CINCINNATI FINANCIAL CORPORATION

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May 18, 2006

To Our Shareholders, Associates and Friends:

It was a pleasure to greet friends, old and new, at your company's Annual Meeting of Shareholders on May 6. We enjoyed the warm welcome of the Cincinnati Art Museum staff and the opportunity to report on the state of your company.

The business of the meeting was satisfactorily completed as summarized on the next page, with each business item approved with more than 91 percent of votes cast. Attendees heard about our strong 2005 and first-quarter 2006 financial results and operations in the context of our mission – to grow profitability and enhance the ability of local independent insurance agents to deliver quality financial protection to the people and businesses they serve.

Those results and operations, along with our continued positive outlook for the rest of 2006, are covered inside this report, beginning on Page 3. The business review highlighted three commitments that distinguish Cincinnati and the people who fulfill those commitments:

- To cultivate relationships with the professional agents who protect their clients with Cincinnati policies and to make our decisions at the local level
- To achieve claims excellence, covering the spectrum from our response to reported claims to our approach to establishing reserves for not-yet-paid claims
- To invest for long-term total return, using available cash flow to purchase equity securities after covering insurance liabilities by purchasing fixed-maturity securities

Following the meeting, the boards of directors promoted two highly respected officers to additional positions: Jim Benoski now is Cincinnati Financial president and chief operating officer, as well as Cincinnati Insurance president and chief executive officer. Ken Stecher now is Cincinnati Financial executive vice president, as well as Cincinnati Insurance chairman of the board and executive vice president. You'll find details on Page 2.

Jim and Ken exemplify dedication to the mission and commitments that differentiate your company, leading to shareholder value over the long term. I applaud the board decision to recognize their leadership, and I look forward to continuing to work with them closely over the coming years.

I am inspired by the passion all of our executives and associates have for providing superior service. This passion helps shape a company culture that allows individuals in Cincinnati and across our operating territories to turn daily transactions into relationship- and trust-building events. In a newspaper account of the tornado that struck Springfield, Illinois, on March 12, a business policyholder reported calling Cincinnati's local claims representative at home at 11 p.m. and meeting in person at the site at 7:30 a.m., while neighbors waited to hear from their insurers. Or consider the agent who recently told his field marketing representative about a new business opportunity he needed to seize within a very short window of time. Our sales representative immediately enlisted loss control associates. They promptly and personally inspected the property, providing the accurate risk assessment necessary for the agent to successfully offer coverage on this large account.

This level of service is repeated many times by many associates, and the strong relationships that result positively influence the calculation of your company's high financial strength ratings. For the 50th consecutive year, A.M. Best Co. awarded the Cincinnati property casualty group its highest available rating, affirming our A++ on April 28, 2006.

Respectfully,

/S/ John J. Schiff, Jr.

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

Recent News Releases

Cincinnati Financial Corporation Holds Shareholders' and Directors' Meetings

- *Shareholders elect directors and approve adoption of proposals*
- *Boards expand roles of chief insurance officer and chief financial officer*
- *Board committee assignments unchanged*

Cincinnati, May 8, 2006 – Cincinnati Financial Corporation (Nasdaq: CINF) today announced that five directors were re-elected to the 14-member board at the company's annual shareholders' meeting on May 6, 2006. Also, shareholders ratified the selection of Deloitte & Touche LLP as its independent registered public accounting firm and approved adoption of the Cincinnati Financial Incentive Compensation Plan and the Cincinnati Financial Corporation 2006 Stock Compensation Plan.

Chairman and Chief Executive Officer John J. Schiff, Jr., CPCU, commented: "We thank shareholders for approving all of our candidates and our 2006 proposals. The incentive and stock compensation plans support our ability to attract and retain quality associates at every level with a strong sense of ownership in the company's performance."

Re-elected for three-year terms on the board were William F. Bahl, CFA, chairman of Bahl & Gaynor Investment Counsel, Inc; James E. Benoski, vice chairman and chief insurance officer of Cincinnati Financial Corporation; Gretchen W. Price, vice president of finance and accounting for global operations of Procter & Gamble; John J. Schiff, Jr.; and E. Anthony Woods, chairman of Deaconess Associations, Inc.

Separately, the boards of directors of Cincinnati Financial Corporation and the company's property casualty insurance subsidiaries, The Cincinnati Insurance Company (CIC), The Cincinnati Indemnity Company (CID) and The Cincinnati Casualty Company (CCC), expanded the roles of the company's chief insurance officer and chief financial officer.

- *James E. Benoski, chief insurance officer* – Benoski was promoted to president and chief operating officer of Cincinnati Financial Corporation, to president and chief executive officer of its subsidiaries CIC and CID, and to chief executive officer of subsidiary CCC.

  He continues to serve as vice chairman of the board of Cincinnati Financial Corporation (since 2004) and the three property casualty insurance subsidiaries (since 1999) and as chief insurance officer and a director of Cincinnati Financial Corporation and all of its insurance subsidiaries. Benoski has been senior vice president and managed the headquarters claims department since 1996. He joined the company in 1971.

- *Kenneth W. Stecher, chief financial officer* – Stecher was promoted to executive vice president of Cincinnati Financial Corporation and the three property casualty insurance subsidiaries and to chairman of the board of those subsidiaries.

  He continues to serve as chief financial officer (since 2001) and secretary of Cincinnati Financial Corporation, all of its insurance subsidiaries and subsidiary CFC Investment Company and as treasurer of Cincinnati Financial Corporation and subsidiary CinFin Capital Management Company. Stecher, who is a director of all subsidiaries, has been senior vice president and managed the accounting department since 1999. He has been affiliated with the company for 38 years in various financial positions.

Schiff said, "Jim and Ken are exemplary individuals. Their leadership has extended beyond their respective areas, influencing our company's success. They will provide wisdom, experience and continuity as we build toward an even stronger future. The boards have chosen to recognize the roles they have been filling for the past several years and the depth they add to our executive team. I look forward to continuing our working relationship into the coming years."

