

Definitions of Non-GAAP Information and Reconciliation to Comparable GAAP Measures

Cincinnati Financial Corporation prepares its public consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Statutory data is prepared in accordance with statutory accounting rules as defined by the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual and therefore is not reconciled to GAAP data.

Management uses certain non-GAAP and non-statutory financial measures to evaluate its primary business areas – property casualty insurance, life insurance and investments – when analyzing both GAAP and certain non-GAAP measures may improve understanding of trends in the underlying business, helping avoid incorrect or misleading assumptions and conclusions about the success or failure of company strategies. Management adjustments to GAAP measures generally: apply to non-recurring events that are unrelated to business performance and distort short-term results; involve values that fluctuate based on events outside of management's control; or relate to accounting refinements that affect comparability between periods, creating a need to analyze data on the same basis.

- **Net income before realized investment gains and losses:** Net income before realized investment gains and losses is calculated by excluding net realized investment gains and losses (defined as realized investment gains and losses after applicable federal and state income taxes) from net income. Management evaluates net income before realized investment gains and losses to measure the success of pricing, rate and underwriting strategies. While realized investment gains or losses are integral to the company's insurance operations over the long term, the determination to realize investment gains or losses in any period may be subject to management's discretion and is independent of the insurance underwriting process. Also, under applicable GAAP accounting requirements, gains and losses can be recognized from certain changes in market values of securities and embedded derivatives without actual realization. Management believes that the level of realized investment gains or losses for any particular period, while it may be material, may not fully indicate the performance of ongoing underlying business operations in that period.

For these reasons, many investors and shareholders consider net income before realized investment gains and losses to be one of the more meaningful measures for evaluating insurance company performance. Equity analysts who report on the insurance industry and the company generally focus on this metric in their analyses. The company presents net income before realized investment gains and losses so that all investors have what management believes to be a useful supplement to GAAP information.

- **Statutory accounting rules:** For public reporting, insurance companies prepare consolidated financial statements in accordance with GAAP. However, insurers also must calculate certain data according to statutory accounting rules as defined in the NAIC's Accounting Practices and Procedures Manual, which may be, and has been, modified by various state insurance departments. Statutory data is publicly available, and various organizations use it to calculate aggregate industry data, study industry trends and compare insurance companies.
- **Written premium:** Under statutory accounting rules, property casualty written premium is the amount recorded for policies issued and recognized on an annualized basis at the effective date of the policy. Management analyzes trends in written premium to assess business efforts. Earned premium, used in both statutory and GAAP accounting, is calculated ratably over the policy term. The difference between written and earned premium is unearned premium.
- **Written premium adjustment – statutory basis only:** In 2002, the company refined its estimation process for matching property casualty written premiums to policy effective dates, which added \$117 million to 2002 written premiums. To better assess ongoing business trends, management may exclude this adjustment when analyzing trends in written premiums and statutory ratios that make use of written premiums.
- **Codification:** Adoption of Codification of Statutory Accounting Principles was required for Ohio-based insurance companies effective January 1, 2001. The adoption of Codification changed the manner in which the company recognized statutory property casualty written premiums. As a result, 2001 statutory written premiums included \$402 million to account for unbooked premiums related to policies with effective dates prior to January 1, 2001. To better assess ongoing business trends, management excludes this \$402 million when analyzing written premiums and statutory ratios that make use of written premiums.
- **Life insurance gross written premiums:** In analyzing the life insurance company's gross written premiums, management excludes five larger, single-pay life insurance policies (bank-owned life insurance or BOLIs) written in 2004, 2002, 2000 and 1999 to focus on the trend in premiums written through the independent agency distribution channel.
- **One-time charges or adjustments:** Management analyzes earnings and profitability excluding the impact of one-time items. In 2003, as the result of a settlement negotiated with a vendor, pretax results included the recovery of \$23 million of a \$39 million one-time, pretax charge incurred in 2000.

Reconciliation of Consolidated Financial Data

Cincinnati Financial Corporation and Subsidiaries

(Dollars in millions except per share data)

