volatility. Based on the individual qualitative and quantitative factors, as discussed above, we evaluate and determine an expected recovery period for each security. A change in the condition of a security can warrant impairment before the expected recovery period. If the security has not recovered cost within the expected recovery period, the security is impaired.

Securities that have previously been impaired are evaluated based on their adjusted book value and written down further, if deemed appropriate. We provide detailed information about securities trading in a continuous loss position at year-end 2010 in Item 7A, Application of Asset Impairment Policy, Page 96. An other-than-temporary decline in the fair value of a security is recognized in net income as a realized investment loss.

Securities considered to have a temporary decline would be expected to recover their book value, which may be at maturity. Under the same accounting treatment as fair value gains, temporary declines (changes in the fair value of these securities) are reflected in shareholders’ equity on our balance sheet in accumulated other comprehensive income (AOCI), net of tax, and have no impact on net income.

Fair Value Measurements

Valuation of Financial Instruments

Valuation of financial instruments, primarily securities held in our investment portfolio, is a critical component of our year-end financial statement preparation. Fair Value Measurements and Disclosures, ASC 820-10, defines fair value as the exit price or the amount that would be (1) received to sell an asset or (2) paid to transfer a liability in an orderly transaction between marketplace participants at the measurement date. When determining an exit price, we must, whenever possible, rely upon observable market data. Prior to the adoption of ASC 820-10, we considered various factors such as liquidity and volatility but primarily obtained pricing from various external services, including broker quotes.

The fair value measurement and disclosure exit price notion requires our valuation also to consider what a marketplace participant would pay to buy an asset or receive to assume a liability. Therefore, while we can consider pricing data from outside services, we ultimately determine whether the data or inputs used by these outside services are observable or unobservable.

In accordance with ASC 820-10, we have categorized our financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Consolidated Balance Sheets are categorized based on the inputs to the valuation techniques as described in Item 8, Note 3, Fair Value Measurements, Page 114.

Level 1 and Level 2 Valuation Techniques

Over 99 percent of the $11.424 billion of securities in our investment portfolio measured at fair value are classified as Level 1 or Level 2. Financial assets that fall within Level 1 and Level 2 are priced according to observable data from identical or similar securities that have traded in the marketplace. Also within Level 2 are securities that are valued by outside services or brokers where we have evaluated the pricing methodology and determined that the inputs are observable.

Level 3 Valuation Techniques

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

Pricing for each Level 3 security is based upon inputs that are market driven, including third-party reviews provided to the issuer or broker quotes. However, we placed in the Level 3 hierarchy securities for which we were unable to obtain the pricing methodology or we could not consider the price provided as binding. Pricing for securities classified as Level 3 could not be corroborated by similar securities priced using observable inputs.

Management ultimately determined the pricing for each Level 3 security that we considered to be the best exit price valuation. As of December 31, 2010, total Level 3 assets were less than 1 percent of our investment portfolio measured at fair value. Broker quotes are obtained for thinly traded securities that subsequently fall within the Level 3 hierarchy. We have generally obtained two non-binding quotes from brokers and, after evaluating, our investment professionals typically selected the lower quote as the fair value.

Employee Benefit Pension Plan

We have a defined benefit pension plan that was modified during 2008; refer to Item 8, Note 13 of the Consolidated Financial Statements, Page 121, for additional information. Contributions and pension costs are developed from annual actuarial valuations. These valuations involve key assumptions including discount rates, expected return on plan assets and compensation increase rates, which are updated annually. Any adjustments to these assumptions are based on considerations of current market conditions. Therefore, changes in the related pension costs or credits may occur in the future due to changes in assumptions.

Key assumptions used in developing the 2010 net pension obligation for our qualified plan were a 5.85 percent discount rate and rates of compensation increases ranging from 3.50 percent to 5.50 percent. Key assumptions used in developing the 2010 net pension expense for our qualified plan were a 6.10 percent discount rate, an 8.00 percent expected return on plan assets and rates of compensation increases ranging from 4.00 percent to 6.00 percent. See Note 13, Page 121 for additional information on assumptions.

In 2010, the net pension expense was $12 million. In 2011, we expect the net pension expense to be $13 million.

Holding all other assumptions constant, a 0.5 percentage-point decrease in the discount rate would decrease our 2011 income before income taxes by $1 million. A 0.5 percentage point decrease in the expected return on plan assets would decrease our 2011 income before income taxes by $1 million.

The fair value of the plan assets was $30 million less than the accumulated benefit obligation at year-end 2010 and $42 million less at year-end 2009. The fair value of the plan assets was $62 million less than the projected plan benefit obligation at year-end 2010 and $77 million less at year-end 2009. Market conditions and interest rates significantly affect future assets and liabilities of the pension plan. On February 1, 2011, we contributed $35 million to our qualified plan.

Deferred Acquisition Costs

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

For property casualty policies, deferred acquisition costs are amortized over the terms of the policies. We assess recoverability of deferred acquisition costs at the segment level, consistent with the ways we acquire, service, manage and measure profitability. Our property casualty insurance operations consist of three segments, commercial lines, personal lines and excess and surplus lines. For life insurance policies, acquisition costs are amortized into income either over the premium-paying period of the policies or the life of the policy, depending on the policy type. We analyze our acquisition cost assumptions periodically to reflect actual experience; we evaluate our deferred acquisition cost for recoverability; and we regularly conduct reviews for potential premium deficiencies or loss recognition.

Contingent Commission Accrual

Another significant estimate relates to our accrual for property casualty contingent (profit-sharing) commissions. We base the contingent commission accrual estimate on property casualty underwriting results. Contingent commissions are paid to agencies using a formula that takes into account agency profitability, premium volume and other factors, such as prompt monthly payment of amounts due to the company. Due to the complexity of the calculation and the variety of factors that can affect contingent commissions for an individual agency, the amount accrued can differ from the actual contingent commissions paid. The contingent commission accrual of $77 million in 2010 contributed 2.6 percentage points to the property casualty combined ratio. If contingent commissions paid were to vary from that amount by 5 percent, it would affect 2011 net income by $3 million (after tax), or 2 cents per share, and the combined ratio by approximately 0.1 percentage points.

Separate Accounts

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

Separate account assets are carried at fair value. Separate account liabilities primarily represent the contract holders' claims to the related assets and are carried at an amount equal to the contract holders’ account value. Generally, investment income and realized investment gains and losses of the separate accounts accrue directly to the contract holders and, therefore, are not included in our Consolidated Statements of Income. However, each separate account contract includes a negotiated realized gain and loss sharing arrangement with the company. This share is transferred from the separate account to our general account and is recognized as revenue or expense. In the event that the asset value of contract holders’ accounts is projected below the value guaranteed by the company, a liability is established through a charge to our earnings.

For our most significant separate account, written in 1999, realized gains and losses are retained in the separate account and are deferred and amortized to the contract holder over a five-year period, subject to certain limitations. Upon termination or maturity of this separate account contract, any unamortized deferred gains and/or losses will revert to the general account. In the event this separate account holder were to exchange the contract for the policy of another carrier in 2011, the account holder would not pay a surrender charge. The surrender charge is zero for 2011 and beyond.

At year-end 2010, net unamortized realized losses amounted to $2 million. In accordance with this separate account agreement, the investment assets must meet certain criteria established by the regulatory authorities to whose jurisdiction the group contract holder is subject. Therefore, sales of investments may be mandated to maintain compliance with these regulations, possibly requiring gains or losses to be recorded and charged to the general account. Potentially, losses could be material; however, unrealized losses are approximately $7 million before tax in the separate account portfolio, which had a book value of $583 million at year-end 2010.

Recent Accounting Pronouncements

Information about recent accounting pronouncements is provided in Item 8, Note 1 of the Consolidated Financial Statements, Page 105. We have determined that recent accounting pronouncements have not had nor are they expected to have any material impact on our consolidated financial statements.

Results of Operations

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

- Commercial lines property casualty insurance
- Personal lines property casualty insurance
- Excess and surplus lines property casualty insurance
- Life insurance
- Investments

We report as Other the non-investment operations of the parent company and its non-insurer subsidiary, CFC Investment Company.

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

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

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

The calculations of segment data are described in more detail in Item 8, Note 18 of the Consolidated Financial Statements, Page 127. The following sections review results of operations for each of the five segments. Commercial

Lines Insurance Results of Operations begins on Page 54, Personal Lines Insurance Results of Operations begins on Page 64, Excess and Surplus Lines Insurance Results of Operations begins on Page 70, Life Insurance Results of Operations begins on Page 73, and Investment Results of Operations begins on Page 75. We begin with an overview of our consolidated property casualty operations.

Consolidated Property Casualty Insurance Results of Operations

Our consolidated property casualty operations grew earned premiums slightly in 2010 and lowered its underwriting loss, reversing the lower revenue and deteriorating profitability trends of 2008 and 2009. While soft market conditions persisted for commercial lines, our largest operating segment, several profit improvement and premium growth initiatives began to be evident in results for 2010.

In addition to the factors discussed in Commercial Lines, Personal Lines and Excess and Surplus Lines Insurance Results of Operations, beginning on Page 54, Page 64 and Page 70, respectively, overall growth and profitability for our consolidated property casualty insurance operations were affected by a number of common factors. Targeted growth, seeking to grow premiums where we believe profit margins are acceptable, has been an area of strategic focus in recent years. Development and use of enhanced technology has also been emphasized, helping us to grow premiums as agencies embrace greater ease of use of our policy administration software. Better technology also can improve efficiency for agencies and associates, helping to lower expenses. Careful expense management, spending more in areas of strategic importance and trimming costs in other areas, kept the 2010 expense ratio flat. Slightly lower losses from weather-related catastrophes and a slowly recovering economy also benefited our operating results. The table below highlights property casualty results of operations, with analysis and discussion in the sections that follow.

Overview — Three-Year Highlights

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Earned premiums	$2,924	$2,911	$3,010	0	(3)
Fee revenues	4	3	3	33	0
Total premiums and fee revenues	2,928	2,914	3,013	0	(3)
Loss and loss expenses from:					
Current accident year before catastrophe losses	2,154	2,102	2,174	2	(3)
Current accident year catastrophe losses	165	172	205	(4)	(16)
Prior accident years before catastrophe losses	(287)	(181)	(321)	(59)	44
Prior accident years catastrophe losses	(17)	(7)	(2)	(143)	(250)
Total loss and loss expenses	2,015	2,086	2,056	(3)	1
Underwriting expenses	960	956	973	0	(2)
Underwriting loss	$ (47)	$ (128)	$ (16)	63	nm
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	73.6 %	72.2 %	72.2 %	1.4	0.0
Current accident year catastrophe losses	5.6	5.9	6.8	(0.3)	(0.9)
Prior accident years before catastrophe losses	(9.8)	(6.2)	(10.7)	(3.6)	4.5
Prior accident years catastrophe losses	(0.5)	(0.2)	0.0	(0.3)	(0.2)
Total loss and loss expenses	68.9	71.7	68.3	(2.8)	3.4
Underwriting expenses	32.8	32.8	32.3	0.0	0.5

Combined ratio	101.7	%	104.5	%	100.6	%	(2.8	)	3.9	
Combined ratio:	101.7	%	104.5	%	100.6	%	(2.8	)	3.9	
Contribution from catastrophe losses and prior years reserve development	(4.7	)	(0.5	)	(3.9	)	(4.2	)	3.4	
Combined ratio before catastrophe losses and prior years reserve development	106.4	%	105.0	%	104.5	%	1.4		0.5	

Performance highlights for consolidated property casualty operations include:

- Premiums – Higher 2010 renewal and new business written premiums were driven by growth in our personal lines and excess and surplus lines segments. Changes in written and earned premiums over the past three years generally reflected intense price competition partially offset by fairly stable policy retention rates for renewal business and growth in new business. New business written premiums increased in each of the past three years, largely due to the contribution of new agency appointments – in both new and existing states of operation; the contribution of our excess and surplus lines business; and more competitive personal lines pricing that included net rate increases since late 2009. Other written premiums primarily include premiums ceded to our reinsurers as part of our reinsurance program. The table below analyzes premium revenue components and trends. Premium trends by segment are further discussed beginning on Page 12, Page 15 and Page 16, for the respective property casualty segments.

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
Agency renewal written premiums	$2,692	$2,665	$2,828	1	(6)
Agency new business written premiums	414	405	368	2	10
Other written premiums	(143)	(159)	(186)	10	15
Net written premiums	2,963	2,911	3,010	2	(3)
Unearned premium change	(39)	0	0	nm	nm
Earned premiums	$ 2,924	$ 2,911	$ 3,010	0	(3)

- Combined ratio – The 2010 combined ratio improved 2.8 percentage points to 101.7 percent, lowering the 2009 underwriting loss by more than half. The 1.4 percentage point increase in the ratio for current accident year losses and loss expenses was offset by a larger benefit from net favorable reserve development on prior accident years and lower catastrophe losses. Components of the combined ratio are discussed below, followed by additional discussion by segment.

Our statutory combined ratio was 101.8 percent in 2010 compared with 104.4 percent in 2009 and 100.4 percent in 2008. As a comparison, the estimated property casualty industry combined ratio was 103.0 percent in 2010, 101.2 percent in 2009 and 105.1 percent in 2008.