Schiff, who has been president (since 1999) and chief operating officer (since 1998) of the company and its insurance subsidiaries CIC and CID, continues as chairman of the board (since 1986) and chief executive officer (since 1999) of Cincinnati Financial Corporation and The Cincinnati Life Insurance Company and as a director of the company's insurance subsidiaries and CFC Investment Company. He is chairman of the executive and investment committees of the boards of Cincinnati Financial Corporation and its insurance subsidiaries.

The board of Cincinnati Financial Corporation also announced that directors will continue membership on their same board committees, with all assignments in accord with the independence requirements of applicable law and the listing standards of Nasdaq.

Additionally, the board approved an amendment to the supplemental retirement plan to comply with Section 409A of the Internal Revenue Code and to update participants in the plan.

Cincinnati Financial First-quarter Net Income at $3.13 per Share Due to Investment Sale; Operating Income* at 74 Cents per Share with Higher Catastrophe Losses

Cincinnati, May 3, 2006 – Cincinnati Financial Corporation (Nasdaq: CINF) today reported strong property casualty insurance underwriting performance and higher investment income for the 2006 first quarter.

Financial Highlights*

(Dollars in millions except share data)	Three months ended March 31,		
	2006	2005	Change %
Revenue Highlights			
Earned premiums	**$ 804**	$ 777	3.5
Investment income	**139**	127	9.0
Total revenues	**1,607**	916	75.4
Income Statement Data			
Net income	**$ 552**	$ 144	282.4
Net realized investment gains and losses	**421**	6	7,090.7
Operating income*	**$ 131**	$ 138	(5.1)
Per Share Data (diluted)			
Net income	**$ 3.13**	$ 0.81	286.4
Net realized investment gains and losses	**2.39**	0.03	7,866.7
Operating income*	**$ 0.74**	$ 0.78	(5.1)
Cash dividend declared	**$ 0.335**	$ 0.290	15.5
Book value	**$ 35.85**	$ 34.04	5.3
Weighted average shares outstanding	**176,127,404**	177,857,161	(1.0)

Corporate Highlights

- 9.0 percent growth in pretax investment income.
- 2.8 percent increase in book value from year-end 2005 level.
- $421 million in net realized investment gains (after tax), primarily from previously announced sale of ALLTEL common stock holding.
- 3 cents charge to 2006 per share results from stock option expensing.
- 1.7 million reduction in average shares outstanding. First-quarter repurchases of the company's common stock totaled 1.85 million shares at a cost of $81 million.

Insurance Operations Highlights

- 4.0 percent increase in first-quarter property casualty net written premiums. Commercial lines net written premiums rose 6.2 percent and new commercial lines business rose 11.0 percent.
- 92.0 percent property casualty GAAP combined ratio and $62 million underwriting profit. Catastrophe losses contributed 5.0 percentage points compared with 0.3 percentage points in last year's first quarter.
- 4 cents contribution from life insurance segment to first-quarter 2006 operating income.

2006 Outlook**

- 2006 property casualty written premiums expected to be flat to up slightly, with modest growth in commercial lines written premiums offsetting anticipated decline in personal lines written premiums.
- 2006 GAAP combined ratio expected to be 92 percent to 94 percent, assuming full-year catastrophe losses contribute approximately 4.0 to 4.5 percentage points. April catastrophe losses estimated at $55 million.
- 2006 pretax investment income growth expected to be at the upper end of the 6.5 percent to 7.0 percent range.

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

** Outlook and related assumptions are subject to the risks outlined in the company's forward-looking information safe-harbor statement (see Page 15).

2006 Off to Strong Start

"Cincinnati Financial Corporation has achieved healthy growth and excellent profitability for the first quarter of 2006," said John J. Schiff Jr., CPCU, chairman and chief executive officer. "We achieved premium growth in a competitive market, and investment income growth helped offset the adoption of option expensing. Our financial position also remained strong. Property casualty statutory surplus rose to $4.334 billion at March 31, 2006, up from $4.194 billion at year-end. Just last week, A.M. Best Co. reaffirmed our property casualty group at its highest financial strength rating for the 50th consecutive year. This record is shared by very few other insurers, and it attests to our commitment to policyholder safety.

"As we've moved through the first four months of 2006, our independent agents and policyholders have had ample opportunities to see the value of the Cincinnati relationship. Unlike 2005, this year has begun with severe weather across the Midwest. Of almost 4,000 catastrophe claims reported in the four events between March 11 and April 15, more than 65 percent are already closed. Our claims representatives' prompt responses and personal service once again are creating tremendous policyholder loyalty that will help our agents market Cincinnati policies in the current competitive marketplace.

"Our approach is to appoint only the most professionally managed agencies in each area where we see opportunities to bring Cincinnati's insurance products and services to families and businesses. This high-quality representation is an advantage we have been carefully expanding. Eighteen appointments of new agency relationships in the first quarter raised the net number of reporting agency locations to 1,263 – and we're targeting 55 to 60 new appointments in 2006."

Property Casualty Marketplace

Schiff noted, "Our commercial lines business reported healthy underwriting profits. Commercial lines net written premium grew 6.2 percent in the first quarter, with new business up 11.0 percent. Our business policyholders continue to respond favorably to our agents' presentation of the Cincinnati value proposition – customized coverage packages, superior claims service and the A++ rating from A.M. Best – and all of this is often provided in a convenient three-year commercial package.

