CINCINNATI FINANCIAL CORP
Form DEF 14A
March 30, 2006

SCHEDULE DEF-14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to Section 240.14a-12

Cincinnati Financial Corporation

....

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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3) Per unit price of other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

N/A

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3) Filing Party:

N/A

....

4) Date Filed:

N/A

....

CINCINNATI FINANCIAL CORPORATION

Mailing Address:

P.O. BOX 145496

CINCINNATI, OHIO 45250-5496

(513) 870-2000

March 30, 2006

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Cincinnati Financial Corporation:

You are cordially invited to attend the Annual Meeting of Shareholders of Cincinnati Financial Corporation, which will take place at 9:30 a.m. on Saturday, May 6, 2006, at the Cincinnati Art Museum, located in Eden Park, Cincinnati, Ohio. The business to be conducted at the meeting includes:

1.

Electing five directors for terms of three years,

2.

Ratifying the selection of Deloitte & Touche LLP as the company s independent registered public accounting firm for 2006,

3.

Approving Cincinnati Financial Corporation Incentive Compensation Plan,

4.

Adopting Cincinnati Financial Corporation 2006 Stock Compensation Plan,

5.

Transacting such other business as may properly come before the meeting.

Shareholders of record at the close of business on March 8, 2006, are entitled to vote at the meeting.

Whether or not you plan to attend the meeting, you can ensure that your shares will be voted by completing and submitting the enclosed proxy. You can vote over the Internet, by telephone or by mail, using the enclosed proxy. Please see your proxy for specific instructions.

Your Internet or telephone vote must be received by 1 a.m. Eastern Daylight-Saving Time on May 6, 2006, to be counted in the final tabulation. Your interest and participation in the affairs of the company are appreciated.

/S/ Kenneth W. Stecher

Kenneth W. Stecher

Secretary

Mailing of this proxy statement, Annual Report, Form 10-K and the accompanying proxy to Cincinnati Financial Corporation shareholders began on March 30, 2006

6200 S. Gilmore Road, Fairfield, Ohio 45014-5141

Table of Contents

About the Annual Meeting

Who is soliciting my vote? The board of directors of Cincinnati Financial Corporation is soliciting your vote for the 2006 Annual Meeting of Shareholders.

Who is entitled to vote? Shareholders of record at the close of business on March 8, 2006, may vote.

How many votes do I have? You have one vote for each share of common stock you owned on March 8, 2006.

How many votes can be cast by all shareholders? There were 173,848,745 shares of common stock outstanding that can be voted as of the close of business on March 8, 2006.

How many shares must be represented to hold the meeting? A majority of the outstanding shares, or 86,924,373, must be represented to hold the meeting.

How many votes are needed to elect directors and to approve the proposals? Directors are elected by a plurality of the votes cast. The proposals will be approved if the votes cast in favor exceed the votes cast against the matter.

How do I vote? You may vote either in person at the annual meeting or by proxy, whether or not you attend the meeting. If you hold your Cincinnati Financial Corporation common stock certificates directly in your name, you may vote by:

- Internet or telephone – Please follow the instructions on the proxy. The deadline for Internet or telephone voting is 1 a.m., Eastern Daylight-Saving Time, May 6, 2006.
- Mail – Please complete, sign and return the accompanying proxy in the enclosed postage-paid envelope.

If your shares of Cincinnati Financial Corporation common stock are registered in the name of a bank, broker or other nominee, you must vote your shares using the method(s) available through that organization.

Can I change my vote or revoke my proxy? Yes. Just send in a new signed proxy card with a later date, cast a new vote by Internet or telephone or send a written notice of revocation to the secretary of Cincinnati Financial Corporation. If you attend the annual meeting and want to vote in person, you can request a ballot and direct that your previously submitted proxy not be used. Otherwise, your attendance itself does not constitute a revocation of your previously submitted proxy.

What if I vote abstain? A vote to abstain has no effect on the votes required to elect directors or to approve the proposals.

Can my shares be voted if I don t return my proxy and don t attend the annual meeting? If your shares are registered in your name, the answer is no. If you don t vote shares registered in the name of a bank, broker or other nominee, Nasdaq rules provide that the broker can vote your shares as the broker wishes for the election of directors and ratification of the independent registered public accounting firm but not for certain other matters. A broker non-vote is counted as a vote to abstain.