Catastrophe losses contributed 5.1 percentage points to the combined ratio in 2010, down 0.6 points from 2009. Catastrophe losses in 2008 contributed 6.8 percentage points, the highest catastrophe loss ratio for our company since 1991, largely due to Hurricane Ike. Our 10-year historical annual average contribution of catastrophe losses to the combined ratio was 4.4 percentage points as of December 31, 2010. The following table shows catastrophe losses incurred, net of reinsurance, for the past three years, as well as the effect of loss development on prior period catastrophe reserves.

Catastrophe Losses Incurred

(In millions, net of reinsurance)						
Dates	Cause of loss	Region	Commercial lines	Personal lines	Excess and surplus lines	Total
2010						
Jan. 7-12	Freezing, wind	South, Midwest	$ 4	$ 1	$ -	$ 5
Feb. 9-11	Ice, snow, wind	East, Midwest	4	1	-	5
Apr. 4-6	Flood, hail, tornado, wind	South, Midwest	4	6	-	10
Apr. 30 - May 3	Flood, hail, tornado, wind	South	21	6	-	27
May 7-8	Hail, tornado, wind	East, Midwest	2	12	-	14
May 12-16	Flood, hail, tornado, wind	South, Midwest	7	2	-	9
Jun. 4-6	Flood, hail, tornado, wind	Midwest	2	2	1	5
Jun. 17-20	Flood, hail, tornado, wind	Midwest, West	5	3	-	8
Jun. 21-24	Flood, hail, tornado, wind	Midwest	2	3	-	5
Jun. 25-28	Flood, hail, tornado, wind	Midwest	3	5	-	8
Jun. 30 - Jul. 1	Hail, wind	West	4	4	-	8
Jul. 20-23	Flood, hail, tornado, wind	Midwest	12	4	-	16
Oct. 4-6	Flood, hail, wind	South	6	1	-	7
Oct. 26-28	Flood, hail, tornado, wind	Midwest	6	4	-	10
All other 2010 catastrophes			19	9	-	28
Development on 2009 and prior catastrophes			(12)	(5)	-	(17)
Calendar year incurred total			$ 89	$ 58	$ 1	$ 148
2009						
Jan. 26-28	Flood, freezing, ice, snow	South, Midwest	$ 5	$ 14	$ -	$ 19
Feb. 10-13	Flood, hail, wind	South, Midwest	13	25	-	38
Feb. 18-19	Hail, wind	South	1	8	-	9
Apr. 9-11	Flood, hail, wind	South, Midwest	13	21	-	34
May 7-9	Flood, hail, wind	South, Midwest	9	13	-	22
Jun. 2-6	Flood, hail, wind	South, Midwest	3	4	-	7
Jun. 10-18	Flood, hail, wind	South, Midwest	7	4	-	11
Sep. 18-22	Flood, hail, wind	South	3	4	-	7
Other 2009 catastrophes			12	13	-	25
Development on 2008 and prior catastrophes			(12)	5	-	(7)
Calendar year incurred total			$ 54	$ 111	$ -	$ 165

2008											
Jan. 4-9	Flood, freezing, hail, wind	South, Midwest	$	4		$	2	$	-	$	6
Jan. 29-30	Hail, wind	Midwest		5			4		-		9
Feb. 5-6	Flood, hail, wind	Midwest		5			8		-		13
Mar. 15-16	Hail, wind	South		2			8		-		10
Apr. 9-11	Flood, hail, wind	South		17			2		-		19
May 1	Hail, wind	South		5			1		-		6
May 10-12	Flood, hail, wind	South, Mid-Atlantic		3			4		-		7
May 22-26	Hail, wind	Midwest		4			3		-		7
May 29- Jun 1	Flood, hail, wind	Midwest		4			4		-		8
Jun. 2-4	Flood, hail, wind	Midwest		6			4		-		10
Jun. 5-8	Flood, hail, wind	Midwest		8			6		-		14
Jun. 11-12	Flood, hail, wind	Midwest		10			4		-		14
Jul. 26	Flood, hail, wind	Midwest		1			7		-		8
Sep. 12-14	Hurricane Ike	South, Midwest		22			36		-		58
Other 2008 catastrophes				10			6		-		16
Development on 2007 and prior catastrophes				(3	)		1		-		(2)
Calendar year incurred total			$	103		$	100	$	-	$	203

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Consolidated Property Casualty Insurance Loss and Loss Expenses

Loss and loss expenses include both net paid losses and reserve changes for unpaid losses as well as the associated loss expenses. Most of the incurred losses and loss expenses shown in the three-year highlights table on Page 49 are for the respective current accident years, and reserve development on prior accident years is shown separately. Since less than half of our consolidated property casualty current accident year incurred losses and loss expenses represents net paid losses, the majority represents reserves for our estimate of ultimate losses and loss expenses. These reserves develop over time, and we re-estimate previously reported reserves as we learn more about the development of the related claims. The table below illustrates that development. For example, the 78.1 percent accident year 2009 loss and loss expense ratio reported as of December 31, 2009, developed favorably by 6.5 percentage points to 71.6 percent due to settling claims for less than previously estimated, or due to updated reserve estimates for unpaid claims, as of December 31, 2010. Accident years 2009 and 2008 have both developed favorably, as indicated by the progression over time for the ratios in the table.

(Dollars in millions)
Accident year loss and loss expenses incurred and ratios to earned premiums:

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$2,319	$2,084	$2,148	79.2 %	71.6 %	71.4 %
as of December 31, 2009		2,274	2,224		78.1	73.9
as of December 31, 2008			2,379			79.0

Catastrophe loss trends, discussed above, explain some of the accident year loss and loss expenses trend for years 2008 through 2010. Catastrophe losses added 5.6 for 2010, 5.9 for 2009 and 6.8 percentage points for 2008 to the respective consolidated property casualty accident year loss and loss expense ratios in the table above.

The trend for our current accident year loss and loss expense ratio before catastrophe losses over the past three years reflected normal loss cost inflation as well as softer pricing for much of our property casualty business that began in 2005 and continued through 2010. Refinements made to the allocation of IBNR reserves by accident year, totaling $69 million, contributed 2.3 percentage points to the 2008 ratio.

Reserve development on prior accident years continued to net to a favorable amount in 2010, as $304 million was recognized, similar to $323 million in 2008. During 2009, the $188 million of net favorable development recognized was lower, due primarily to unfavorable development of $48 million for our workers' compensation line of business, as discussed in Commercial Lines Insurance Segment Reserves, Page 85.

Consolidated Property Casualty Insurance Losses by Size

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
New losses greater than $4,000,000	$49	$57	$46	(14)	24
New losses $1,000,000-$4,000,000	142	147	169	(3)	(13)
New losses $250,000-$1,000,000	200	212	228	(6)	(7)
Case reserve development above $250,000	178	265	245	(33)	8
Total large losses incurred	569	681	688	(16)	(1)
Other losses excluding catastrophe losses	935	860	845	9	2
Catastrophe losses	148	165	203	(10)	(19)
Total losses incurred	$1,652	$1,706	$1,736	(3)	(2)

							Pt. Change		Pt. Change	
Ratios as a percent of earned premiums:										
New losses greater than $4,000,000	1.7	%	2.0	%	1.5	%	(0.3	)	0.5	
New losses $1,000,000-$4,000,000	4.8		5.1		5.6		(0.3	)	(0.5	)
New losses $250,000-$1,000,000	6.8		7.3		7.6		(0.5	)	(0.3	)
Case reserve development above $250,000	6.1		9.0		8.1		(2.9	)	0.9	
Total large loss ratio	19.4		23.4		22.8		(4.0	)	0.6	
Other losses excluding catastrophe losses	32.0		29.5		28.1		2.5		1.4	
Catastrophe losses	5.1		5.7		6.8		(0.6	)	(1.1	)
Total loss ratio	56.5	%	58.6	%	57.7	%	(2.1	)	0.9	

In 2010, total large losses incurred decreased by $112 million or 16 percent, helping to lower the corresponding ratio by 4.0 percentage points. Large loss trends are further analyzed in the segment discussion below. Our analysis indicated no unexpected concentration of these losses and reserve increases by geographic region, policy inception, agency or field marketing territory. We believe the inherent volatility of aggregate loss experience for our portfolio of larger policies is greater than that of our portfolio of smaller policies, and we continue to monitor the volatility in addition to general inflationary trends in loss costs. Beginning in 2009, we raised the casualty treaty retention to $6 million from $5 million and raised the property treaty retention to $5 million from $4 million.

Consolidated Property Casualty Insurance Underwriting Expenses

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
Commission expenses	$544	$550	$555	(1)	(1)
Other underwriting expenses	402	389	403	3	(3)
Policyholder dividends	14	17	15	(18)	13
Total underwriting expenses	$960	$956	$973	0	(2)
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Commission expenses	18.6 %	18.9 %	18.4 %	(0.3)	0.5
Other underwriting expenses	13.7	13.3	13.4	0.4	(0.1)
Policyholder dividends	0.5	0.6	0.5	(0.1)	0.1
Total underwriting expense ratio	32.8 %	32.8 %	32.3 %	0.0	0.5

Commission expenses include our profit-sharing, or contingent commissions, which are primarily based on the profitability of an agency's business. The aggregate profit trend for agencies that earn these profit-based commissions can differ from the aggregate profit trend for all agencies reflected in our consolidated property casualty results. In 2010, lower contingent commissions drove the lower ratio for property casualty commission expenses, and higher contingent commissions drove the increase in 2009.

In 2010, non-commission expenses were up $13 million or 3 percent, primarily due to a first-quarter 2010 provision for matters involving prior years and related to Note 16, Commitments and Contingent Liabilities, Page 125. The increase outpaced earned premiums, which grew less than 1 percent. In 2009, non-commission expenses declined $14 million, primarily due to a change in our pension plan that added 0.5 percentage points to the 2008 non-commission underwriting expense ratio.

Discussions below of our property casualty insurance segments provide additional detail about our results.

Commercial Lines Insurance Results of Operations

Overview — Three-Year Highlights

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Earned premiums	$2,154	$2,199	$2,316	(2)	(5)
Fee revenues	2	2	2	0	0
Total premiums and fee revenues	2,156	2,201	2,318	(2)	(5)
Loss and loss expenses from:					
Current accident year before catastrophe losses	1,605	1,596	1,671	1	(4)
Current accident year catastrophe losses	101	66	106	53	(38)
Prior accident years before catastrophe losses	(257)	(135)	(270)	(90)	50
Prior accident years catastrophe losses	(12)	(12)	(3)	0	(300)
Total loss and loss expenses	1,437	1,515	1,504	(5)	1
Underwriting expenses	704	719	742	(2)	(3)
Underwriting profit (loss)	$ 15	$ (33)	$ 72	nm	nm
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	74.5 %	72.5 %	72.1 %	2.0	0.4
Current accident year catastrophe losses	4.7	3.0	4.6	1.7	(1.6)
Prior accident years before catastrophe losses	(11.9)	(6.1)	(11.7)	(5.8)	5.6
Prior accident years catastrophe losses	(0.6)	(0.5)	(0.1)	(0.1)	(0.4)
Total loss and loss expenses	66.7	68.9	64.9	(2.2)	4.0
Underwriting expenses	32.7	32.7	32.1	0.0	0.6
Combined ratio	99.4 %	101.6 %	97.0 %	(2.2)	4.6
Combined ratio:	99.4 %	101.6 %	97.0 %	(2.2)	4.6
Contribution from catastrophe losses and prior years reserve development	(7.8)	(3.6)	(7.2)	(4.2)	3.6
Combined ratio before catastrophe losses and prior years reserve development	107.2 %	105.2 %	104.2 %	2.0	1.0

Performance highlights for the commercial lines segment include:

- Premiums – Pricing in the commercial lines marketplace again reflected very strong competition, driving modest declines for both renewal and new business premiums. Our commercial lines net written premium decrease for 2010 of 1 percent compared favorably with the estimated decline of 2 percent for the overall commercial lines industry, similar to the 2009 comparison when our decline of 6 percent was slightly better than the decrease estimated for the commercial lines segment of the industry at 8 percent. We believe our pace for new and renewal business in recent years is consistent with our agents' practice of selecting and retaining accounts with manageable risk characteristics that support the lower prevailing prices. We also believe our favorable comparison to the industry in recent years reflects our premium growth initiatives and the advantages we achieve through our field focus, which provides us with quality intelligence on local market conditions. Our earned premiums declined in 2010 and 2009, following the pattern of our written premiums.

- Combined ratio – For our commercial lines segment, the 2010 combined ratio improved 2.2 percentage points to 99.4 percent, and the segment generated a small underwriting profit. Modest increases in the ratios for catastrophes and current accident year losses and loss expenses were offset by a larger benefit from net favorable reserve development on prior accident years. That larger benefit was accounted for almost entirely by our workers' compensation and commercial casualty lines of business. We continue to focus on sound underwriting fundamentals and obtaining adequate premiums for risks insured by each individual policy. Predictive analytics for better pricing precision have been used for our workers' compensation line of business since the second half of 2009. We plan to deploy in 2011 similar tools for our commercial auto, general liability and commercial property lines.