"Since the 2005 hurricane season, commercial lines pricing has grown more competitive in non-coastal markets. We believe that so far, the effect of those hurricanes on pricing largely has been limited to coastal markets and business lines directly affected by the storms. During the remainder of 2006, industry pricing may begin to factor in the higher reinsurance pricing and more stringent capital requirements that were two significant outcomes of the 2005 catastrophes. However, most of our regional competitors are financially strong and reporting improving profitability. Further, the potential remains for accelerated competition if carriers that choose to exit coastal markets look to replace market share in our core Midwest markets. No geographic area is immune to catastrophes – as this year's storms show – but our local knowledge and strong agency relationships are advantages that help us underwrite successfully and grow profitably. As a result, we continue to look for commercial lines growth above the industry average.

"As we anticipated, our personal lines premiums did not grow in the first quarter. We believe that trend may begin to reverse in the second half of the year, after we introduce a limited program of policy credits that incorporate insurance scores into pricing of our personal auto and homeowner policies. These pricing refinements will lower premiums for some policyholders, paving the way for our agents to sell the value of our homeowner-auto package, superior claims service and financial strength to their preferred clients. Our actions are targeting a return to the near-90 percent policy retention we historically have achieved and to a healthy pace of personal lines new business activity," Schiff said.

2006 Property Casualty Outlook Unchanged

Kenneth W. Stecher, chief financial officer and senior vice president noted, "Our outlook for 2006 premium growth reflects our belief that the rate-driven declines in personal lines written premiums we are expecting will be offset by modest growth in commercial lines.

"Based on first-quarter catastrophe losses and our preliminary estimates for April, catastrophe losses could contribute at least $94 million, or 6 percentage points to the property casualty combined ratio in the first six months of 2006. We estimate the impact on after-tax earnings for the first six months at approximately $61 million, or 35 cents per share. These estimates do not take into account any catastrophe activity that may occur in May or June, or potential development from events in prior periods. For the comparable 2005 six-month period, catastrophe losses were $17 million, contributing 1.1 percentage points to the combined ratio, with an after-tax impact of $11 million, or 6 cents per share."

Stecher emphasized, “At this stage, we continue to estimate our full-year GAAP combined ratio at 92 percent to 94 percent. That target allows for 2006 catastrophe losses in the range of $125 million to $145 million, which would be about 4.0 to 4.5 percentage points on the full-year ratio. While our financial strength and flexibility can accommodate catastrophe losses above that level, we would need to re-evaluate our target under those circumstances.”

Stecher added, “We also can leverage the strength of our underwriting operations to afford higher expenses, including increased agent commissions due to continued strong profitability. Other underwriting expenses reflect expensing of stock options at the operating company level. For our property casualty operations, first-quarter option expense contributed 0.8 percentage points to the underwriting expense ratio and the combined ratio. Overall, we continue to estimate that stock option expense will reduce full-year earnings per share by approximately 8 cents.”

Schiff noted, “Other underwriting expenses also reflect our ongoing investment in infrastructure, particularly in technology, staff and physical plant, to help assure achievement of the company’s long-term objectives. In particular, we are making progress in introducing systems that improve service to and communication with our agencies. We have established a base on which to build over the next several years.”

Investment Operations Contribute to Net Income and Book Value

Stecher added, “First-quarter investment income growth benefited from income on the portion of the proceeds from the ALLTEL sale that will be used to make the applicable tax payments in June 2006. Our outlook for 2006 investment income growth is based on the anticipated level of dividend income, the strong cash flow from insurance operations and the higher-than-historical allocation of new cash flow to fixed-income securities over the past two years.”

“Higher investment income growth helped us achieve this quarter’s solid results, with the strength of our equity portfolio contributing to improved book value.” Schiff noted. “We used a substantial portion of the proceeds from the sale of our ALLTEL common stock holding to make equity investments that should provide both income and the potential for capital appreciation over the years.

“We remain committed to our buy-and-hold equity investing strategy, which we believe is key to the company’s future growth and stability. When allocating available cash for investment between fixed-income securities, equities and share repurchase, we look at rating agency capitalization measures among other considerations.”

Schiff concluded, “We focus well beyond the short-term in our commitments to strong agency relationships, claims service excellence, loss reserve adequacy and total return investing. That approach has allowed us to continue targeting above-industry-average growth in written premiums and industry-leading profitability. We expect to continue that performance in 2006, on our way to rewarding shareholders over the long term.”

Property Casualty Insurance Operations

(Dollars in millions)	Three months ended March 31,		
	2006	2005	Change %
Written premiums	**$ 829**	$ 797	4.0
Earned premiums	**$ 778**	$ 753	3.3
Loss and loss expenses excluding catastrophes	**432**	456	(5.1)
Catastrophe loss and loss expenses	**39**	2	1,789.7
Commission expenses	**157**	142	10.7
Underwriting expenses	**84**	66	26.6
Policyholder dividends	**4**	3	nm
Underwriting profit	**$ 62**	$ 84	(25.9)
Ratios as a percent of earned premiums:			
Loss and loss expenses excluding catastrophes	**55.6 %**	60.5 %	
Catastrophe loss and loss expenses	**5.0**	0.3	
Loss and loss expenses	**60.6**	60.8	
Commission expenses	**20.2**	18.9	
Underwriting expenses	**10.8**	8.8	
Policyholder dividends	**0.4**	0.4	
Combined ratio	**92.0 %**	88.9 %	

Property Casualty Insurance Highlights

- 4.0 percent increase in first-quarter total property casualty net written premiums.
- $77 million in new business written directly by agencies compared with $71 million in last year's first quarter.
- 1,041 agency relationships with 1,263 reporting locations marketing our insurance products at March 31, 2006, up from 1,024 agency relationships with 1,253 locations at year-end 2005.
- 3.1 percentage-point increase in first-quarter property casualty combined ratio. The combined ratio rose as the effects of higher catastrophe losses and expenses offset the effect in last year's first quarter of a single large loss.
- $39 million in first-quarter 2006 catastrophe losses, reflecting $38 million from one event in the period and $1 million in net development from prior period events. Catastrophe losses added 5.0 percentage points to the first-quarter combined ratio. First-quarter 2005 catastrophe losses added only 0.3 percentage points.
- 1.3 percentage-point rise in commission expense ratio over the lower-than-normal level in the first three months of 2005. Strong profitability has led to an increased accrual for contingent commission expense.
- 2.0 percentage-point rise in non-commission underwriting expense ratio. The increase primarily was due to increased taxes, licenses and fees and technology-related spending as well as stock option expensing that contributed 0.8 percentage points to the ratio.
- April 2006 catastrophe losses estimated at $55 million, to be included in second quarter results. Loss estimates for catastrophe events include losses from claims received as well as estimates of claims that have not yet been reported.