	Years ended December 31,					
	2006	2005	2004	2003	2002	2001
Income Statement Data						
Net income	\$ 930	\$ 602	\$ 584	\$ 374	\$ 238	\$ 193
One-time items	-	-	-	15	-	-
Net income before one-time items	<u>930</u>	<u>602</u>	<u>584</u>	<u>359</u>	<u>238</u>	<u>193</u>
Net realized investment gains and losses	<u>434</u>	<u>40</u>	<u>60</u>	<u>(27)</u>	<u>(62)</u>	<u>(17)</u>
Net income before realized investment gains and losses, before one-time items	<u>\$ 496</u>	<u>\$ 562</u>	<u>\$ 524</u>	<u>\$ 386</u>	<u>\$ 300</u>	<u>\$ 210</u>
Per Share Data (diluted)						
Net income	\$ 5.30	\$ 3.40	\$ 3.28	\$ 2.10	\$ 1.32	\$ 1.07
One-time items	-	-	-	0.09	-	-
Net income before one-time items	<u>5.30</u>	<u>3.40</u>	<u>3.28</u>	<u>2.01</u>	<u>1.32</u>	<u>1.07</u>
Net realized investment gains and losses	<u>2.48</u>	<u>0.23</u>	<u>0.34</u>	<u>(0.15)</u>	<u>(0.35)</u>	<u>(0.10)</u>
Net income before realized investment gains and losses, before one-time items	<u>\$ 2.82</u>	<u>\$ 3.17</u>	<u>\$ 2.94</u>	<u>\$ 2.16</u>	<u>\$ 1.67</u>	<u>\$ 1.17</u>
Return on Average Equity						
Return on average equity	14.4 %	9.8 %	9.4 %	6.3 %	4.1 %	3.2 %
One-time items	-	-	-	(0.3)	-	-
Return on average equity before one-time items	<u>14.4 %</u>	<u>9.8 %</u>	<u>9.4 %</u>	<u>6.0 %</u>	<u>4.1 %</u>	<u>3.2 %</u>
Return on Average Equity Based on Comprehensive Income						
Return on average equity based on comprehensive income	16.4 %	1.6 %	4.6 %	13.8 %	(4.0) %	2.5 %
One-time items	-	-	-	(0.3)	-	-
Return on average equity based on comprehensive income before one-time items	<u>16.4 %</u>	<u>1.6 %</u>	<u>4.6 %</u>	<u>13.5 %</u>	<u>(4.0) %</u>	<u>2.5 %</u>

Reconciliation of Property Casualty Insurance Data (Statutory)⁽¹⁾

Cincinnati Insurance Property Casualty Group

(Dollars in millions)

	Years ended December 31,					
	2006	2005	2004	2003	2002	2001
Premiums⁽¹⁾						
Written premiums (adjusted)	\$ 3,172	\$ 3,097	\$ 3,026	\$ 2,789	\$ 2,496	\$ 2,188
Codification ⁽²⁾	-	-	-	-	-	402
Written premiums adjustment ⁽²⁾	<u>6</u>	<u>(21)</u>	<u>(29)</u>	<u>26</u>	<u>117</u>	<u>-</u>
Written premiums (reported) ⁽²⁾	<u>3,178</u>	<u>3,076</u>	<u>2,997</u>	<u>2,815</u>	<u>2,613</u>	<u>2,590</u>
Unearned premiums change	<u>(14)</u>	<u>(18)</u>	<u>(78)</u>	<u>(162)</u>	<u>(222)</u>	<u>(517)</u>
Earned premiums (GAAP)	<u>\$ 3,164</u>	<u>\$ 3,058</u>	<u>\$ 2,919</u>	<u>\$ 2,653</u>	<u>\$ 2,391</u>	<u>\$ 2,073</u>
Year-over-year Growth Rate⁽¹⁾						
Written premiums (adjusted) ⁽²⁾	2.4 %	2.3 %	8.5 %	11.7 %	14.0 %	13.0 %
Written premiums (reported) ⁽²⁾	3.3	2.6	6.5	7.7	0.9	37.7
Earned premiums	3.5	4.8	10.0	10.9	15.4	13.3
Combined Ratio⁽¹⁾						
Combined ratio (reported)	93.9 %	89.0 %	89.4 %	94.2 %	98.4 %	99.5 %
Codification ⁽²⁾	-	-	-	-	-	4.1
Written premium adjustment	nm	nm	nm	nm	1.2	-
One-time items	-	-	-	0.8	-	-
Combined ratio (adjusted)	<u>93.9</u>	<u>89.0</u>	<u>89.4</u>	<u>95.0</u>	<u>99.6</u>	<u>103.6</u>
Catastrophe losses	<u>(5.5)</u>	<u>(4.1)</u>	<u>(5.1)</u>	<u>(3.6)</u>	<u>(3.6)</u>	<u>(3.1)</u>
Combined ratio excluding catastrophe losses (adjusted)	<u>88.4 %</u>	<u>84.9 %</u>	<u>84.3 %</u>	<u>91.4 %</u>	<u>96.0 %</u>	<u>100.5 %</u>

Dollar amounts shown are rounded to millions; certain amounts may not add due to rounding. Ratios are calculated based on whole dollar amounts.

nm - not meaningful

¹ Statutory data prepared in accordance with statutory accounting rules as defined by the National Association of Insurance Commissioners and filed with the appropriate regulatory bodies.

² Prior to 2001, property casualty written premiums were recognized as they were billed throughout the policy period. Effective January 1, 2001, written premiums have been recognized on an annualized basis at the effective date of the policy.