The small increase in the 2010 and 2009 ratios for current accident year before catastrophe losses largely reflects loss cost trends that outpaced earned premium trends. The ratio increase for 2009 was less than it would have been if 2008 had not included approximately $49 million, or 2.1 percentage points, from refinements made to the allocation of IBNR reserves by accident year. We discuss factors affecting the combined ratio and reserve development by line of business below.

Our commercial lines statutory combined ratio was 99.6 percent in 2010 compared with 101.8 percent in 2009 and 96.6 percent in 2008. By comparison, the estimated industry commercial lines combined ratio was 108.5 percent in 2010, 103.0 percent in 2009 and 107.4 percent in 2008. Industry commercial lines estimates include mortgage and financial guaranty insurers, which saw a surge in claims following the historically high level of mortgage defaults in 2008, driving an unusually high industry combined ratio for 2008.

Commercial Lines Insurance Premiums

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
Agency renewal written premiums	$1,978	$2,013	$2,156	(2)	(7)
Agency new business written premiums	289	298	312	(3)	(4)
Other written premiums	(112)	(130)	(157)	14	17
Net written premiums	2,155	2,181	2,311	(1)	(6)
Unearned premium change	(1)	18	5	nm	260
Earned premiums	$ 2,154	$ 2,199	$ 2,316	(2)	(5)

Due to the highly competitive commercial lines markets of several years, we have focused on leveraging our local relationships to benefit from the efforts of our agents and the teams that work with them. We seek to maintain appropriate pricing discipline for both new and renewal business as management emphasizes the importance of assessing account quality to our agencies and underwriters, for careful decisions on a case-by-case basis whether to write or renew a policy. Rate credits may be used to retain renewals of quality business and to earn new business, but we do so selectively in order to avoid commercial accounts that we believe have insufficient profit margins. In recent years we experienced that typically the larger the account, the higher the credits needed to write or retain it, with variations by geographic region and class of business.

In addition to targeting adequate premium per exposure, we also pursue non-pricing means of enhancing longer-term profitability. Non-pricing means have included deliberate reviews to assess each risk, determine limits of insurance and establish appropriate terms and conditions. We continue to adhere to our underwriting guidelines, to re-underwrite books of business with selected agencies and to update policy terms and conditions, leveraging the local presence of our field staff. Our field marketing representatives continue to underwrite new business and meet with local agencies to reaffirm agreements regarding the extent of frontline renewal underwriting that agents will perform. Loss control, machinery and equipment and field claims representatives continue to conduct on-site inspections. To assist underwriters, field claims representatives prepare full reports on their first-hand observations of risk quality.

In recent years, both renewal and new business premium volume reflected the effects of the economic slowdown in many regions, as exposures declined and policyholders became increasingly focused on reducing insurance costs and other expenses. Insured exposures for overall commercial lines were estimated to be down somewhat for the year 2010, but appeared to be flattening by the end of the year. For commercial accounts, we usually calculate general liability premiums based on sales or payroll volume, while we calculate workers' compensation premiums based on payroll volume. A change in sales or payroll volume generally indicates a change in demand for a business's goods or services, as well as a change in its exposure to risk. Policyholders who experience sales or payroll volume changes due to economic factors may also have other exposures requiring insurance, such as commercial auto or commercial property, in addition to general liability and workers' compensation. Premium levels for these other types of coverages generally are not linked directly to sales or payroll volumes.

In 2010, we estimated that policyholders with a contractor-related ISO general liability code accounted for approximately 33 percent of our general liability premiums, which are included in the commercial casualty line of business, and that policyholders with a contractor-related National Council on Compensation Insurance Inc. (NCCI) workers' compensation code accounted for approximately 44 percent of our workers' compensation premiums. The market seeking to insure contractors has been more adversely affected by the economic slowdown than some other markets.

The 2 percent decline in 2010 agency renewal written premiums largely reflects pricing and exposure declines, while policy retention rates remained fairly stable. Our headquarters underwriters talk regularly with agents about renewal business. Our field teams are available to assist headquarters underwriters by conducting inspections and holding renewal review meetings with agency staff. These activities can help verify that a commercial account retains the characteristics that caused us to write the business initially. We measure average changes in commercial lines renewal pricing as the rate of change in renewal premium for the new policy period compared with the premium for the expiring policy period, assuming no change in the level of insured exposures or policy coverage between those periods for respective policies. For policies renewed during both 2010 and 2009, the typical pricing decline on average was in the low-single-digit range. For larger accounts, we typically experienced more significant premium declines and for smaller accounts we sometimes saw little if any premium change at renewal. The 2009 average represented an improvement from the mid-single-digit range average pricing decline experienced in 2008.

In addition to pricing pressures, premiums resulting from audits that confirmed or adjusted premiums based on initial estimates of policyholder sales and payrolls affected premium trends in recent years. Written premiums from audits decreased $29 million and $5 million, respectively, for the years 2010 and 2009, while earned premiums from audits decreased $40 million and $26 million. Compared with late 2009 and early 2010, premiums from audits by the end of 2010 represented only a slight drag, or unfavorable effect, on total commercial lines written and earned premiums, and we expect the effect to become favorable at some point in 2011.

For new business, our field associates are frequently in our agents' offices helping to judge the quality of each account, emphasizing the Cincinnati value proposition, calling on sales prospects with those agents, carefully evaluating risk exposure and providing their best quotes. Some of our new business comes from accounts that are not new to the agent. We believe these seasoned accounts tend to be priced more accurately than business that is less familiar to our agent because it was recently obtained from a competing agent. As we appoint new agencies who choose to move accounts to us, we report these accounts as new business to us.

New business premium volume in recent years has been significantly influenced by new agency appointments. All agencies newly appointed since the beginning of 2009 generated commercial lines new business written premiums of $40 million during 2010, up $26 million from 2009, while all other agencies contributed the remaining $249 million, which was down 12 percent.

Many of the recently appointed agencies are in Texas, which we entered in late 2008, or Colorado, which we entered in 2009. Those two states accounted for over 9 percent of the $289 million 2010 new business volume. On a net written premium basis, agencies in Texas and Colorado contributed $40 million of commercial lines volume during 2010, up $28 million from 2009. The size of the Texas insurance market, relative to most other states, represents significant potential for long-term premium growth.

The table below summarizes the Texas and Colorado agents' contribution to our commercial lines new business and net written premiums. Net written premiums are earned over the term covered by insurance policies and are an important leading indicator of earned premium revenue trends.

(Dollars in millions)	Years ended December 31,			
	2010	2009	Change	Change %
New business written premiums:				
Texas	$19	$11	$8	73
Colorado	8	1	7	700
Subtotal	27	12	15	125
All other states	262	286	(24)	(8)
Total	$ 289	$ 298	$ (9)	(3)
Net written premiums:				
Texas	$30	$11	$19	173
Colorado	10	1	9	900
Subtotal	40	12	28	233
All other states	2,115	2,169	(54)	(2)
Total	$ 2,155	$ 2,181	$ (26)	(1)

In both 2010 and 2009, other written premiums had less of a downward effect on commercial lines net written premiums compared with the prior year. Written premiums ceded to reinsurers were approximately the same for both years. Both 2010 and 2009 had a more favorable adjustment, compared with the prior year, for estimated premiums of policies in effect but not yet processed. The adjustment for estimated premiums had an immaterial effect on earned premiums.

Commercial Lines Insurance Loss and Loss Expenses

Loss and loss expenses include both net paid losses and reserve changes for unpaid losses as well as the associated loss expenses. Most of the incurred losses and loss expenses shown in the three-year highlights table above on Page 54 are for the respective current accident years, and reserve development on prior accident years is shown separately. Since less than half of our consolidated property casualty current accident year incurred losses and loss expenses represents net paid losses, the majority represents reserves for our estimate of ultimate losses and loss expenses. These reserves develop over time, and we re-estimate previously reported reserves as we learn more about the development of the related claims. The table below illustrates that development. For example, the 75.5 percent accident year 2009 loss and loss expense ratio reported as of December 31, 2009, developed favorably by 8.0 percentage points to 67.5 percent due to settling claims for less than previously estimated, or due to updated reserve estimates for unpaid claims, as of December 31, 2010. Accident years 2009 and 2008 for the commercial lines segment have both developed favorably, as indicated by the progression over time for the ratios in the table.

(Dollars in millions)
Accident year loss and loss expenses incurred and ratios to earned premiums:

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$1,706	$1,485	$1,582	79.2 %	67.5 %	68.3 %
as of December 31, 2009		1,662	1,644		75.5	71.0
as of December 31, 2008			1,777			76.7

Catastrophe losses, as discussed in Consolidated Property Casualty Insurance Results of Operations, Page 49, explain some of the movement in accident year loss and loss expense ratios among years 2008 through 2010. Catastrophe losses added 4.7 percentage points for 2010, 3.0 points for 2009 and 4.6 points for 2008 to the respective commercial lines accident year loss and loss expense ratios in the table above.

The trend for our commercial lines current accident year loss and loss expense ratio before catastrophe losses over the past three years reflected normal loss cost inflation as well as softer pricing that began in 2005 and continued through 2010, as discussed above in Commercial Lines Insurance Premiums. In addition, previously discussed refinements made to the allocation of IBNR reserves by accident year increased the 2008 ratio.

Commercial lines reserve development on prior accident years continued to net to a favorable amount in 2010, as $269 million was recognized, similar to $273 million in 2008. During 2009, the $147 million of net favorable development recognized was lower, due primarily to unfavorable development of workers' compensation reserves totaling $48 million, including strengthening of reserves by $49 million in first half of the year, as discussed in Commercial Lines Insurance Results of Operations, Commercial Lines of Business Analysis, Page 58.

Most of the commercial lines reserve development on prior accident years reported in years 2008 through 2010 occurred in our commercial casualty line of business. Development by line of business and other trends for commercial lines loss and loss expenses and the related ratios are further analyzed in Commercial Lines of Business Analysis, beginning on Page 58.

Commercial Lines Insurance Losses by Size

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
New losses greater than $4,000,000	$44	$52	$41	(15)	27
New losses $1,000,000-$4,000,000	120	130	153	(8)	(15)
New losses $250,000-$1,000,000	148	164	184	(10)	(11)
Case reserve development above $250,000	164	245	229	(33)	7
Total large losses incurred	476	591	607	(19)	(3)
Other losses excluding catastrophe losses	587	565	547	4	3
Catastrophe losses	89	54	103	65	(47)
Total losses incurred	$1,152	$1,210	$1,257	(5)	(4)
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
New losses greater than $4,000,000	2.0 %	2.4 %	1.8 %	(0.4)	0.6
New losses $1,000,000-$4,000,000	5.6	5.9	6.6	(0.3)	(0.7)
New losses $250,000-$1,000,000	6.9	7.5	8.0	(0.6)	(0.5)
Case reserve development above $250,000	7.6	11.2	9.9	(3.6)	1.3
Total large loss ratio	22.1	27.0	26.3	(4.9)	0.7
Other losses excluding catastrophe losses	27.3	25.7	23.4	1.6	2.3
Catastrophe losses	4.1	2.5	4.5	1.6	(2.0)
Total loss ratio	53.5 %	55.2 %	54.2 %	(1.7)	1.0

In 2010, total large losses incurred decreased by $115 million or 19 percent, helping to lower the corresponding ratio by 4.9 percentage points. The majority of the decrease was for claims related to general liability coverages, largely included in our commercial casualty line of business. The 2009 decline of $16 million or 3 percent for total large losses incurred was more than offset by a larger decline in commercial lines earned premiums, causing an increase in the ratio. Our analysis indicated no unexpected concentration of these losses and reserve increases by geographic region, policy inception, agency or field marketing territory. We believe the inherent volatility of aggregate loss experience for our portfolio of larger policies is greater than that of our portfolio of smaller policies, and we continue to monitor the volatility in addition to general inflationary trends in loss costs. In 2009, we raised the casualty treaty retention to $6 million from $5 million and raised the property treaty retention to $5 million from $4 million.

Commercial Lines Insurance Underwriting Expenses

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
Commission expenses	$ 391	$ 408	$ 417	(4)	(2)
Other underwriting expenses	299	294	310	2	(5)
Policyholder dividends	14	17	15	(18)	13
Total underwriting expenses	$ 704	$ 719	$ 742	(2)	(3)
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Commission expenses	18.2 %	18.6 %	18.0 %	(0.4)	0.6
Other underwriting expenses	13.8	13.3	13.5	0.5	(0.2)
Policyholder dividends	0.7	0.8	0.6	(0.1)	0.2
Total underwriting expense ratio	32.7 %	32.7 %	32.1 %	0.0	0.6

Commercial lines commission expenses as a percent of earned premium declined during 2010, primarily due to lower agency contingent commissions. Non-commission underwriting expenses rose 2 percent in 2010 but were lower than the 2008 level. The 2010 ratio rose primarily due to lower earned premiums.