2006 Year-to-date Events	Dates	States Primarily Affected	Reported Claims (as of May 1)	Loss Estimate (pretax, net of reinsurance)
First-quarter 2006:				
Midwest tornadoes and severe weather	March 11-13	Arkansas, Illinois, Indiana, Kansas, Missouri, Oklahoma	1,416	$38 million
Second-quarter 2006:				
Midwest wind and hail	April 2-3	Arkansas, Illinois, Indiana, Kentucky, Missouri, Tennessee	968	$25 million
Midwest wind and hail	April 6-8	Alabama, Georgia, Indiana, Kansas, Kentucky, Nebraska, Ohio, Tennessee	567	$11 million
Midwest wind and hail	April 13-15	Illinois, Indiana, Iowa, Wisconsin	1,022	$19 million

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Commercial Lines Insurance Operations

(Dollars in millions)	Three months ended March 31,		
	2006	2005	Change %
Written premiums	**$ 668**	$ 629	6.2
Earned premiums	**$ 582**	$ 551	5.7
Loss and loss expenses excluding catastrophes	**324**	329	(1.3)
Catastrophe loss and loss expenses	**29**	6	381.9
Commission expenses	**117**	104	12.3
Underwriting expenses	**53**	40	33.4
Policyholder dividends	**4**	3	nm
Underwriting profit	**$ 55**	$ 69	(20.0)
Ratios as a percent of earned premiums:			
Loss and loss expenses excluding catastrophes	**55.7 %**	59.7 %	
Catastrophe loss and loss expenses	**5.1**	1.1	
Loss and loss expenses	**60.8**	60.8	
Commission expenses	**20.0**	18.9	
Underwriting expenses	**9.1**	7.2	
Policyholder dividends	**0.6**	0.6	
Combined ratio	**90.5 %**	87.5 %	

Commercial Lines Insurance Highlights

- 6.2 percent rise in first-quarter 2006 commercial lines net written premiums.
- $70 million in new commercial lines business written directly by agencies in first-quarter 2006, up 11.0 percent. We believe the growth rate of commercial lines written premium exceeded the average for the commercial lines marketplace.
- 90.5 percent first-quarter 2006 commercial lines combined ratio. The 3.0 percentage point increase primarily was due to a 4.0 percentage point rise in the catastrophe loss ratio. Other factors affecting the comparison included higher underwriting expenses and a single large loss in last year's first quarter.
- 4.0 percentage-point improvement in loss and loss expense ratio excluding catastrophes. A single large fire loss in last year's first quarter increased the 2005 ratio by 4.3 percentage points.
- 1.9 percentage point increase in noncommission expense ratio. The rise largely was due to higher taxes, licenses and fees, technology costs and staffing expenses, including associate benefit costs and stock option expensing that added 0.8 percentage points to the ratio.
- Modest commercial lines growth anticipated as company maintains underwriting standards. The company believes its approach should allow it to maintain most of the positive underlying improvement in commercial lines profitability that has occurred over the past several years.

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Personal Lines Insurance Operations

(Dollars in millions)	Three months ended March 31,		
	2006	2005	Change %
Written premiums	**$ 161**	$ 168	(4.1)
Earned premiums	**$ 196**	$ 202	(3.2)
Loss and loss expenses excluding catastrophes	**108**	127	(15.0)
Catastrophe loss and loss expenses	**10**	(4)	340.6
Commission expenses	**40**	38	6.4
Underwriting expenses	**31**	26	16.4
Underwriting profit	**$ 7**	$ 15	(53.1)
Ratios as a percent of earned premiums:			
Loss and loss expenses excluding catastrophes	**55.1 %**	62.8 %	
Catastrophe loss and loss expenses	**5.0**	(2.0)	
Loss and loss expenses	**60.1**	60.8	
Commission expenses	**20.7**	18.9	
Underwriting expenses	**15.6**	13.0	
Combined ratio	**96.4 %**	92.7 %	

Personal Lines Insurance Highlights

- 96.4 percent first-quarter 2006 personal lines combined ratio. The 3.7 percentage point increase reflects continued progress in lowering homeowner loss and loss expense ratio closer to breakeven offset by a higher contribution from catastrophe losses and an increase in commission and underwriting expenses.
- 4.1 percent decline in first-quarter 2006 personal lines net written premiums.
- $7 million in new personal lines business written directly by agencies in first-quarter 2006, compared with $8 million in last year's first quarter.
- Diamond, the company's personal lines policy processing system, to be in use by year-end 2006 in 13 states that represent approximately 90 percent of total 2005 personal lines earned premium volume. First-quarter rollout to Georgia, Kentucky and Wisconsin agents completed on schedule. Minnesota, Missouri and Tennessee rollouts planned for later this year.
- 7.7 percentage-point improvement in personal lines loss and loss expense ratio excluding catastrophe losses. The improvement reflected continued progress in restoring the homeowner business line to full-year profitability as well as another quarter of excellent personal auto results.
- 2.6 percentage-point increase in noncommission underwriting expense ratio. The rise largely was due to higher taxes, licenses and fees, technology costs and staffing expenses, including associate benefit costs and stock option expense that added 0.8 percentage points to the ratio. The decline in earned premium also affected the comparison.
- Decline in personal lines full-year 2006 premiums expected. Continued progress anticipated in rollout of policy processing system and rate and credit modifications to solidify competitive position.