Reconciliation of Commercial Lines Property Casualty Insurance Data (Statutory)⁽¹⁾

Cincinnati Insurance Property Casualty Group

(Dollars in millions)

	Years ended December 31,					
	2006	2005	2004	2003	2002	2001
Premiums⁽¹⁾						
Written premiums (adjusted)	\$ 2,435	\$ 2,306	\$ 2,209	\$ 2,009	\$ 1,795	\$ 1,551
Codification ⁽²⁾	-	-	-	-	-	276
Written premiums adjustment ⁽²⁾	7	(16)	(23)	22	110	-
Written premiums (reported) ⁽²⁾	<u>2,442</u>	<u>2,290</u>	<u>2,186</u>	<u>2,031</u>	<u>1,905</u>	<u>1,827</u>
Unearned premiums change	(40)	(36)	(60)	(123)	(184)	(374)
Earned premiums (GAAP)	<u>\$ 2,402</u>	<u>\$ 2,254</u>	<u>\$ 2,126</u>	<u>\$ 1,908</u>	<u>\$ 1,721</u>	<u>\$ 1,453</u>
Year-over-year Growth Rate⁽¹⁾						
Written premiums (adjusted) ⁽²⁾	5.6 %	4.4 %	10.0 %	11.9 %	15.8 %	16.9 %
Written premiums (reported) ⁽²⁾	6.7	4.7	7.6	6.6	4.2	43.3
Earned premiums	6.6	6.0	11.4	10.8	18.6	17.9
Combined Ratio⁽¹⁾						
Combined ratio (reported)	90.8 %	87.1 %	83.7 %	90.9 %	95.3 %	96.7 %
Codification ⁽²⁾	-	-	-	-	-	4.0
Written premium adjustment	nm	nm	nm	nm	1.5	-
One-time items	-	-	-	0.7	-	-
Combined ratio (adjusted)	<u>90.8</u>	<u>87.1</u>	<u>83.7</u>	<u>91.6</u>	<u>96.8</u>	<u>100.7</u>
Catastrophe losses	(3.7)	(3.4)	(3.4)	(2.2)	(2.3)	(1.9)
Combined ratio excluding catastrophe losses (adjusted)	<u>87.1 %</u>	<u>83.7 %</u>	<u>80.3 %</u>	<u>89.4 %</u>	<u>94.5 %</u>	<u>98.8 %</u>

Reconciliation of Personal Lines Property Casualty Insurance Data (Statutory)⁽¹⁾

Cincinnati Insurance Property Casualty Group

(Dollars in millions)

	Years ended December 31,					
	2006	2005	2004	2003	2002	2001
Premiums⁽¹⁾						
Written premiums (adjusted)	\$ 737	\$ 791	\$ 817	\$ 780	\$ 701	\$ 637
Codification ⁽²⁾	-	-	-	-	-	126
Written premiums adjustment ⁽²⁾	(1)	(5)	(6)	4	7	-
Written premiums (reported) ⁽²⁾	<u>736</u>	<u>786</u>	<u>811</u>	<u>784</u>	<u>708</u>	<u>763</u>
Unearned premiums change	26	18	(18)	(39)	(38)	(143)
Earned premiums (GAAP)	<u>\$ 762</u>	<u>\$ 804</u>	<u>\$ 793</u>	<u>\$ 745</u>	<u>\$ 670</u>	<u>\$ 620</u>
Year-over-year Growth Rate⁽¹⁾						
Written premiums (adjusted) ⁽²⁾	(6.8) %	(3.2) %	4.7 %	12.0 %	9.8 %	4.6 %
Written premiums (reported) ⁽²⁾	(6.4)	(3.0)	3.4	10.8	(7.2)	26.1
Earned premiums	(5.3)	1.4	6.4	11.2	8.1	4.0
Combined Ratio⁽¹⁾						
Combined ratio (reported)	103.6 %	94.3 %	104.6 %	102.9 %	106.5 %	105.9 %
Codification ⁽²⁾	-	-	-	-	-	4.6
Written premium adjustment	nm	nm	nm	nm	0.3	-
One-time items	-	-	-	1.0	-	-
Combined ratio (adjusted)	<u>103.6</u>	<u>94.3</u>	<u>104.6</u>	<u>103.9</u>	<u>106.8</u>	<u>110.5</u>
Catastrophe losses	(11.3)	(6.3)	(9.7)	(7.3)	(7.1)	(5.8)
Combined ratio excluding catastrophe losses (adjusted)	<u>92.3 %</u>	<u>88.0 %</u>	<u>94.9 %</u>	<u>96.6 %</u>	<u>99.7 %</u>	<u>104.7 %</u>

Reconciliation of Life Insurance Company Data (Statutory)⁽¹⁾

The Cincinnati Life Insurance Company

(Dollars in millions)

	Years ended December 31,					
	2006	2005	2004	2003	2002	2001
Gross written premiums (reported)	\$ 206	\$ 249	\$ 230	\$ 173	\$ 244	\$ 122
Bank-owned life insurance (BOLI) adjustments	-	-	(10)	-	(34)	-
Gross written premiums (adjusted)	<u>\$ 206</u>	<u>\$ 249</u>	<u>\$ 220</u>	<u>\$ 173</u>	<u>\$ 210</u>	<u>\$ 122</u>

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nm - not meaningful

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² Prior to 2001, property casualty written premiums were recognized as they were billed throughout the policy period. Effective January 1, 2001, written premiums have been recognized on an annualized basis at the effective date of the policy.