Commercial Lines of Business Analysis

Approximately 95 percent of our commercial lines premiums relate to accounts with coverages from more than one of our business lines. As a result, we believe that the commercial lines segment is best measured and evaluated on a segment basis. However, we provide line-of-business data to summarize growth and profitability trends separately for each line. The accident year loss data provides current estimates of incurred loss and loss expenses and corresponding ratios over the most recent three accident years. Accident year data classifies losses according to the year in which the corresponding loss events occur, regardless of when the losses are actually reported, recorded or paid.

For 2010, based on the total loss and loss expense ratio, commercial casualty, our largest line of business, continued to be highly profitable. Workers' compensation and specialty packages had 2010 total loss and loss expense ratios significantly higher than we desired. As discussed below, we are taking actions to improve pricing and reduce loss costs to benefit future profitability trends.

Commercial Casualty

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Commercial casualty:					
Net written premiums	$686	$704	$764	(3)	(8)
Earned premiums	693	712	763	(3)	(7)
Loss and loss expenses from:					
Current accident year before catastrophe losses	555	542	576	2	(6)
Current accident year catastrophe losses	0	0	0	nm	nm
Prior accident years before catastrophe losses	(186)	(154)	(257)	(21)	40
Prior accident years catastrophe losses	0	0	0	nm	nm
Total loss and loss expenses	$369	$388	$319	(5)	22
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	80.1%	76.2%	75.4%	3.9	0.8
Current accident year catastrophe losses	0.0	0.0	0.0	0.0	0.0
Prior accident years before catastrophe losses	(26.9)	(21.6)	(33.7)	(5.3)	12.1
Prior accident years catastrophe losses	0.0	0.0	0.0	0.0	0.0
Total loss and loss expense ratio	53.2%	54.6%	41.7%	(1.4)	12.9

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

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$555	$437	$436	80.1%	61.4%	57.1%
as of December 31, 2009		542	488		76.2	63.9
as of December 31, 2008			576			75.4

Commercial casualty is our largest line of business and has in recent years maintained a very satisfactory total loss and loss expense ratio. The rate of decline in commercial casualty premiums slowed in 2010, despite ongoing pressure from market competition. Economic trends showed modest improvement during the year, causing corresponding changes in underlying insured exposures, particularly for general liability coverages where the premium amount is heavily influenced by economically-driven measures of risk exposure such as sales volume.

The 2010 calendar year total loss and loss expense ratio improved somewhat, largely due to a higher level, compared with 2009, of favorable development on prior accident year reserves. Factors contributing to the higher level of favorable prior accident year reserve development included a moderation in trend for future umbrella coverage payments and less volatility in the trend estimates for future commercial multiple peril payments.

The 2010 current accident year loss and loss expense ratio before catastrophe losses deteriorated by 3.9 percentage points compared with accident year 2009, reflecting lower pricing per exposure and normal loss cost inflation.

Commercial Property

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Commercial property:					
Net written premiums	$497	$485	$481	2	1
Earned premiums	489	485	487	1	0
Loss and loss expenses from:					
Current accident year before catastrophe losses	286	257	282	11	(9)
Current accident year catastrophe losses	75	42	81	79	(48)
Prior accident years before catastrophe losses	(3)	(5)	(7)	40	29
Prior accident years catastrophe losses	(7)	(11)	(3)	36	(267)
Total loss and loss expenses	$351	$283	$353	24	(20)
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	58.4 %	53.1 %	57.7 %	5.3	(4.6)
Current accident year catastrophe losses	15.4	8.8	16.6	6.6	(7.8)
Prior accident years before catastrophe losses	(0.6)	(1.1)	(1.3)	0.5	0.2
Prior accident years catastrophe losses	(1.4)	(2.2)	(0.4)	0.8	(1.8)
Total loss and loss expense ratio	71.8 %	58.6 %	72.6 %	13.2	(14.0)

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

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$361	$291	$349	73.8 %	60.2 %	71.6 %
as of December 31, 2009		299	348		61.9	71.5
as of December 31, 2008			363			74.3

Commercial property is our second largest line of business. Net written premiums for 2010 were up, largely due to an $8 million or 14 percent increase in new business written premiums.

The 2010 calendar year total loss and loss expense ratio was higher than the very profitable level of 2009, primarily due to higher catastrophe losses and large losses for fires and non-catastrophe weather.

The 2010 current accident year loss and loss expense ratio before catastrophe losses also was higher, compared with accident year 2009, due to higher large losses for fires and non-catastrophe weather, in addition to lower pricing per exposure and normal loss cost inflation. In 2011 we plan to improve pricing precision for commercial property as we begin using predictive modeling tools. In addition, we have increased our loss control staff and are studying methods for improving the effectiveness of conducting property inspections for both new and renewal business.

Commercial Auto

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Commercial auto:					
Net written premiums	$385	$388	$402	(1)	(3)

Earned premiums	384	394	411	(3)	(4)
Loss and loss expenses from:					
Current accident year before catastrophe losses	269	273	303	(1)	(10)
Current accident year catastrophe losses	4	3	2	33	50
Prior accident years before catastrophe losses	(32)	(20)	(8)	(60)	(150)
Prior accident years catastrophe losses	(1)	0	0	nm	nm
Total loss and loss expenses	$240	$256	$297	(6)	(14)

				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	70.0 %	69.2 %	73.7 %	0.8	(4.5)
Current accident year catastrophe losses	1.1	0.7	0.6	0.4	0.1
Prior accident years before catastrophe losses	(8.2)	(5.0)	(2.0)	(3.2)	(3.0)
Prior accident years catastrophe losses	(0.3)	0.0	0.0	(0.3)	0.0
Total loss and loss expense ratio	62.6 %	64.9 %	72.3 %	(2.3)	(7.4)

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

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$273	$253	$283	71.1 %	64.2 %	68.9 %
as of December 31, 2009		276	292		69.9	71.0
as of December 31, 2008			305			74.3

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

The calendar year total loss and loss expense ratio improved during 2010 due to a higher amount of favorable development on prior accident year reserves. The ratio was at a profitable level for both 2009 and 2010.

The 2010 accident year loss and loss expense ratio was up slightly compared with accident year 2009, as a lower level of large losses partially offset lower pricing per exposure and higher physical damage losses.

Workers' Compensation

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
Workers' compensation:					
Net written premiums	$310	$323	$382	(4)	(15)
Earned premiums	311	326	375	(5)	(13)
Loss and loss expenses from:					
Current accident year before catastrophe losses	331	355	342	(7)	4
Current accident year catastrophe losses	0	0	0	nm	nm
Prior accident years before catastrophe losses	(39)	48	(3)	nm	nm
Prior accident years catastrophe losses	0	0	0	nm	nm
Total loss and loss expenses	$292	$403	$339	(28)	19
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	106.5 %	108.8 %	91.1 %	(2.3)	17.7
Current accident year catastrophe losses	0.0	0.0	0.0	0.0	0.0
Prior accident years before catastrophe losses	(12.6)	14.7	(0.7)	(27.3)	15.4
Prior accident years catastrophe losses	0.0	0.0	0.0	0.0	0.0
Total loss and loss expense ratio	93.9 %	123.5 %	90.4 %	(29.6)	33.1

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

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$331	$302	$335	106.5 %	92.4 %	89.3 %
as of December 31, 2009		355	331		108.8	88.1
as of December 31, 2008			342			91.1

Workers' compensation net written premiums for 2010 were down $13 million, largely due to an $8 million or 17 percent decrease in new business written premiums. Premiums resulting from audits of initially recorded premiums, based on policyholder payroll levels, also lowered net written premiums, reflecting the slow economy of recent years. Net written premiums declined sharply in 2009, primarily due to economically-related lower insured exposures and more selective underwriting resulting in the non-renewal of a number of policies in our worst pricing tiers.

Since we pay a lower commission rate on workers' compensation business, this line has a higher calendar year loss and loss expense breakeven point than our other commercial business lines. Nonetheless, the ratio was at an unprofitable level in each of the last three years, and management continues to work to improve financial performance for this line. During 2009, we began using a predictive modeling tool to improve risk selection and pricing adequacy. Predictive modeling increases pricing adequacy and precision so that our agents can better compete for the most desirable workers' compensation business. We also added to our staff of loss control field representatives, premium audit field representatives and field claims representatives specializing in workers' compensation risks. In early 2010, we implemented direct reporting of workers' compensation claims, allowing us to quickly obtain detailed information to promptly assign the appropriate level of claims handling expertise to each case. Obtaining more information sooner for specific claims allows for medical care appropriate to the nature of each injury, benefiting injured workers, employers and agents while ultimately lowering overall loss costs.

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

The calendar year total loss and loss expense ratio improved during 2010 primarily due to $39 million of favorable development on prior accident year reserves. Most of the favorable reserve development was for accident year 2009; approximately half of the favorable development was for losses and the other half was for loss adjustment expenses related to reserves for our claims staff to settle outstanding claims. In 2009, we recognized $48 million in unfavorable reserve development on accident years 2005 and prior as discussed below.

Our workers' compensation reserve analyses completed during the first half of 2009 indicated that loss cost inflation was higher than previously estimated, leading us to make more conservative assumptions about future loss cost inflation when estimating loss reserves, thereby significantly increasing losses incurred. The higher estimates of loss cost inflation derived from analyses during 2009 affected reserves estimated for many prior accident years, resulting in $48 million of net unfavorable development on prior accident year reserves.

The 2010 accident year loss and loss expense ratio of 106.5 percent was down slightly from accident year 2009 of 108.8 percent estimated as of December 31, 2009. We believe the improvement is due to initiatives begun early in 2010 as mentioned above. Reserve development is further discussed in Commercial Lines Insurance Segment Reserves, beginning on Page 85.

Specialty Packages

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
Specialty packages:					
Net written premiums	$149	$148	$145	1	2
Earned premiums	149	147	144	1	2
Loss and loss expenses from:					
Current accident year before catastrophe losses	91	84	87	8	(3)
Current accident year catastrophe losses	22	21	23	5	(9)
Prior accident years before catastrophe losses	2	1	(3)	100	nm
Prior accident years catastrophe losses	(4)	(1)	(1)	(300)	0
Total loss and loss expenses	$111	$105	$106	6	(1)
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	61.1%	56.9%	60.8%	4.2	(3.9)
Current accident year catastrophe losses	14.5	14.2	15.6	0.3	(1.4)
Prior accident years before catastrophe losses	1.8	0.3	(2.5)	1.5	2.8
Prior accident years catastrophe losses	(2.6)	(0.8)	(0.4)	(1.8)	(0.4)
Total loss and loss expense ratio	74.8%	70.6%	73.5%	4.2	(2.9)

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

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$113	$105	$106	75.6%	71.1%	73.8%
as of December 31, 2009		105	106		71.1	73.9
as of December 31, 2008			110			76.4

Specialty packages premiums were up slightly over the three-year period.

The calendar year and accident year loss and loss expense ratios reflected a high level of catastrophe losses for each year in the three-year period. Losses for 2010 also reflected a higher level of large losses for fires and non-catastrophe weather, increasing both the calendar year and accident year ratios for 2010. In addition, pricing reductions and normal loss cost inflation continued to put upward pressure on the ratios. Our adverse loss experience has been primarily driven by our Religious Institutions Program as our other specialty programs have generally performed adequately. We are working to improve this program, including enhanced pricing precision through predictive models and greater attention as management of the program shifts to our Target Markets department. Improved pricing precision and additional loss control actions will be used later for the other programs in our Specialty Packages line of business as well.

Surety and Executive Risk

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
Surety and executive risk:					
Net written premiums	$93	$101	$107	(8)	(6)
Earned premiums	95	104	107	(9)	(3)
Loss and loss expenses from:					
Current accident year before catastrophe losses	64	76	71	(16)	7
Current accident year catastrophe losses	0	0	0	nm	nm
Prior accident years before catastrophe losses	3	(3)	7	nm	nm
Prior accident years catastrophe losses	0	0	0	nm	nm
Total loss and loss expenses	$67	$73	$78	(8)	(6)
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	66.5 %	73.2 %	66.1 %	(6.7)	7.1
Current accident year catastrophe losses	0.0	0.0	0.0	0.0	0.0
Prior accident years before catastrophe losses	3.4	(2.7)	6.5	6.1	(9.2)
Prior accident years catastrophe losses	0.0	0.0	0.0	0.0	0.0
Total loss and loss expense ratio	69.9 %	70.5 %	72.6 %	(0.6)	(2.1)

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

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$64	$90	$63	66.5 %	86.7 %	59.0 %
as of December 31, 2009		76	69		73.2	64.5
as of December 31, 2008			71			66.1

Surety and executive risk premiums declined in both 2010 and 2009, primarily due to our non-renewal of many policies as we improved the quality of the financial institution portion of this book of business.

Director and officer liability coverage accounted for 59.8 percent of surety and executive risk net written premiums in 2010 compared with 60.5 percent in 2009 and 63.0 percent in 2008. We have actively managed the potentially high risk of writing director and officer liability by:

- Marketing primarily to nonprofit organizations, which accounted for approximately 72 percent of the policies and 40 percent of the premium volume for director and officer liability new business written in 2010.