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Life Insurance Operations

(In millions)	Three months ended March 31,		
	2006	2005	Change %
Written premiums	**$ 40**	$ 53	(24.5)
Earned premiums	**$ 26**	$ 23	10.6
Investment income, net of expenses	**26**	24	9.6
Other income	**1**	1	(0.3)
Total revenues, excluding realized investment gains and losses	**53**	48	9.9
Policyholder benefits	**30**	24	26.4
Expenses	**10**	11	(6.5)
Total benefits and expenses	**40**	35	15.9
Net income before income tax and realized investment gains and losses	**13**	13	(5.8)
Income tax	**5**	4	13.2
Net income before realized investment gains and losses	**$ 8**	$ 9	(15.4)

Life Insurance Highlights

- $40 million in first quarter total life insurance operations net written premiums, compared with $53 million in last year's first quarter. Written premiums for life insurance operations for all periods include life insurance, annuity and accident and health premiums.
- 14.4 percent increase to $30 million in statutory written premiums for term and other life insurance products in the first three months of 2006. Since late 2005, the company has de-emphasized annuities because of an unfavorable interest rate environment. Statutory written annuity premiums declined to $9 million in the first three months of 2006 from $26 million in the comparable prior period.
- 2.5 percent rise in face amount of life policies in force to $52.773 billion at March 31, 2006, from $51.493 billion at year-end 2005.
- $5 million increase in benefits and expenses due to higher mortality compared with the year-earlier period and to stock option expense that added approximately $400,000. Mortality experience remained within pricing guidelines as premiums continued to rise.
- 35.3 percent rise in first-quarter 2006 term life insurance written premiums, benefiting from the 2005 introduction of a new series of term products. The Termsetter Plus series includes an optional return-of-premium feature. Response to the new portfolio has been favorable, with approximately 25 percent of applications requesting the return-of-premium feature.
- Introduced UL120, a secondary guarantee universal life product, in first-quarter 2006. This is a mortality-based product with an emphasis on low, competitive premiums for high guaranteed death benefits.

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Investment Operations

(In millions)	Three months ended March 31, 2006	2005	Change %
Investment income:			
Interest	$ **74**	$ 68	9.4
Dividends	**62**	58	6.4
Other	**4**	2	59.9
Investment expenses	**(1)**	(1)	(6.8)
Total net investment income	**139**	127	9.0
Investment interest credited to contract holders	**(14)**	(13)	9.9
Net realized investment gains and losses:			
Realized investment gains and losses	**659**	16	3,912.5
Change in valuation of embedded derivatives	**2**	(7)	130.8
Other-than-temporary impairment charges	**(1)**	0	nm
Net realized investment gains (losses)	**660**	9	7,415.4
Investment operations income	$ **785**	$ 123	536.2

Balance Sheet

(Dollars in millions)	March 31, 2006	December 31, 2005
Balance Sheet Data		
Total assets	**$ 16,763**	$ 16,003
Invested assets	**13,307**	12,702
Shareholders' equity	**6,204**	6,086
Ratio Data		
Return on equity	**35.9 %**	9.8 %
Return on equity, based on comprehensive income	**15.7 %**	1.6 %

Investment and Balance Sheet Highlights

- 9.0 percent increase in pretax net investment income. Interest income from fixed-income investments contributed 53.4 percent of first-quarter 2006 net investment income. Fifth Third Bancorp, the company's largest equity holding, contributed 44.8 percent of total dividend income.
- Growth in investment income reflected the strong cash flow for new investments, higher interest income from the growing fixed-maturity portfolio and increased dividend income from the common stock portfolio. In addition, proceeds from the sale of the ALLTEL holding that will be used to make the applicable tax payments in June 2006 currently are invested in short-term instruments that generated approximately $3 million in interest income in the first three months of 2006.
- $11 million annually in additional investment income expected from dividend increases announced during the 12 months ended March 31, 2006, by Fifth Third and another 32 of the 48 common stock holdings in the equity portfolio.
- $660 million in net realized investment gains (pretax). The previously announced sale of the company's holdings of ALLTEL Corporation common stock accounted for $647 million of the realized gain. Transaction proceeds were used to purchase $445 million in new common stock and to repurchase 1.85 million CINF shares at a total cost of $81 million in the first three months of 2006.
- $4.334 billion in statutory surplus for the property casualty insurance group at March 31, 2006, compared with $4.194 billion at year-end 2005. The ratio of common stock to statutory surplus for the property casualty insurance group portfolio was 95.1 percent at March 31, 2006, compared with 97.0 percent at year-end 2005.
- 32.4 percent ratio of investment securities held at the holding-company level to total holding-company-only assets at March 31, 2006, well below management's below-40 percent target.

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Cincinnati Financial Corporation
Consolidated Balance Sheets