How are the votes counted? Votes cast by proxy are tabulated prior to the meeting by the holders of the proxies. Inspectors of election appointed at the meeting count the votes and announce the results. The proxy agent reserves the right not to vote any proxies that are altered in a manner not intended by the instructions contained in the proxy.

Could other matters be decided at the meeting? We do not know of any matters to be considered at the annual meeting other than the election of directors and the proposals described in this proxy statement. For any matters that do properly come before the meeting, your shares will be voted at the discretion of the proxy holder.

Who can attend the meeting? The meeting is open to all interested parties.

Can I listen to the meeting if I cannot attend in person? If you have access to the Internet, you can listen to a live webcast of the meeting. Instructions will be available on the Investors page of *www.cinfin.com* approximately two weeks before the meeting. An audio replay will be available on the Web site within two hours of the close of the meeting.

Introduction

The mission of the board is to encourage, facilitate and foster the long-term success of Cincinnati Financial Corporation. The board directs management in the performance of the company s obligations to its independent agents, policyholders, associates, communities and suppliers in a manner consistent with the company s mission and with the board s responsibility to shareholders to achieve the highest sustainable shareholder value over the long term.

Annual Report and Form 10-K

The board is committed to full, fair, accurate, timely and clear disclosure in the company s periodic reports and other public statements. Our company s 2005 Annual Report to Shareholders, which contains the 2005 Annual Report on Form 10-K, has been included in the distribution with this proxy statement. We urge you to read them carefully to learn more about our performance in 2005 and management s outlook for 2006 and beyond. These documents also are available on the Investors page of *www.cinfin.com*. Shareholders can choose to be notified via e-mail when new information is posted to the site or can choose to receive our information via electronic delivery.

Cumulative Total Return

As depicted in the graph below, the five-year total return on a $100 investment made December 31, 2000, assuming the reinvestment of all dividends, was 40.9 percent for Cincinnati Financial Corporation s common stock compared with 40.9 percent for the Standard & Poor s Composite 1500 Property & Casualty Insurance Index and 2.8 percent for the Standard & Poor s 500 Index.

- The Standard & Poor’s Composite 1500 Property & Casualty Insurance Index includes 26 companies: Ace Ltd., Allstate Corporation, AMBAC Financial Group, Berkley (W R) Corporation, Chubb Corporation, Cincinnati Financial Corporation, Fidelity National Financial Inc., First American Corporation, Infinity Property Casualty Corporation, Landamerica Financial Group, MBIA Inc., Mercury General Corporation, Ohio Casualty Corporation, Old Republic International Corporation, Philadelphia Consolidated Holding Corporation, Proassurance Corporation, Progressive Corporation, RLI Corporation, Safeco Corporation, SCPIE Holdings Inc., Selective Insurance Group Inc., St. Paul Travelers Companies Inc., Stewart Information Services, United Fire & Casualty Company, XL Capital Ltd. and Zenith National Insurance Corp.

- 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.

Total Return Analysis

CFC vs. Market Indices

December 31 Totals

	2000	2001	2002	2003	2004	2005
CINCINNATI FINANCIAL CORPORATION	100.0	98.5	99.1	113.1	129.2	140.9
S&P 500 INDEX	100.0	88.1	68.6	88.3	97.9	102.8

S&P COMPOSITE 1500 PROPERTY & CASUALTY INSURANCE	100.0	92.4	83.9	107.6	120.8	140.9

[GRAPH ATTACHED IN PDF FORMAT]

Security Ownership of Principal Shareholders and Management

Under Section 13(d) of the Securities Exchange Act of 1934, a beneficial owner of a security is any person who directly or indirectly has or shares voting power or investment power over such security. A beneficial owner under this definition need not enjoy the economic benefit of such securities. The following are the only shareholders known to the company to be deemed to be beneficial owners of at least 5 percent of the common stock of the company as of February 28, 2006. John J. Schiff, Jr. and Thomas R. Schiff are directors of the company.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Footnote Reference	Percent of Class
Common stock	John J. Schiff, Jr., CPCU Cincinnati Financial Corporation 6200 South Gilmore Fairfield, OH 45014	12,476,999	(1)(2)(3)(4)	7.17
Common stock	Thomas R. Schiff Cincinnati Financial Corporation 6200 South Gilmore Fairfield, OH 45014	9,388,830	(1)(2)	5.40