- Closely monitoring our for-profit policyholders – At year-end 2010, our in-force director and officer liability policies provided coverage to 13 non-financial publicly traded companies, including two Fortune 1000 companies. We also provided this coverage to approximately 500 banks, savings and loans and other financial institutions. The majority of these financial institution policyholders are smaller community banks, and we believe they have no unusual exposure to credit-market concerns, including subprime mortgages. Based on new policy data or information from the most recent policy renewal, only 15 of our bank and savings and loan policyholders have assets greater than $2 billion; only 23 have assets from $1 billion to $2 billion; and 54 have assets from $500 million to $1 billion.

- Writing on a claims-made basis, which normally restricts coverage to losses reported during the policy term.

- Providing limits no higher than $10 million with facultative or treaty reinsurance in place in 2011 to cover losses greater than $6 million.

The calendar year total loss and loss expense ratio improved during 2010 due to lower losses for accident year 2010 that were partially offset by unfavorable development on prior accident year reserves.

The 2010 accident year loss and loss expense ratio improved compared with accident year 2009 due in part to a lower level of large losses. Both the calendar year and current accident year loss and loss expense ratios for 2009 were relatively high, primarily due to director and officer large losses from claims related to prior lending practices at financial institutions. To address the potential risk inherent in the financial institutions book of our surety and executive risk business line moving forward, we continue to work with our agents to limit the number of new director and officer policies for financial institutions, in addition to using credit rating and other metrics to carefully re-underwrite in-force policies when they are considered for renewal.

Machinery and Equipment

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
Machinery and equipment:					
Net written premiums	$35	$32	$30	9	7
Earned premiums	33	31	29	6	7
Loss and loss expenses from:					
Current accident year before catastrophe losses	9	9	11	0	(18)
Current accident year catastrophe losses	0	0	0	nm	nm
Prior accident years before catastrophe losses	(2)	(2)	1	0	nm
Prior accident years catastrophe losses	0	0	0	nm	nm
Total loss and loss expenses	$7	$7	$12	0	(42)

				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	28.2 %	26.9 %	36.1 %	1.3	(9.2)
Current accident year catastrophe losses	0.0	0.3	0.9	(0.3)	(0.6)
Prior accident years before catastrophe losses	(6.0)	(5.8)	5.5	(0.2)	(11.3)
Prior accident years catastrophe losses	(0.3)	0.2	0.0	(0.5)	0.2
Total loss and loss expense ratio	21.9 %	21.6 %	42.5 %	0.3	(20.9)

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

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$9	$7	$10	28.2 %	23.3 %	33.2 %
as of December 31, 2009		9	10		27.2	35.6
as of December 31, 2008			11			37.0

Machinery and equipment premiums continued to rise over the three year period, reflecting our superior service, including experienced specialist who support agencies in writing this line of business. The calendar year and accident year loss and loss expense ratios were low for 2010 and 2009, although they can fluctuate substantially due to the relatively small size of this business line.

Commercial Lines Insurance Outlook

Industrywide commercial lines written premiums are projected to increase less than 1 percent in 2011 with the industry statutory combined ratio estimated at approximately 110 percent. As discussed in Item 1, Commercial Lines Property Casualty Insurance Segment, Page 12, over the past several years, renewal and new business pricing has come under steadily increasing pressure, reinforcing the need for more pricing analytics and careful risk selection. While competition remains intense, pricing changes seem to be leveling off. Despite challenging market conditions, we believe we can manage our business and execute strategic initiatives to offset market pressures to some extent and still profitably grow our commercial lines segment.

We intend to continue marketing our products to a broad range of business classes with a package approach, while improving our pricing precision. We intend to maintain our underwriting selectivity and carefully manage our rate levels as well as our programs that seek to accurately match exposures with appropriate premiums. We will continue to evaluate each risk individually and to make decisions about rates, the use of three-year commercial policies and other policy conditions on a case-by-case basis, even in lines and classes of business that are under competitive pressure. Nonetheless, we expect commercial lines profitability to remain under pressure in 2011, in part due to small average pricing declines on policies renewed during 2010 for which premiums will be earned during 2011.

In Item 1, Strategic Initiatives, Page 9, we discuss the initiatives we are implementing to achieve our corporate performance objectives. We discuss factors influencing future results of our property casualty insurance operations in the Executive Summary, Page 36.

Personal Lines Insurance Results of Operations

Overview — Three-Year Highlights

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Earned premiums	$721	$685	$689	5	(1)
Fee revenues	2	1	1	100	0
Total premiums and fee revenues	723	686	690	5	(1)
Loss and loss expenses from:					
Current accident year before catastrophe losses	508	485	498	5	(3)
Current accident year catastrophe losses	63	106	99	(41)	7
Prior accident years before catastrophe losses	(29)	(45)	(51)	36	12
Prior accident years catastrophe losses	(5)	5	1	nm	400
Total loss and loss expenses	537	551	547	(3)	1
Underwriting expenses	240	215	224	12	(4)
Underwriting loss	$ (54)	$ (80)	$ (81)	33	1
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	70.4 %	70.9 %	72.2 %	(0.5)	(1.3)
Current accident year catastrophe losses	8.8	15.4	14.4	(6.6)	1.0
Prior accident years before catastrophe losses	(4.1)	(6.6)	(7.3)	2.5	0.7
Prior accident years catastrophe losses	(0.7)	0.7	0.1	(1.4)	0.6
Total loss and loss expenses	74.4	80.4	79.4	(6.0)	1.0
Underwriting expenses	33.3	31.4	32.5	1.9	(1.1)
Combined ratio	107.7 %	111.8 %	111.9 %	(4.1)	(0.1)
Combined ratio:	107.7 %	111.8 %	111.9 %	(4.1)	(0.1)
Contribution from catastrophe losses and prior years reserve development	4.0	9.5	7.2	(5.5)	2.3
Combined ratio before catastrophe losses and prior years reserve development	103.7 %	102.3 %	104.7 %	1.4	(2.4)

Performance highlights for the personal lines segment include:

- Premiums – Earned premiums and net written premiums increased in 2010, due to higher renewal and new business premiums that reflected improved pricing, including rate changes effective late 2009 for most states and representing a net rate increase on average. During 2009, we adjusted pricing in an effort to return to consistent profitability in our personal lines segment. Net written premiums grew slightly, driven by new business growth that included expansion into new states where we previously offered only commercial lines policies. Industry average written premium growth was estimated at approximately 3 percent in 2010, up from negative 1 percent in both 2009 and 2008.

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Combined ratio – The combined ratio improved 4.1 percentage points in 2010, mostly due to lower weather-related catastrophe losses and partly due to improved pricing. The improvement was partially offset by a higher underwriting expense ratio and a lower benefit from net favorable reserve development on prior accident years. The 2010 level of catastrophe losses, with an 8.1 percent ratio, returned to near longer-term historical averages, just 0.4 percentage points below the 10-year average of 8.5 percent. The ratio for catastrophe losses in 2009, at 16.1 percent, was approximately twice the 10-year historical average but was only 1.6 percentage points higher than 2008. The current accident year loss and loss expense ratio, before catastrophe losses, improved slightly during 2010 and reflected better underwriting and pricing. For 2009, it trended up slightly, once refinements made to the IBNR reserve allocation in 2008 were taken into account. The 2008 ratio included approximately $20 million, or 2.9 percentage points, from refinements made to the allocation of IBNR reserves by accident year.

Our personal lines statutory combined ratio was 107.1 percent in 2010, 111.4 percent in 2009 and 111.6 percent in 2008. By comparison, the estimated industry personal lines combined ratio was 99.5 percent in 2010, 100.6 percent in 2009 and 103.6 percent in 2008. Our concentration of business in areas hard-hit by catastrophe events contributed to recent results that differed from the overall industry, an issue we are addressing in part through geographic expansion as noted below. The contribution of catastrophe losses to our personal lines statutory combined ratio was 8.1 percentage points in 2010, 16.1 percent points in 2009 and 14.5 percentage points in 2008, compared with an estimated 5.5, 4.9 and 7.5 percentage points, respectively, for the industry.

Personal Lines Insurance Premiums

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Agency renewal written premiums	$685	$ 642	$672	7	(4)
Agency new business written premiums	90	75	42	20	79
Other written premiums	(25)	(26)	(29)	4	10
Net written premiums	750	691	685	9	1
Unearned premium change	(29)	(6)	4	(383)	nm
Earned premiums	$ 721	$ 685	$ 689	5	(1)

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

Our personal lines policy retention and new business levels have remained at higher levels following introduction in recent years of a limited program of policy credits for personal auto and homeowner pricing in most of the states in which we operate. The program provided credits for eligible new and renewal policyholders identified as above-average quality risks. Additional pricing and credit changes were implemented in early 2009, further improving pricing for the best accounts, which should help us retain and attract more of our agents' preferred business.

The 7 percent increase in 2010 agency renewal written premiums reflected various rate changes that were implemented beginning in October 2009. Increases for the homeowner line of business averaging approximately 5 percent, with some individual policy rate increases in the double-digit range, should improve loss ratios as the increases are earned. Similar rate changes, with a slightly higher average rate increase, were implemented in the fourth quarter of 2010 for states representing the majority of our personal lines business. Rate changes for our personal auto line of business implemented during the fourth quarter of 2010 represented an average rate increase in the low-single-digit range. The 2010 personal auto rate changes reflected enhanced pricing precision enabled by the recent deployment of predictive models. Predictive modeling tools also influenced policy pricing and various rate changes during 2008 through 2010 for our homeowner line of business.

In 2010, our personal lines new business premiums written by our agencies grew 20 percent. We believe the main drivers for the growth were more attractive pricing, plus ease of use and efficiency gained by agencies from the new version of our Diamond personal lines policy processing system deployed in early 2010. New business also rose strongly in 2009 as the number of agency locations writing our personal lines rose by 133, or 14.4 percent, following an increase of 136 agency locations in 2008. Since early 2008, we have worked to improve our geographic diversification by expanding our personal lines operation to several states less prone to catastrophes. Seven states where we began writing business or significantly expanded our personal lines product offerings and automation capabilities, beginning in 2008, accounted for $13 million of the 2009 increase in our personal lines new business written premiums. Those seven states are Arizona, Idaho, Maryland, Montana, North Carolina, South Carolina, and Utah.

For the three-year period, other written premiums, primarily premiums that are ceded to reinsurers and that lower our net written premiums, remained relatively stable. Additional premiums ceded to reinsurers to reinstate our catastrophe reinsurance treaty contributed $9 million to other written premiums in 2008.

Personal Lines Insurance Loss and Loss Expenses

Loss and loss expenses include both net paid losses and reserve changes for unpaid losses as well as the associated loss expenses. Most of the incurred losses and loss expenses shown in the three-year highlights table above on Page 64 are for the respective current accident years, and reserve development on prior accident years is shown separately. Since approximately two-thirds of our personal lines current accident year incurred losses and loss expenses represent net paid losses, the remaining one-third represents reserves for our estimate of ultimate losses and loss expenses. These reserves develop over time, and we re-estimate previously reported reserves as we learn more about the development of the related claims. The table below illustrates that development. For example, the 86.3 percent accident year 2009 loss and loss expense ratio reported as of December 31, 2009, developed favorably by 1.8 percentage points to 84.5 percent due to settling claims for less than previously estimated, or due to updated reserve estimates for unpaid claims, as of December 31, 2010. Accident years 2009 and 2008 for the personal lines segment have both developed favorably, as indicated by the progression over time for the ratios in the table.

(Dollars in millions)
Accident year loss and loss expenses incurred and ratios to earned premiums:

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$571	$579	$562	79.2 %	84.5 %	81.5 %
as of December 31, 2009		591	575		86.3	83.4
as of December 31, 2008			597			86.6

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Catastrophe losses, as discussed in Consolidated Property Casualty Insurance Results of Operations, Page 49, explain some of the movement in accident year loss and loss expense ratios among the years 2008 through 2010. Catastrophe losses added 8.8 percentage points for 2010, 15.4 points for 2009 and 14.4 points for 2008 to the respective personal lines accident year loss and loss expense ratios in the table above. Catastrophe losses were unusually high during 2009 and 2008, and also are inherently volatile, as discussed above and in Consolidated Property Casualty Insurance Results of Operations, Page 49.

The trend for our personal lines current accident year loss and loss expense ratio before catastrophe losses over the past three years reflected normal loss cost inflation, better risk selection and improved pricing, as discussed above in Personal Lines Insurance Premiums. Higher non-catastrophe weather-related losses also affected trends, particularly for 2008 and 2009, and large losses described below also were a factor. In addition, previously discussed refinements made to the allocation of IBNR reserves by accident year increased the 2008 ratio.

Personal lines reserve development on prior accident years continued to net to a favorable amount in 2010, as $34 million was recognized, somewhat lower than $40 million in 2009 and $50 million in 2008. Most of the personal lines reserve development on prior accident years for years 2008 through 2010 occurred in our other personal line of business, primarily for personal umbrella liability coverage. Development by line of business and other trends for personal lines loss and loss expenses and the related ratios are further analyzed in Personal Lines of Business Analysis, beginning on Page 67, and in Personal Lines Insurance Segment Reserves, Page 87.