(Dollars in millions except per share data)	March 31, 2006 (unaudited)	December 31, 2005
ASSETS		
Investments		
Fixed maturities, at fair value (amortized cost: 2006—$5,629; 2005—$5,387)	**$ 5,640**	$ 5,476
Equity securities, at fair value (cost: 2006—$2,442; 2005—$2,128)	**6,997**	7,106
Short-term investments, at fair value (cost: 2006—$288; 2005—$75)	**288**	75
Securities lending collateral	**330**	0
Other invested assets	**52**	45
Cash and cash equivalents	**206**	119
Investment income receivable	**111**	117
Finance receivable	**106**	105
Premiums receivable	**1,152**	1,116
Reinsurance receivable	**683**	681
Prepaid reinsurance premiums	**12**	14
Deferred policy acquisition costs	**448**	429
Land, building and equipment, net, for company use (accumulated depreciation: 2006—$240; 2005—$232)	**183**	168
Other assets	**68**	66
Separate accounts	**487**	486
Total assets	**$ 16,763**	$ 16,003
LIABILITIES		
Insurance reserves		
Loss and loss expense reserves	**$ 3,728**	$ 3,661
Life policy reserves	**1,352**	1,343
Unearned premiums	**1,610**	1,559
Securities lending payable	**330**	0
Other liabilities	**834**	455
Deferred income tax	**1,427**	1,622
6.125% senior notes due 2034	**371**	371
6.9% senior debentures due 2028	**28**	28
6.92% senior debenture due 2028	**392**	392
Separate accounts	**487**	486
Total liabilities	**10,559**	9,917
SHAREHOLDERS' EQUITY		
Common stock, par value-$2 per share; authorized: 2006-500 million shares, 2005-500 million shares; issued: 2006-195 million shares, 2005-194 million shares	**390**	389
Paid-in capital	**986**	969
Retained earnings	**2,581**	2,088
Accumulated other comprehensive income—unrealized gains on investments and derivatives	**2,972**	3,284
Treasury stock at cost (2006—22 million shares, 2005—20 million shares)	**(725)**	(644)
Total shareholders' equity	**6,204**	6,086
Total liabilities and shareholders' equity	**$ 16,763**	$ 16,003

Cincinnati Financial Corporation
Consolidated Statements of Income

(In millions except per share data)	Three months ended March 31, **2006**	2005
	(unaudited)	
REVENUES		
Earned premiums		
Property casualty	**$ 778**	$ 753
Life	**26**	23
Investment income, net of expenses	**139**	127
Realized investment gains and losses	**660**	9
Other income	**4**	4
Total revenues	**1,607**	916
BENEFITS AND EXPENSES		
Insurance losses and policyholder benefits	**501**	481
Commissions	**166**	150
Other operating expenses	**80**	67
Taxes, licenses and fees	**24**	17
Increase in deferred policy acquisition costs	**(14)**	(11)
Interest expense	**13**	13
Other expenses	**3**	4
Total benefits and expenses	**773**	721
INCOME BEFORE INCOME TAXES	**834**	195
PROVISION (BENEFIT) FOR INCOME TAXES		
Current	**292**	50
Deferred	**(10)**	1
Total provision for income taxes	**282**	51
NET INCOME	**$ 552**	$ 144
PER COMMON SHARE		
Net income—basic	**$ 3.17**	$ 0.82
Net income—diluted	**$ 3.13**	$ 0.81

Since 1996, Cincinnati Financial has disclosed the estimated impact of stock options on net income and earnings per share in a Note to the Financial Statements. For the three months ended March 31, 2005, diluted net income would have been reduced by approximately 2 cents per share, if option expense, calculated using the binomial option-pricing model, were included as an expense.

Inside Cincinnati

Public Responsibility

The 2006 elections will fill several seats on the state supreme courts in Ohio, Alabama and Kentucky. We urge shareholders and policyholders to consider those candidates who have an impartial and balanced judicial philosophy and who recognize that the judiciary's role is strictly to interpret the law.

At the federal level, your company continues to monitor legislative initiatives that encourage modernization of state insurance regulation and ensure the industry's ability to protect policyholders against large natural disasters:

- Our experience shows that policyholder risks and coverage needs vary because of diverse geographic, climatic and economic conditions. Renewed proposals in Congress calling for optional federal chartering of insurers overlook this diversity and its corollary, the superior flexibility of states to respond with regulations and insurance products appropriate to state-specific conditions. We continue to believe that state regulators are in the best position to respond to local market conditions and that their modernization efforts are better directed at making the state system more efficient.
- We support the Policyholder Disaster Protection Act (HR 2668), a Congressional proposal that would encourage carriers to make coverage available in catastrophe-prone areas by allowing them to set aside reserves for future mega catastrophes on a tax-deferred basis. At the same time, we urge Congress and the National Association of Insurance Commissioners to carefully consider the negative ramifications of proposals currently pending that would put the federal government in the business of selling catastrophe reinsurance to state catastrophe funds at levels of risk well within the capacity of the private markets.

Professional Development

In addition to the executive promotions discussed in our May 8 news release, the following staff members of The Cincinnati Insurance Companies merited promotions since the February 16, 2006, *Letter to Shareholders*:

Jane Abney, Underwriting Superintendent
Michael Allen, Senior Analyst – Desktop Management
Norm Alms, CLU, Senior Life Regional Director
Dick Aten, CPCU, AIC, AIM, Superintendent – Field Claims HQ
Jen Atkinson, Underwriting Manager
Greg Aumann, Supervising Underwriter
Myra Bates, Senior Programmer/Analyst
Lynnette Beach, Underwriting Specialist
Mark Becker, SCLA, Field Claims Superintendent
Russ Blessing, Senior Underwriter
Jennifer Bransford, Senior Programmer/Analyst
John Breedlove, Claims Specialist
Jamie Brenner, Chief Underwriting Specialist
Christina Buller, Supervising Accountant
Chris Byers, Underwriting Specialist
Laura Byrd, Division Manager, Information Technology
Connie Caudill, Senior Underwriter
Angela Cheek, CPCU, API, Senior Underwriter
Mike Chrisman, CPCU, Underwriting Specialist
Dane Cramer, Senior Investigator
Dave Dassel, AIM, AIS, Underwriting Specialist
Chad Dowdy, AIM, AIC, Field Claims Manager
Mike Dowgwillo, Field Claims Superintendent
Brian Druley, Life Marketing Director
Mel Ducklo, Senior Underwriter
Ryan Evans, Programmer
Alan Everson, Senior Underwriter
Hank Faglie, Jr., AIC, Senior Claims Specialist
Mike Feko, CLU, ChFC, CFP, LUTCF, Senior Life Regional Director
Scot Feldmeyer, AIM, Underwriting Specialist
Tod Felton, AIC, Senior Claims Representative
William Ferro, Senior Project Manager
David Fitzgerald, AIC, Senior Claims Representative
Jill Foxx, Actuary Support Analyst
Tim Fulk, Associate Superintendent
Brenda Gagnon, Underwriting Superintendent
Venkat Gannamraj, Group Manager
Kevin Getz, AIM, Regional Director
Judy Gibson, AIC, Senior Claims Representative
Forrest Gregg, Jr., Underwriting Superintendent
LeAnn Gregory, CPCU, Regional Director
Michelle Grove, Senior Underwriter
David Guinn, AIC, Senior Claims Specialist
Kevin Hagedorn, Underwriting Specialist
Matthew Hambright, APA, Field Premium Audit Specialist
John Hayskar, Senior Loss Control Consultant
Ryan Henry, State Agent
Chris Hill, Underwriting Specialist
Mike Hingsbergen, Division Manager, Information Technology
Bruce Hop, Life Field Director
Seddrick Hubbard, Senior Underwriter
Jack Huesing, Group Manager, Information Technology
Edward Humphrey III, AIC, Field Claims Superintendent
Sandy Huskey, Senior Network Administrator
Karen Jackson, AIC, Senior Claims Representative
Jennifer Johnson, Senior Underwriter
Kevin Johnson, AIC, Senior Claims Specialist
Ed Kapalczynski, Senior Claims Specialist
Shawn Kelly, Underwriting Manager
Mike Kirkland, Senior Underwriter
Garrick Kreitzer, Senior Underwriter
Nate Kroenke, AIC, Senior Claims Representative
Mark Kuntz, Product Director
Dan Lambrecht, AIC, Senior Claims Representative
Troy Lary, AIC, Senior Claims Representative