The outstanding common shares beneficially owned by each other director and nondirector executive officers as of February 28, 2006, are shown below:

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Footnote Reference	Percent of Class
Other Directors			
William F. Bahl, CFA	206,883	(5)	0.12
James E. Benoski	422,373	(3)	0.24
Michael Brown	261,867		0.15
Dirk J. Debbink	6,815		
Kenneth C. Lichtendahl	15,475		0.01
W. Rodney McMullen	14,918		0.01
Gretchen W. Price	8,545		
John M. Shepherd	6,945		
Douglas S. Skidmore	19,257	(6)	0.01
John F. Steele, Jr.	1,500		
Larry R. Webb, CPCU	316,714	(7)	0.18
E. Anthony Woods	12,975		0.01
Nondirector Executive Officers			
Craig W. Forrester, CLU	80,561	(3)(4)	0.05
Thomas A. Joseph, CPCU	129,016	(3)	0.07

Eric N. Mathews, CPCU, AIAF	84,070	(3)	0.05
Daniel McCurdy	149,301	(3)	0.09
Kenneth S. Miller, CLU, ChFC	167,541	(3)	0.10
Larry R. Plum, CPCU	267,264	(3)(4)	0.15
David Popplewell, FALU, LLIF	150,513	(3)	0.09
Jacob F. Scherer, Jr.	227,438	(3)	0.13
Joan O. Shevchik, CPCU, CLU	55,925	(3)	0.03
Kenneth W. Stecher	192,121	(3)	0.11
Timothy L. Timmel	253,632	(3)(4)	0.15
All directors and nondirector executive officers as a group (25 individuals)	**17,618,962**		**10.13**

Except as otherwise indicated in the notes below, each person has sole voting and investment power with respect to the common shares noted.

(1)

Includes 49,563 shares owned of record by a trust, 3,520,277 shares owned of record by the John J. and Mary R. Schiff Foundation and 3,507,241 shares owned of record by the John J. Schiff Charitable Lead Trust, the trustees of all of which are Mr. J. Schiff, Jr., Mr. T. Schiff and Ms. Suzanne S. Reid, who share voting and investment power equally.

(2)

Includes 107,186 shares owned of record by the John J. & Thomas R. Schiff & Co., Inc. pension plan, the trustees of which are Mr. J. Schiff, Jr., and Mr. T. Schiff, who share voting and investment power; and 114,249 shares owned by John J. & Thomas R. Schiff & Co., Inc. of which Mr. J. Schiff, Jr., and Mr. T. Schiff are principal owners.

(3)

Includes shares available within 60 days from exercise of stock options in the amount of 283,275 shares for Mr. Benoski; 46,220 shares for Mr. Forrester; 99,614 shares for Mr. Joseph; 63,913 shares for Mr. Mathews; 65,453 shares for Mr. McCurdy; 64,578 shares for Mr. Miller; 146,374 shares for Mr. Plum; 126,376 shares for Mr. Popplewell; 161,354 shares for Mr. Scherer; 33,340 shares for Ms. Shevchik; 520,801 shares for Mr. J. Schiff, Jr.; 104,901 shares for Mr. Stecher and 161,354 shares for Mr. Timmel.

(4)

Includes shares held in the company s nonqualified savings plan for highly compensated associates in the amount of 11,053 shares for Mr. J. Schiff, Jr.; 822 shares for Mr. Forrester; 1,935 shares for Mr. Plum; and 6,312 shares for Mr. Timmel. Individuals participating in this plan do not have the right to vote or direct the disposition of shares.

(5)

Includes 992 shares owned of record and held by Bahl & Gaynor Profit Sharing Trust, of which Mr. Bahl is trustee; and 8,821 shares held in the Bahl Family Foundation, of which Mr. Bahl is president.

(6)

Includes 7,035 shares owned of record by Skidmore Sales Profit Sharing Plan, of which Mr. Skidmore is an administrator and shares investment authority.

(7)

Includes 186,257 shares owned of record by a limited partnership of which Mr. Webb is a general partner.