Personal Lines Insurance Losses by Size

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
New losses greater than $4,000,000	$5	$5	$5	0	0
New losses $1,000,000-$4,000,000	20	17	16	18	8
New losses $250,000-$1,000,000	41	48	44	(15)	7
Case reserve development above $250,000	11	19	16	(42)	25
Total large losses incurred	77	89	81	(13)	10
Other losses excluding catastrophe losses	336	281	295	20	(4)
Catastrophe losses	58	111	100	(48)	10
Total losses incurred	$471	$481	$476	(2)	1
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
New losses greater than $4,000,000	0.7 %	0.7 %	0.7 %	0.0	0.0
New losses $1,000,000-$4,000,000	2.8	2.5	2.3	0.3	0.2
New losses $250,000-$1,000,000	5.7	6.9	6.4	(1.2)	0.5
Case reserve development above $250,000	1.6	2.8	2.3	(1.2)	0.5
Total large losses incurred	10.8	12.9	11.7	(2.1)	1.2
Other losses excluding catastrophe losses	46.5	41.1	42.8	5.4	(1.7)
Catastrophe losses	8.1	16.2	14.5	(8.1)	1.7
Total loss ratio	65.4 %	70.2 %	69.0 %	(4.8)	1.2

In 2010, total large losses incurred decreased by $12 million or 13 percent, helping to lower the corresponding ratio by 2.1 percentage points. The majority of the decrease was for claims related to our personal auto line of business. In 2009 the total large losses incurred ratio was higher than it was in 2008, primarily due to more homeowner fire losses. Our analysis indicated no unexpected concentration of these losses and reserve increases by risk category, geographic region, policy inception, agency or field marketing territory. We believe the inherent volatility of aggregate loss experience for our portfolio of larger policies is greater than that of our portfolio of smaller policies, and we continue to monitor the volatility in addition to general inflationary trends in loss costs.

Personal Lines Insurance Underwriting Expenses

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Commission expenses	$145	$137	$137	6	0
Other underwriting expenses	95	78	87	22	(10)
Total underwriting expenses	$240	$215	$224	12	(4)
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Commission expenses	20.1 %	19.9 %	19.8 %	0.2	0.1
Other underwriting expenses	13.2	11.5	12.7	1.7	(1.2)
Total underwriting expense ratio	33.3 %	31.4 %	32.5 %	1.9	(1.1)

Personal lines commission expense as a percent of earned premium increased slightly in 2010 and 2009, primarily due to higher agency contingent commissions.

Other underwriting expenses grew $17 million or 22 percent, primarily due to a first-quarter 2010 provision for matters involving prior years and related to Note 16, Commitments and Contingent Liabilities, Page 125. They declined in 2009 primarily due to lower depreciation expense on previously capitalized software expenditures. An unusual expense of $3 million due to a pension charge was included in the 2008 ratio.

Personal Lines of Business Analysis

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

For 2010, the homeowner line of business had a total loss and loss expense ratio significantly higher than desired. As discussed below, we are taking actions to improve pricing and reduce loss costs that we expect to benefit future profitability trends.

Personal Auto

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Personal auto:					
Net written premiums	$352	$324	$320	9	1
Earned premiums	337	319	325	6	(2)
Loss and loss expenses from:					
Current accident year before catastrophe losses	239	224	226	7	(1)
Current accident year catastrophe losses	3	3	4	0	(25)
Prior accident years before catastrophe losses	(7)	(6)	(12)	(17)	50
Prior accident years catastrophe losses	0	0	0	nm	nm
Total loss and loss expenses	$235	$221	$218	6	1
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	70.9 %	70.2 %	69.4 %	0.7	0.8
Current accident year catastrophe losses	1.1	1.0	1.2	0.1	(0.2)
Prior accident years before catastrophe losses	(2.1)	(2.0)	(3.4)	(0.1)	1.4
Prior accident years catastrophe losses	(0.1)	(0.2)	0.0	0.1	(0.2)
Total loss and loss expense ratio	69.8 %	69.0 %	67.2 %	0.8	1.8

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

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$242	$225	$225	72.0 %	70.4 %	69.2 %
as of December 31, 2009		227	227		71.2	69.8
as of December 31, 2008			230			70.6

Net written premiums for personal auto increased significantly in 2010, in part due to strong new business growth.

The calendar year total loss and loss expense ratio rose slightly over the three-year period. In recent years, we have seen generally higher costs for liability claims, including severe injuries, and we have sought rate increases for liability coverages that partially offset price decreases for physical damage coverages. Pricing precision is being improved through use of the recently deployed predictive modeling tool. In addition to using the tool as part of rate changes implemented in the fourth quarter of 2010, we expect another round of rate changes, representing another net increase in rates on average, effective late 2011.

The 2010 current accident year loss and loss expense ratio before catastrophe losses deteriorated slightly compared with accident year 2009, primarily due to earned pricing changes.

Homeowner

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Homeowner:					
Net written premiums	$299	$275	$277	9	(1)
Earned premiums	289	276	277	5	0
Loss and loss expenses from:					
Current accident year before catastrophe losses	208	202	194	3	4
Current accident year catastrophe losses	56	96	89	(42)	8
Prior accident years before catastrophe losses	(2)	(5)	(9)	60	44
Prior accident years catastrophe losses	(4)	5	1	nm	400
Total loss and loss expenses	$258	$298	$275	(13)	8
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	72.0 %	73.0 %	69.9 %	(1.0)	3.1
Current accident year catastrophe losses	19.3	34.7	32.1	(15.4)	2.6
Prior accident years before catastrophe losses	(0.9)	(1.6)	(3.2)	0.7	1.6
Prior accident years catastrophe losses	(1.4)	1.7	0.4	(3.1)	1.3
Total loss and loss expense ratio	89.0 %	107.8 %	99.2 %	(18.8)	8.6

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

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$264	$295	$279	91.3 %	106.9 %	100.5 %
as of December 31, 2009		298	281		107.7	101.5
as of December 31, 2008			283			102.0

Net written premiums for homeowner increased significantly in 2010, in part due to strong new business growth. Premiums ceded for reinsurance, which reduce premium revenue, were $18 million in 2010, $22 million in 2009, and $26 million in 2008, including a 2008 reinstatement premium of $8 million. The pricing changes of the past several years have had a positive effect on policyholder retention and new business activity. We continue to monitor and modify selected rates and credits to address our competitive position and to achieve long-term profitability. Implementation of predictive modeling has provided additional pricing points to target profitability. Various rate changes were implemented in both late October 2010 and 2009, including rate increases that respond in part to weather-related loss trends as well as other trends in loss costs. The 2009 increases for the homeowner line of business averaged approximately 6 percent in affected states and 5 percent overall, although some individual policies experienced renewal increases in the double-digit range. The average effect of the 2010 rate changes were approximately the same as 2009 and should lower loss ratios as the rate increases are earned. We also continue our gradual geographic diversification into states less prone to catastrophe losses, which we believe will reduce variability in the long-term future catastrophe loss ratio. These actions are important steps we are taking to improve homeowner results.

The calendar year total loss and loss expense ratio over the past three years fluctuated with catastrophe losses, non-catastrophe weather-related losses and other large losses. A $5 million increase in 2010 large losses, compared with 2009, contributed 1.7 percentage points to the homeowner loss ratio. The 2010 catastrophe loss effect of 17.9 percentage points returned to a level near historical averages. In 2008 and 2009, our catastrophe loss ratio averaged

34.5 percent, compared with a 10-year average through 2007 of 17.4 percent.

The current accident year loss and loss expense ratio before catastrophe losses remained high in 2010, in part due to the same non-catastrophe weather related losses and other large losses that affected the calendar year result.

Other Personal

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Other personal:					
Net written premiums	$99	$92	$88	8	5
Earned premiums	95	90	87	6	3
Loss and loss expenses from:					
Current accident year before catastrophe losses	61	60	79	2	(24)
Current accident year catastrophe losses	4	7	6	(43)	17
Prior accident years before catastrophe losses	(20)	(34)	(30)	41	(13)
Prior accident years catastrophe losses	(1)	0	(1)	nm	nm
Total loss and loss expenses	$44	$33	$54	33	(39)
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	64.1 %	66.9 %	89.9 %	(2.8)	(23.0)
Current accident year catastrophe losses	3.8	7.7	6.9	(3.9)	0.8
Prior accident years before catastrophe losses	(20.8)	(38.3)	(34.4)	17.5	(3.9)
Prior accident years catastrophe losses	(0.5)	0.6	(0.2)	(1.1)	0.8
Total loss and loss expense ratio	46.6 %	36.9 %	62.2 %	9.7	(25.3)

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

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$65	$59	$58	67.9 %	65.9 %	67.1 %
as of December 31, 2009		67	67		74.6	76.8
as of December 31, 2008			85			96.8

Other personal premiums increased in 2010 and 2009, generally tracking with the growth in our personal auto and homeowner lines before the effects of reinsurance. Most of our other personal coverages are endorsed to homeowner or auto policies.

The calendar year and accident year loss and loss expense ratio for other personal continued to improve in 2010 and has been at a very profitable level the past two years. Reserve development on prior accident years can fluctuate significantly for this business line because personal umbrella liability coverage is a major component of other personal losses.

Personal Lines Insurance Outlook

A.M. Best projects industrywide personal lines written premiums may rise approximately 3 percent in 2011, with an industry statutory combined ratio estimated at 98.5 percent. With our improvement in new business levels and our strong policy retention rate, along with rate increases effected in late 2010, we expect our growth rate to be higher than the industry projection for 2011. In Item 1, Strategic Initiatives, Page 9, we discuss the initiatives we are implementing to address the unsatisfactory performance of our personal lines segment, in particular the homeowner line of business. We also describe steps to enhance our response to the changing marketplace. Our personal lines pricing and loss activity are at levels that could put achievement of our corporate financial objectives at risk if those trends continue. We discuss our overall outlook for our property casualty insurance operations in the Executive Summary, Page 36.

Excess and Surplus Lines Insurance Results of Operations

Overview – Three-Year Highlights

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Earned premiums	$49	$27	$5	81	440
Loss and loss expenses from:					
Current accident year before catastrophe losses	41	21	5	95	320
Current accident year catastrophe losses	1	-	-	nm	nm
Prior accident years before catastrophe losses	(1)	(1)	-	0	nm
Prior accident years catastrophe losses	-	-	-	nm	nm
Total loss and loss expenses	41	20	5	105	300
Underwriting expenses	16	22	7	(27)	214
Underwriting loss	$ (8)	$ (15)	$ (7)	47	nm
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Current accident year before catastrophe losses	83.8 %	75.4 %	109.1 %	8.4	(33.7)
Current accident year catastrophe losses	1.2	0.2	0.4	1.0	(0.2)
Prior accident years before catastrophe losses	(1.3)	(0.9)	0.0	(0.4)	(0.9)
Prior accident years catastrophe losses	0.0	0.0	0.0	0.0	0.0
Total loss and loss expenses	83.7	74.7	109.5	9.0	(34.8)
Underwriting expenses	31.7	80.2	156.5	(48.5)	(76.3)
Combined ratio	115.4 %	154.9 %	266.0 %	(39.5)	(111.1)
Combined ratio:	115.4 %	154.9 %	266.0 %	(39.5)	(111.1)
Contribution from catastrophe losses and prior years reserve development	(0.1)	(0.7)	0.4	0.6	(1.1)
Combined ratio before catastrophe losses and prior years reserve development	115.5 %	155.6 %	265.6 %	(40.1)	(110.0)

Performance highlights for the excess and surplus lines segment include:

- Premiums – Higher earned premiums in 2010 reflected very strong net written premium growth during 2009, the second full year of operations for our excess and surplus lines segment. Net written premiums grew in 2010 primarily due to more initial opportunities to renew accounts that were written for the first time as new business during the previous year. The 2010 volume of those initial opportunities to renew nearly doubled the volume of 2009 because new business written premiums in 2009 approximately doubled new business premiums written in 2008. New business written premiums grew modestly in 2010, at a much slower rate than in 2009, partly due to increased competition in the excess and surplus lines market, including standard market companies writing policies for risks that were formerly insurable only in the excess and surplus lines market.

- Combined ratio – The combined ratio improved in 2010, primarily due to lower underwriting expenses. The total loss and loss expense ratio increased primarily due to higher large losses, claims exceeding $250,000 of insured loss, that outpaced growth in earned premiums.

Excess and Surplus Lines Insurance Premiums

(Dollars in millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
Renewal written premiums	$29	$10	$-	190	nm
New business written premiums	35	32	14	9	129
Other written premiums	(6)	(3)	-	(100)	nm
Net written premiums	58	39	14	49	179
Unearned premium change	(9)	(12)	(9)	25	(33)
Earned premiums	$ 49	$ 27	$ 5	81	440

The $19 million increase in renewal premiums in 2010 was primarily a result of the opportunity to renew more policies that represented new business in 2009, when new business written premiums grew by $18 million. Renewal pricing changes also accounted for some of the increase, as our excess and surplus lines policies averaged estimated price increases that were flat to slightly up in the second half of 2010. We measure average changes in excess and surplus lines renewal pricing as the rate of change in renewal premium for the new policy period compared with the premium for the expiring policy period, assuming no change in the level of insured exposures or policy coverage between those periods for respective policies.