Shaun LaSance, Senior Underwriter
Jason Laub, Underwriting Specialist
Jim Lay, CPCU, CIC, State Agent
Kathryn Legge, AU, Underwriting Specialist
Monica Lester, Programmer
Bill Leuthold, AIC, Senior Claims Specialist
Jack Lindeman, Chief Underwriting Specialist
Pattie Mangone, CPCU, Senior Claims Specialist
Andy McCarty, AIC, Senior Claims Representative
Kurt McKenna, Underwriting Specialist
Phillip McKinney, AIC, Senior Claims Representative
Kim Meinberg, Senior Underwriter
Scott Meisenbach, Senior Information Security Specialist
Scott Meyer, Senior Underwriter
Chris Middleton, CIC, AAI, Senior Regional Director
Matthew Miller, Senior Underwriter
Dawn Miller, AIC, Senior Claims Specialist
Laura Mize, Group Manager, Information Technology
Sharri Monte, AIC, Senior Claims Specialist
Kim Morin, Senior Claims Specialist
Daniel Muraski, Group Manager, Information Technology
Kim Nadler, FLMI, FALU, Senior Underwriter
Deborah Naegele, Filing Specialist
Sarah Nally, Senior Underwriter
Rhonda Napper, Underwriting Specialist
Randy Naylor, Senior Analyst
Ralph Niccolai, Senior Claims Specialist
Michelle Parsons, Senior Claims Specialist
Jeff Pater, Accounting Analyst – Support
Megan Perren, Senior Underwriter
Darren Richter, Senior Underwriter
Scott Robinson, CPCU, AIM, Underwriting Manager
Brett Sadler, Senior Claims Specialist
Tom Saineghi, AIC, Senior Claims Specialist
Ben Sanderson, Senior Claims Specialist
Walter Sauerwein, CPCU, AU, Underwriting Manager
Jennifer Saul, Chief Underwriting Specialist
Angela Schneider, Underwriting Specialist
Keith Schulz, Senior Claims Specialist
Brian Seader, Senior Security Analyst
Laura Siebert, API, Underwriting Specialist
Clay Siereveld, Underwriting Specialist
Tammy Siler, CPCU, Underwriting Superintendent
Kevin Sills, Senior Filing Analyst
Shane Skogland, Senior Underwriter
Steve Smith, CPCU, AIM, Underwriting Manager
Paul Snyder, Senior Underwriter
Scott Sullivan, Senior Underwriter
Mary Thomas, Senior Underwriter
Angie Thomas, Specialist, Information Technology
Angela Tucker, CPCU, AIC, Senior Claims Specialist
Julie Tucker, API, Senior Underwriter
Jeff Viel, RPLU, AIM, Chief Underwriting Specialist
Marnel Villaver, Accounting Analyst – Support
Evangeline Villaver, AIT, Programmer Analyst
Michael Wagonfield, Programmer/Analyst
Greg Weisner, CPCU, Chief Underwriting Specialist
Gary Williams, Division Manager, Information Technology
Mike Wolfer, Regional Director
Tanya Woodard, CPCU, API, AIC, Senior Claims Specialist
Dawn Woodrick, Underwriting Specialist
Glen Wooldridge, Senior Claims Specialist
Tracy Woyat, ACS, Programmer/Analyst
Nicholas Wright, Senior Underwriter – Field
Joe Yannetti, CPCU, Underwriting Specialist
Derek Yeary, Senior Claims Specialist
Brett Zwolinski, Senior Specialist

A committee of peers recently granted quarterly *Above and Beyond the Call* (ABC) *Awards* to Kim Albers, Commercial Central; Donna Kurtz, Commercial South; and to Ray Price, IT e-Documents. The ABC Award recognizes exemplary productivity, service and quality.

We encourage and reward associates who continue their professional insurance education, earning credentials by meeting high academic, ethical and length-of-experience standards. Several associates recently qualified for prestigious designations. Congratulations to John Barnett, Terry Barrow, Eric Borg, Mike Chrisman, Steve Elchynski, Joseph Haas, Connie Hennigan, Greg Popelka, Bob Race, Scott Sanderson, Sean Sweeney, Angela Tucker, Charlotte Tungate and John Ward, who completed a series of course to earn the Chartered Property Casualty Underwriter (CPCU) designation; to Deb Dowell and Tim Warner, who earned the Certified Insurance Counselor (CIC) designation; to Scott Fredericks, who earned the Chartered Financial Consultant (ChFC) designation; and to Scott Campbell, who earned the Fellow, Life Management Institute (FLMI) designation.