Information Regarding Nondirector Executive Officers

Executive officers are elected to one-year terms at the annual meetings of the boards of directors of the company and its subsidiaries. Unless otherwise indicated, each executive officer has served continuously since first elected to that position. For each nondirector executive officer, listed below are principal positions held currently and over the past five years in the company, its lead property casualty insurance subsidiary, and other subsidiaries when the officer serves as president. Cincinnati Financial owns 100 percent of its three subsidiaries: The Cincinnati Insurance

Company, CFC Investment Company and CinFin Capital Management Company. The Cincinnati Insurance Company leads the property casualty group and owns 100 percent of its three subsidiaries: The Cincinnati Casualty Company, The Cincinnati Indemnity Company and The Cincinnati Life Insurance Company. Some executive officers also serve on various subsidiary boards.

Nondirector Executive Officer (Age as of February 28, 2006)	**Primary Title(s) and Business Responsibilities Since February 2001 in Cincinnati Financial Corporation and Subsidiaries**	**Executive Officer Since**
Craig W. Forrester, CLU (47)	Senior vice president of The Cincinnati Insurance Company. Vice president until 2002. Responsible for information technology systems.	2003
Thomas A. Joseph, CPCU (50)	Senior vice president of The Cincinnati Insurance Company. Responsible for commercial lines underwriting operations except bond, executive risk, machinery and equipment.	2003
Eric N. Mathews, CPCU, AIAF (50)	Vice president (since 2002), assistant secretary and assistant treasurer of Cincinnati Financial Corporation; senior vice president of The Cincinnati Insurance Company. Responsible for property casualty accounting.	2001
Daniel T. McCurdy (72)	Senior vice president of The Cincinnati Insurance Company. Responsible for bond and executive risk underwriting operations.	2004
Kenneth S. Miller, CLU, ChFC (50)	Chief investment officer (since 2004) and senior vice president of Cincinnati Financial Corporation and The Cincinnati Insurance Company. Assistant secretary and assistant treasurer of Cincinnati Financial Corporation. President and chief operating officer of CFC Investment Company. President of CinFin Capital Management Company. Vice president until 2004 of Cincinnati Financial Corporation; executive vice president until 2003 of CinFin Capital Management Company. Responsible for investment operations. (Mr. Miller was not an executive officer from February 2005 to August 2005)	2000
Larry R. Plum, CPCU (59)	President of The Cincinnati Casualty Company. Senior vice president of The Cincinnati Insurance Company. Responsible for personal lines underwriting operations.	1988

Nondirector Executive Officer (Age as of February 28, 2006)	**Primary Title(s) and Business Responsibilities Since February 2001 in Cincinnati Financial Corporation and Subsidiaries**	**Executive Officer Since**
David H. Popplewell, FALU, LLIF (62)	President and chief operating officer of The Cincinnati Life Insurance Company. Responsible for life insurance operations.	1997
Jacob F. Scherer, Jr. (53)	Senior vice president of The Cincinnati Insurance Company. Responsible for sales and marketing including relationships with independent agencies.	1995
Joan O. Shevchik, CPCU, CLU (55)	Senior vice president of The Cincinnati Insurance Company. Vice president until 2002. Assistant vice president until 2001. Responsible for corporate communications.	2003
Kenneth W. Stecher (59)	Chief financial officer (since 2001), senior vice president, secretary and treasurer of Cincinnati Financial Corporation; chief financial officer, senior vice president and secretary of The Cincinnati Insurance Company. Mr. Stecher is the principal accounting officer.	1999
Timothy L. Timmel (57)	Senior vice president of The Cincinnati Insurance Company. Responsible for operations areas including education and training, government relations, legal, personnel, corporate communications and field claims.	1997

Section 16(a) Beneficial Ownership Reporting Compliance

Directors, executive officers and 10 percent shareholders are required to report their beneficial ownership of the company s stock according to Section 16 of the Exchange Act of 1934. Those individuals are required by the Securities and Exchange Commission (SEC) regulations to furnish the company with copies of all Section 16(a) forms they file.

SEC regulations require us to identify in this proxy statement anyone who filed a required report late during the most recent calendar year. Based on our review of forms we received, or written representations from reporting persons stating that they were not required to file these forms, we believe that, during the calendar year 2005, all Section 16(a) filing requirements were satisfied on a timely basis except for the following:

John J. Schiff, Jr., chairman, president and chief executive officer of Cincinnati Financial Corporation, participates in the Cincinnati Financial Corporation Tax-Qualified Savings Plan through which he acquired phantom stock of Cincinnati Financial Corporation through payroll contributions as follows: 155 shares on January 12, 2005; 155 shares on January 28, 2005; 152 shares on February 8, 2005; and 60 shares on January 14, 2005, from dividend reinvestment in the plan. These transactions were reported on a Form 4 filed March 4, 2005.