New business written premium growth in 2009 was largely a result of introducing new coverages, and also increased understanding by agencies representing The Cincinnati Insurance Companies of competitive advantages described in Excess and Surplus Lines Property Casualty Insurance Segment, Page 16. For most of 2008, only general liability coverages were available. In late 2008, property and professional liability coverages were first offered, followed by excess liability in late 2009.

Other written premiums are primarily premiums that are ceded to reinsurers and that lower our net written premiums. Changes in ceded premium volume tend to follow a pattern similar to changes in the total of renewal and new business written premiums.

Competition for new business increased during 2010 as we observed more instances of business being written by standard market commercial lines insurers seeking additional growth opportunities. In many cases we saw policy terms and conditions being offered that were less restrictive than those we observed in the past for similar risks, without a corresponding premium for the broadened insurance coverage. As a result, we declined to write many of those new business and some renewal business opportunities, leading to a significantly slower rate of new business growth for 2010 at 9 percent compared with 129 percent in 2009.

Excess and Surplus Lines 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. Most of the incurred losses and loss expenses shown in the three-year highlights table above on Page 70 are for the respective current accident years, and reserve development on prior accident years is shown separately. Since less than 20 percent of our 2010 excess and surplus lines current accident year incurred losses and loss expenses represents net paid losses, a large majority represents reserves for our estimate of ultimate losses and loss expenses. These reserves develop over time, and we re-estimate previously reported reserves as we learn more about the development of the related claims. The table below illustrates that development. For example, the 75.6 percent accident year 2009 loss and loss expense ratio reported as of December 31, 2009, developed favorably by 2.1 percentage points to 73.5 percent due to settling claims for less than previously estimated, or due to updated reserve estimates for unpaid claims, as of December 31, 2010. Accident years 2009 and 2008 for the excess and surplus lines segment have both developed favorably, as indicated by the progression over time for the ratios in the table.

(Dollars in millions)
Accident year loss and loss expenses incurred and ratios to earned premiums:

Accident Year:	2010	2009	2008	2010	2009	2008
as of December 31, 2010	$42	$20	$4	85.0 %	73.5 %	102.8 %
as of December 31, 2009		20	5		75.6	104.5
as of December 31, 2008			5			109.5

Catastrophe losses partially explain some of the accident year loss and loss expenses trend for years 2008 through 2010. Catastrophe losses added 1.2 percentage points for 2010, 0.2 for 2009 and 0.4 percentage points for 2008 to the respective excess and surplus lines accident year loss and loss expense ratios in the table above.

The 2010 increase of 8.4 percentage points in the current accident year loss and loss expense ratio before catastrophe losses was driven by higher large losses. New losses of $250,000 or more per claim totaled $12 million in 2010, compared with less than $1 million in 2009, and accounted for 23.5 percentage points of the ratio. No unexpected concentration of these losses was indicated from our analysis by risk category, geographic region, policy inception, agency or field marketing territory.

Our first excess and surplus lines policies were written in 2008 and reserves for estimated unpaid losses and loss expenses were $5 million as of December 31, 2008, for losses that occurred in 2008. As of December 31, 2010, an estimated $2 million remained unpaid for those same loss events that occurred in 2008. Due to the limited history of settled claims for our excess and surplus lines business it is difficult to draw meaningful inferences about claim settlement patterns or trends in loss and loss expense experience based on data in the table above.

Excess and surplus lines reserve development on prior accident years netted to a favorable amount in 2010, $1 million, resulting in a loss and loss expenses ratio effect similar to 2009. Development trends are further analyzed in Excess and Surplus Lines Insurance Segment Reserves, Page 89.

We believe the adequacy of loss and loss expenses reserves for our excess and surplus lines business is strong. We establish case reserves in a manner consistent with standard lines coverages, despite the more restrictive terms and conditions for excess and surplus lines policies.

Excess and Surplus Lines Insurance Underwriting Expenses

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Commission expenses	$8	$5	$1	60	400
Other underwriting expenses	8	17	6	(53)	183
Total underwriting expenses	$16	$22	$7	(27)	214
				Pt. Change	Pt. Change
Ratios as a percent of earned premiums:					
Commission expenses	16.5 %	18.0 %	16.8 %	(1.5)	1.2
Other underwriting expenses	15.2	62.2	139.7	(47.0)	(77.5)
Total underwriting expense ratio	31.7 %	80.2 %	156.5 %	(48.5)	(76.3)

Excess and surplus lines commission expense at 16.5 percent of earned premiums for 2010 is expected to remain near that level in the future.

Non-commission underwriting expenses declined in 2010 primarily due to the reduction of various start-up costs during 2008 and 2009 as our excess and surplus lines began operations in 2008. The primary category of expense reduction was development costs for our rating and policy administration system.

Excess and Surplus Lines Outlook

The general trends of 2010 for the excess and surplus lines markets are expected to continue in 2011, according to several industry reports. Competition is expected to remain strong, in part due to standard market insurance companies insuring businesses that previously were written by excess and surplus lines insurers. Soft market conditions for commercial lines business overall is the driver of this trend, and industry observers generally expect little change in the foreseeable future. The slowly recovering U.S. economy, another major factor in demand for insurance products, is also expected to contribute to modestly declining or relatively flat premium volume during 2011 for the excess and surplus lines industry.

Industry reports suggest that opportunities for managing profitability and growth exist through greater use of technology. Technology and data are also being used by excess and surplus lines insurance companies to identify new exposures in emerging businesses that need insurance protection or other value-added services.

Our strategy of providing superior service is expected to continue to grow our excess and surplus lines segment and achieve profitability despite challenging market conditions. We intend to continue carefully selecting and pricing risks, providing prompt delivery of insurance quotes and policies and outstanding claims and loss control service from local field representatives who also handle the standard lines business for their assigned agencies. These local representatives are supported by headquarters underwriters and claims managers who specialize in excess and surplus lines.

Life Insurance Results of Operations

Overview — Three-Year Highlights

(In millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Earned premiums	$158	$143	$126	10	13
Separate account investment management fees	1	-	2	nm	(100)
Total revenues	159	143	128	11	12
Contract holders' benefits incurred	170	160	142	6	13
Investment interest credited to contract holders	(79)	(69)	(63)	(14)	(10)
Operating expenses incurred	61	50	45	22	11
Total benefits and expenses	152	141	124	8	14
Life insurance segment profit	$7	$2	$4	250	(50)

Performance highlights for the life insurance segment include:

- Revenues – Driven by higher term life insurance premiums, earned premiums have grown at a double-digit rate the past two years. Gross in-force policy face amounts increased to $74.124 billion at year-end 2010 from $69.815 billion at year-end 2009 and $65.888 billion at year-end 2008.

- Profitability – The life insurance segment frequently reports only a small profit or loss because most of its investment income is included in investment segment results. We include only investment income credited to contract holders (interest assumed in life insurance policy reserve calculations) in life insurance segment results. The segment reported a $7 million profit in 2010.

Life Insurance Premiums

(Dollars in millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Term life insurance	$96	$86	$76	12	13
Universal life insurance	35	28	24	25	17
Other life insurance, annuity, and disability income products	27	29	26	(7)	12
Net earned premiums	$ 158	$ 143	$ 126	10	13

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

Earned premiums increased in 2010 largely because of growth in our term and universal life insurance business. Earned premiums from term insurance grew $10 million, or 12 percent, and earned premiums from universal life insurance grew $7 million, or 25 percent.

Separate account investment management fee income contributed $1 million to total revenue in 2010, compared with less than $1 million contribution in 2009 and $2 million in 2008. These fees increased primarily because of the net realized capital gain and loss sharing agreement between the separate account and the general account.

Over the past several years, we have worked to maintain a portfolio of simple, yet competitive products, primarily under the LifeHorizons banner. Our product development efforts emphasize death benefit protection and guarantees. Distribution expansion within our property casualty insurance agencies remains a high priority. In the past several years, we have added life field marketing representatives for the western, southeastern and northeastern states. Our 31 life field marketing representatives work in partnership with our 117 property casualty field marketing representatives. Approximately 69 percent of our term and other life insurance product premiums were generated through our property casualty insurance agency relationships.

Life Insurance Profitability

Although we exclude most of our life insurance company investment income from investment segment results, 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. On a basis that includes investment income and realized gains or losses from life insurance-related invested assets, the life insurance company reported a net profit of $39 million in 2010, compared with a net profit of $22 million in 2009 and a net loss of $19 million in 2008. The life insurance company portfolio had after-tax net realized investment gains of $2 million in 2010, compared with after-tax net realized investment losses of $13 million in 2009, which included $15 million in OTTI charges. Net realized investment losses were $58 million in 2008, including $66 million in OTTI charges. Realized investment gains and losses are discussed under Investment Results of Operations, Page 75.

Life segment expenses consist principally of:

- Contract holders' benefits incurred, related to traditional life and interest-sensitive products, accounted for 73.6 percent of 2010 total benefits and expenses compared with 76.4 percent in 2009 and 75.7 percent in 2008. Total contract holders' benefits rose due to net death claims that increased but remained within our range of pricing expectations.

- Operating expenses incurred, net of deferred acquisition costs, accounted for 26.4 percent of 2010 total benefits and expenses compared with 23.6 percent in 2009 and 24.3 percent in 2008. Unlocking of actuarial assumptions for our universal life contracts was the primary reason for increased operating expenses in 2010. Expenses in 2010 were also up from increased commissions due to growth in term life insurance and fixed annuities.

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

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

During the past several years, we have invested in imaging and workflow technology and have significantly improved application processing. We have achieved process efficiencies while improving our service. These efficiencies have played a significant role in cost containment and in our ability to increase total premiums and policy count over the past 10 years with minimal headcount additions.

Life Insurance Outlook

During 2010, the life insurance market continued to stabilize from the turmoil it experienced during the financial crisis. Of particular interest to us, 2010 saw decreased rate volatility for term insurance as the cost of reserve financing moderated, albeit at rates substantially higher than before the financial crisis. This higher cost of reserve financing has led a number of large term writers to replace their term portfolios with term-like universal life products. These companies have sacrificed a simple design and the high redundant reserve requirement with a much more complex design and a lower reserve requirement. We believe this offers us a competitive advantage, and we expect to see continued growth in our term business because of our commitment to offering our distribution the most straight-forward products possible, at a reliable and competitive rate.

Our property casualty agencies remain the main distribution system for our life insurance segment, and we continue to emphasize securing an increasing share of the life insurance premium produced by these agencies. While other life insurers continue to expand nontraditional distribution channels such as direct sales, we intend to market through agencies affiliated with our property casualty insurance operations or independent life-only agencies. In 2010, our property casualty agencies produced 69 percent and our life-only agencies 31 percent of our life insurance premium. Term insurance continues to fit well with the sales goals of both our property casualty and life-only agencies and remains our largest product line. We continue to emphasize the cross-serving opportunities of our worksite products for our property casualty agencies' commercial accounts, and in 2010 we introduced a new worksite term product with a return of premium feature. Also in 2010, we introduced a second-to-die universal life product. We believe this product helps satisfy an important need that is heightened by an aging boomer population and a fluctuating federal estate tax situation.

We expect annuity sales to moderate somewhat in 2011 as we introduce a new product with a lower guaranteed rate of interest. Such a product affords us more protection during prolonged periods of low interest rates. New annuity suitability regulations also are a headwind on annuity sales due to the added burden on the agent and the resulting increased acquisition costs.

We made good progress in improving our operational technology in 2010. We remain on track to complete a major administration system consolidation project in 2011. Online illustrations were introduced and are already contributing to savings. Finally, we have other initiatives underway that will make it easier for our agents to do business with us, from flexible compensation arrangements to electronic applications. We fully expect all of these initiatives to contribute additional revenue and/or reduced expenses in 2012 and beyond.

Investment Results of Operations
Overview — Three-Year Highlights

Investment Results

(In millions)	Years ended December 31, 2010	2009	2008	2010-2009 Change %	2009-2008 Change %
Total investment income, net of expenses, pre-tax	$518	$501	$537	3	(7)
Investment interest credited to contract holders	(79)	(69)	(63)	(14)	(10)
Realized investment gains and losses summary:					
Realized investment gains and losses	185	440	686	(58)	(36)
Change in fair value of securities with embedded derivatives	10	27	(38)	(63)	nm
Other-than-temporary impairment charges	(36)	(131)	(510)	73	74
Total realized investment gains and losses	159	336	138	(53)	143
Investment operations profit	$598	$768	$612	(22)	25

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

- Investment income – Pretax investment income increased 3 percent in 2010, primarily because of additional net purchases in our fixed-maturity portfolio that offset declining yields. Pretax investment income declined 7 percent in 2009, primarily because of prior year dividend cuts in our common stock portfolio. After-tax investment income increased 2 percent in 2010 compared with a decrease of 11 percent in 2009. The steeper decline in 2009 after-tax investment income, compared with the pretax basis, was primarily due to a change in mix of investment income as dividends have tax-advantages relative to interest on corporate bonds.