Financial Services

The company's two financial services subsidiaries continue to successfully leverage our insurance relationships and broaden our offerings. As of March 31, 2006, CFC Investment Company, which leases and finances vehicles and equipment, reported $106 million of contract receivables. CinFin Capital Management Company, which offers asset management services, reported $856 million under management in 64 accounts.

Safe Harbor

This is our "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995. Our business is subject to certain risks and uncertainties that may cause actual results to differ materially from those suggested by the forward-looking statements in this report. Some of those risks and uncertainties are discussed in our 2005 Annual Report on Form 10-K, Item 1A, Risk Factors, Page 21. Although we often review or update our forward-looking statements when events warrant, we caution our readers that we undertake no obligation to do so.

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

- Unusually high levels of catastrophe losses due to risk concentrations, changes in weather patterns, environmental events, terrorism incidents or other causes
- Ability to obtain adequate reinsurance on acceptable terms, amount of reinsurance purchased and financial strength of reinsurers
- Increased frequency and/or severity of claims
- Events or conditions that could weaken or harm the company's relationships with its independent agencies and hamper opportunities to add new agencies, resulting in limitations on the company's opportunities for growth, such as:
    - Downgrade of the company's financial strength ratings,
    - Concerns that doing business with the company is too difficult or
    - Perceptions that the company's level of service, particularly claims service, is no longer a distinguishing characteristic in the marketplace
- Increased competition that could result in a significant reduction in the company's premium growth rate
- Underwriting and pricing methods adopted by competitors that could allow them to identify and flexibly price risks, which could decrease our competitive advantages
- Insurance regulatory actions, legislation or court decisions or legal actions that increase expenses or place us at a disadvantage in the marketplace
- Delays or inadequacies in the development, implementation, performance and benefits of technology projects and enhancements
- Inaccurate estimates or assumptions used for critical accounting estimates, including loss reserves
- Events that reduce the company's future ability to maintain effective internal control over financial reporting under the Sarbanes-Oxley Act of 2002
- Recession or other economic conditions or regulatory, accounting or tax changes resulting in lower demand for insurance products
- Sustained decline in overall stock market values negatively affecting the company's equity portfolio; in particular a sustained decline in the market value of Fifth Third shares, a significant equity holding
- Events that lead to a significant decline in the value of a particular security and impairment of the asset
- Prolonged medium- and long-term low interest rate environment or other factors that limit the company's ability to generate growth in investment income
- Adverse outcomes from litigation or administrative proceedings
- Effect on the insurance industry as a whole, and thus on the company's business, of the actions undertaken by the Attorney General of the State of New York and other regulators against participants in the insurance industry, as well as any increased regulatory oversight that might result
- Investment activities or market value fluctuations that trigger restrictions applicable to the parent company under the Investment Company Act of 1940

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

Cincinnati Financial Corporation offers property and casualty insurance, its main business, through The Cincinnati Insurance Company, The Cincinnati Indemnity Company and The Cincinnati Casualty Company. The Cincinnati Life Insurance Company markets life and disability income insurance and annuities. CFC Investment Company offers commercial leasing and financing services. CinFin Capital Management Company provides asset management services to institutions, corporations and individuals. For additional information about the company, please visit www.cinfin.com.

CINCINNATI FINANCIAL CORPORATION

Mailing Address: P.O. BOX 145496
CINCINNATI, OHIO 45250-5496
(513) 870-2000

Dividend Direct Deposit

We encourage our shareholders to enroll for Dividend Direct Deposit of your quarterly cash dividends. Dividend Direct Deposit allows you to have your dividend payments from Cincinnati Financial Corporation delivered directly to your account at the financial institution of your choice. It saves you the time it takes to deposit the payments, provides immediate availability and minimizes the risk of payments being lost or stolen.

How it works to benefit you!
On payment day, your dividend is deposited automatically into your personal checking or savings account. In lieu of a check, Cincinnati Financial Corporation sends you a notice of the amount deposited. In addition, the deposit appears on your account statement from your financial institution. Because this is part of an automatic payment system, your dividend checks cannot be lost or stolen, and you gain immediate access to your funds.

Sign up today.
To participate, please complete the authorization form below and return it (**with a blank, voided check**) to Shareholder Services at the above address. If you require additional information, please call Shareholder Services (513) 870-2639 or e-mail *shareholder_inquiries@cinfin.com*.

Dividend reinvestment.
For interested stockholders, Cincinnati Financial Corporation also has a Shareholder Investment Plan with an option for dividend reinvestment, which allows you to invest your cash dividend immediately in Cincinnati Financial stock. If you would prefer dividend reinvestment over Dividend Direct Deposit, do not complete the form below. Instead, send your request to Shareholder Services at the above address, call Shareholder Services at (513) 870-2639 or e-mail *shareholder_inquiries@cinfin.com.*

Dividend Direct Deposit Authorization Form

Please send a separate form for each shareholder account to Shareholder Services at the above address. This form may be photocopied.

Please indicate the account number and the financial institution to which you would like your dividends deposited. **Please enclose a blank, voided check to help us identify the account.**

☐ Checking account number: _____
Financial institution: _____

☐ Savings account number: _____
Financial institution: _____

☐ Other: _____
Financial institution: _____

Please print name(s) as shown on shareholder records:

_____
First Middle Initial Last

_____
First Middle Initial Last

Address _____

City _____ State _____ Zip _____

Telephone Number ( ) ( )
Home Work

Signature(s) *:

_____

_____

Shareholder account number
(this number appears on the dividend check stub):

_____

* All persons shown on shareholder records are required to sign for Dividend Direct Deposit.

AC-1096 (5/04)