- Realized investment gains and losses – We reported realized investment gains in all three years, largely due to investment sales that were discretionary in timing and amount. Those sales were somewhat offset by OTTI charges. The $510 million impairment for the write-down of 126 securities in 2008 largely offset gains from investment sales.

Investment Income

The primary drivers of investment income were:

- Interest income rose 5 percent in 2010 primarily due to investing our typical allocation of net cash flow from operations in fixed-maturity securities. It increased significantly in 2009 as we increased our allocation of investments to fixed-maturity securities.

- Dividend income declined 1 percent in 2010 after declining 51 percent in 2009. In early 2009, we reduced the size of our preferred stock portfolio, which generally provides higher yields, in response to the market conditions related to the banking crisis. During 2008, we reduced the size of our common stock portfolio by more than 50 percent in response to actual or anticipated dividend reductions as well as for the implementation of a risk management program.

In 2010, we continued to invest available cash flow in both fixed income and equity securities in a manner that we believe balances current income needs with longer-term invested assets growth goals.

(In millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
Investment income:					
Interest	$423	$402	$326	5	23
Dividends	99	100	204	(1)	(51)
Other	4	7	14	(43)	(50)
Investment expenses	(8)	(8)	(7)	0	(14)
Total investment income, net of expenses, pre-tax	518	501	537	3	(7)
Income taxes	(126)	(118)	(106)	(7)	(11)
Total investment income, net of expenses, after-tax	$392	$383	$431	2	(11)
Effective tax rate	24.4 %	23.6 %	19.7 %		
Average invested assets plus cash and cash equivalents	$11,547	$10,550	$11,193		
Average yield pre-tax	4.5 %	4.7 %	4.8 %		
Average yield after-tax	3.4 %	3.6 %	3.9 %		

Net Realized Investment Gains and Losses

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

Investment gains or losses are recognized upon the sales of investments or as otherwise required under GAAP. The timing of realized gains or losses from sales can have a material effect on results in any given period. However, such gains or losses usually have little, if any, effect on total shareholders' equity because most equity and fixed maturity investments are carried at fair value, with the unrealized gain or loss included as a component of other comprehensive income. At year-end 2010, the fixed maturities fair value was 106.3 percent of book value compared with 104.5 percent at year-end 2009.

Realized Investment Gains and Losses

As appropriate, we buy, hold or sell both fixed-maturity and equity securities on an ongoing basis to help achieve our portfolio objectives. Pretax realized investment gains in the past three years largely were due to the sale of equity holdings.

Net realized investment gains and losses totaling $185 million for the year ended December 31, 2010, reflected:

- $174 million in realized gains from equity sales, including $128 million from the sale of Verisk Analytics Inc. (NYSE: VRSK).
- $13 million in net gains from fixed-maturity sales and calls.
- $10 million in gains from changes in fair value of securities with embedded derivatives.
- $36 million in OTTI charges to write down holdings of equities and fixed maturities.

The $13 million in net gains from fixed-maturity sales included a $1 million gain in short-term investments due to the final receipt from the Reserve Primary Fund that exceeded the impaired basis. The net gains also included $12 million in losses due to sales of all of the remaining holdings of collateralized mortgage obligations, which occurred during the first quarter of 2010.

The $440 million net realized investment gain in 2009, was primarily due to $624 million from sales of various equity holdings, including Pfizer Inc. (NYSE: PFE), Exxon Mobil Corporation (NYSE: XOM), The Procter & Gamble Company (NYSE: PG), Fifth Third Bancorp (NASDAQ: FITB), and Piedmont Natural Gas Company Inc. (NYSE: PNY). Realized losses of $162 million from the sale of several equity securities partially offset realized investment gains.

In 2008, most of the gain was due to sales of holdings of common and preferred stocks of financial services issuers, to reduce our historical weighting in financial sector securities. The majority of these holdings were sold following reductions or elimination of their cash dividends to shareholders. Because of our low cost basis, we were able to record gains on many of these sales despite the decline in overall stock market values during 2008.

We generally purchase fixed income securities with the intention to hold until maturity. Securities that no longer meet our investment criteria, usually due to a change in credit fundamentals, are divested.

Change in the Valuation of Securities with Embedded Derivatives

We have a small portfolio of convertible preferred stocks and bonds, which have an embedded derivative component. In 2010 we recorded $10 million in fair value realized gains compared with $27 million in 2009 and a $38 million fair value decline for 2008. These changes in fair value were due to the application of ASC 815-15-25, which allows us to account for the entire hybrid financial instrument at fair value, with changes recognized in realized investment gains and losses. The changes in fair values are recognized in net income in the period they occur. See the discussion of Derivative Financial Instruments and Hedging Activities in Item 8, Note 1 of the Consolidated Financial Statements, Page 105, for details on the accounting for convertible security embedded options.

Other-than-temporary Impairment Charges

In 2010, we recorded $36 million in write-downs of 15 securities that we deemed had experienced an other-than-temporary decline in fair value compared with $131 million for 50 securities in 2009 and $510 million for 126 securities in 2008. The factors we consider when evaluating impairments are discussed in Critical Accounting Estimates, Asset Impairment, Page 44. The OTTI charges in 2010 were less than 1 percent of our investment portfolio at year-end compared with 1 percent for 2009 and 5 percent for 2008. OTTI charges also include unrealized losses of holdings that we intend to sell but have not yet completed a transaction.

OTTI charges from the investment portfolio by the asset class we described in Item 1, Investments Segment, Page 19, are summarized below:

(Dollars in millions)	Years ended December 31, 2010	2009	2008
Taxable fixed maturities:			
Impairment amount	$(1)	$(61)	$(162)
New book value	$9	$81	$187
Percent to total book value owned	0%	2%	6%
Number of securities impaired	5	37	86
Percent to number of securities owned	0%	3%	10%
Tax-exempt fixed maturities:			
Impairment amount	$(2)	$(1)	$(1)
New book value	$5	$3	$1
Percent to total book value owned	0%	0%	0%
Number of securities impaired	4	2	1
Percent to number of securities owned	0%	0%	0%
Common equities:			
Impairment amount	$(33)	$(59)	$(214)
New book value	$120	$48	$87
Percent to total book value owned	5%	2%	5%
Number of securities impaired	4	8	9
Percent to number of securities owned	6%	16%	18%
Preferred equities:			
Impairment amount	$0	$(10)	$(133)
New book value	$0	$5	$98
Percent to total book value owned	0%	7%	52%
Number of securities impaired	2	3	30
Percent to number of securities owned	8%	12%	86%
Total:			
Impairment amount	$(36)	$(131)	$(510)
New book value	$134	$137	$373
Percent to total book value owned	1%	1%	5%
Number of securities impaired	15	50	126
Percent to number of securities owned	1%	2%	6%

OTTI charges from the investment portfolio by industry are summarized as follows:

(In millions)	Years ended December 31, 2010	2009	2008
Fixed maturities:			
Financial	$0	$(30)	$(72)
Services cyclical	0	(14)	(17)
Real estate	(1)	(11)	(49)
Consumer cyclical	0	(5)	(14)

Other	(2)	(2)	(11)
Total fixed maturities	(3)	(62)	(163)
Common equities:			
Industrials	0	(35)	0
Consumer discretionary	0	(10)	0
Material	0	(8)	0
Health	(21)	(6)	(30)
Financial	0	0	(184)
Information technology	(12)	0	0
Total common equities	(33)	(59)	(214)
Preferred equities:			
Financial	0	(10)	(132)
Other	0	0	(1)
Total preferred equities	0	(10)	(133)
Total	$(36)	$(131)	$(510)

The decrease in OTTI charges for both 2010 and 2009 was largely due to the improvement in values as asset markets rebounded. The higher level of OTTI charges in 2008 was largely due to write-downs of holdings of bonds and common and preferred stocks of financial services issuers, reflecting our historical weighting in this sector and the decline in overall stock market values during 2008.

Investments Outlook

We continue to focus on portfolio strategies to balance near-term income generation and long-term book value growth. In 2011, we expect to continue to allocate a portion of cash available for investment to equity securities, taking into consideration corporate liquidity and income requirements, as well as insurance department regulations and rating agency comments. We discuss our portfolio strategies in Item 1, Investments Segment, Page 19.

We believe that a weak or prolonged recovery from current economic conditions could heighten the risk of renewed pressure on securities markets, which could lead to additional OTTI charges. Our asset impairment committee continues to monitor the investment portfolio. The current asset impairment policy is described in Critical Accounting Estimates, Asset Impairment, Page 44.

Other

Revenues in 2010 for our Other businesses nearly equaled 2009. Other includes non-investment operations of the parent company and its subsidiary, CFC Investment Company, and former subsidiary CinFin Capital Management Company. Losses before income taxes for Other were largely driven by interest expense from debt of the parent company.

(In millions)	Years ended December 31,			2010-2009	2009-2008
	2010	2009	2008	Change %	Change %
Interest and fees on loans and leases	$7	$7	$8	0	(13)
Money management fees	-	-	2	nm	(100)
Other revenues	1	2	(2)	(50)	nm
Total revenues	8	9	8	(11)	13
Interest expense	54	55	53	(2)	4
Operating expenses	11	14	15	(21)	(7)
Total expenses	65	69	68	(6)	1
Other loss	$(57)	$(60)	$(60)	5	0

Taxes

We had $124 million of income tax expense in 2010 compared with $150 million in 2009 and $111 million in 2008. The effective tax rate for 2010 was 24.8 percent compared with 25.7 percent in 2009 and 20.7 percent in 2008.

The change in our effective tax rate was primarily due to changes in pretax income from underwriting results, changes in investment income and the amount of realized investment gains and losses. Changes to tax-exempt interest and the dividend received deduction in the current year compared with prior years also contributed to the change.

Historically, we have pursued 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. See Tax-Exempt Fixed Maturities, Page 21 for further discussion on municipal bond purchases in our fixed-maturity investment portfolio. For our insurance subsidiaries, approximately 85 percent of income from tax-advantaged fixed-maturity investments is exempt from federal tax. Our non-insurance companies own an immaterial amount of tax-advantaged fixed-maturity investments. For our insurance subsidiaries, the dividend received deduction, after the dividend proration of the 1986 Tax Reform Act, exempts approximately 60 percent of dividends from qualified equities from federal tax. For our non-insurance subsidiaries, the dividend received deduction exempts 70 percent of dividends from qualified equities. Details about our effective tax rate are found on Note 11, Income Taxes, Page 120.

Liquidity and Capital Resources

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

Parent Company Liquidity

The parent company's primary means of meeting liquidity requirements are dividends from our insurance subsidiary, investment income and sale proceeds from investments held at the parent company level. The parent company's primary contractual obligations are interest and principal payments on long- and short-term debt as described under Contractual Obligations, Page 81. Other uses of parent company cash include dividends to shareholders, common stock repurchases and general operating expenses described under Other Commitments, Page 81. As of December 31, 2010, the parent company had $1.042 billion in cash and marketable securities, providing strong liquidity to fund uses of cash.

The table below shows a summary, by the direct method, of the major sources and uses of liquidity by the parent company. Dividends received in 2010 from our insurance subsidiary returned to a level near the average of recent years. No dividends were received from our insurance subsidiary in 2009, in order to maintain strong statutory surplus and financial strength ratings. We expect sources of liquidity to increase in 2011 and beyond, primarily from improved profitability from our property casualty operations, funding a potentially larger dividend to the parent company. The majority of expenditures for the parent company have been consistent during the last three years, and we expect future expenditures to remain fairly stable. Share repurchases are discretionary, depending on cash availability and capital management decisions.

(In millions)	Years ended December 31,		
	2010	2009	2008
Sources of liquidity:			
Insurance subsidiary dividends received	$270	$0	$220
Other operating subsidiaries' dividends received	0	0	10
Investment income received	41	41	81
Uses of liquidity:			
Debt interest payments	$52	$52	$53
Pension payments	25	34	34
Shareholders dividend payments	252	249	250
Purchase (issuance) of treasury shares	10	(1)	138

Insurance Subsidiary Liquidity

Our insurance subsidiary's primary means of meeting liquidity requirements are collection of premiums, investment income, and sale proceeds from investments held at the subsidiary level. Property casualty insurance premiums generally are received before losses are paid under the policies purchased with those premiums. Our insurance subsidiary's expenditures are property casualty loss and loss expenses, commissions, salaries and other ongoing operating expenses. Over the past three years, cash receipts from property casualty along with investment income, have been more than sufficient to pay claims and operating expenses. Excess cash flow was partially used to pay dividends to the parent company. We are not aware of any known trends that would materially change historical cash flow results. We discuss the factors that affected insurance operations in Commercial Lines and Personal Lines Insurance Results of Operations, Page 54 and Page 64.

This table shows a summary of operating cash flow for property casualty insurance (direct method):

(In millions)	Years ended December 31,		
	2010	2009	2008
Premiums collected	$2,971	$2,957	$3,060
Loss and loss expenses paid	(1,858)	(1,910)	(1,947)

Commissions and other underwriting expenses paid	(954)	(951)	(988)
Insurance subsidiary cash flow from underwriting			