John F. Steele, Jr., was elected to the board of directors at the 2005 Annual Meeting of Shareholders on April 23, 2005. On May 10, 2005, Mr. Steele, Jr. filed Form 3, Initial Statement of Beneficial Ownership of Securities for Cincinnati Financial Corporation. On December 31, 2005, Mr. Steele, Jr. filed a Form 4 reporting his June 2, 2005, purchase of 600 shares of Cincinnati Financial Corporation common stock.

Election of Directors

The board of directors consists of 14 directors divided into three classes, and each year the directors in one class are elected to serve terms of three years. This means that shareholders generally elect one-third of the members of the board of directors annually. The term of office of five of the directors expires as of the 2006 Annual Meeting of Shareholders.

The board of directors recommends a vote FOR William F. Bahl, James E. Benoski, Gretchen W. Price, John J. Schiff, Jr., and E. Anthony Woods as directors to hold office until the 2009 Annual Meeting of Shareholders and until their successors are elected.

We do not know of any reason that any of the nominees for director would not accept the nomination, and it is intended that votes will be cast to elect all five nominees as directors. In the event, however, that any nominee should refuse or be unable to accept the nomination, the people acting under the proxies intend to vote for the election of such person or people as the board of directors may recommend.

Information Regarding Nominees and Directors

For each nominee for election to the office of director and each current director whose term does not expire at this time, listed below are principal business positions held currently and over the past five years. Some directors also serve on various subsidiary boards.

Nominees for Directors for Terms Expiring 2009 (Age as of February 28, 2006)	
William F. Bahl, CFA (54)	Director since 1995. Chairman of Bahl & Gaynor Investment Counsel, Inc., based in Cincinnati. President until 2002. Trustee of The Preferred Group of Funds. Director of LCA-Vision Inc. (since 2005).
James E. Benoski (67)	Director since 2000. Vice chairman and chief insurance officer (since 2004) of Cincinnati Financial Corporation. Vice chairman, chief insurance officer and senior vice president headquarters claims of The Cincinnati Insurance Company, a subsidiary of the company.
Gretchen W. Price (51)	Director since 2002. Vice president of finance and accounting for global operations of Procter & Gamble, based in Cincinnati. Treasurer and vice president of Procter & Gamble until 2001.
John J. Schiff, Jr., CPCU* (62)	Director since 1968. Chairman, president and chief executive officer of Cincinnati Financial Corporation and The Cincinnati Insurance Company. Director of John J. & Thomas R. Schiff & Co., Inc., an independent insurance agency. Director of Cinergy Corp. (until the pending merger with Duke Energy is effective); director of Fifth Third Bancorp; director of Standard Register Company; all Cincinnati-area companies.
E. Anthony Woods (65)	Director since 1998. Chairman (since 2003) of Deaconess Associations, Inc., a healthcare holding company based in Cincinnati. President and chief executive officer of Deaconess Associations until 2003. Chairman and chief executive officer (since 2002) of SupportSource LLC, a healthcare consulting firm. Chairman of LCA-Vision Inc. (since 2006) and director since 2004.

Continuing Directors Whose Terms Expire 2008

Kenneth C. Lichtendahl (57)	Director since 1988. President, chief executive officer and director of Tradewinds Beverage Company, based in Cincinnati. Director of Glenway Financial Corporation until 2002.
W. Rodney McMullen (45)	Director since 2001. Vice chairman (since 2003) of The Kroger Co., based in Cincinnati. Executive vice president of strategy, planning and finance until 2003.
Thomas R. Schiff* (58)	Director since 1975. Chairman, chief executive officer and agent of John J. & Thomas R. Schiff & Co., Inc., an independent insurance agency based in the Cincinnati area. Chief executive officer of Lightborne Properties, Lightborne Communications and Lightborne Publications, media companies based in the Cincinnati area.
John F. Steele, Jr. (52)	Director since 2005. Chairman (since 2004), chief executive officer and director of Hilltop Basic Resources, Inc., a family-owned aggregates and ready-mix concrete supplier to the construction industry, based in the Cincinnati area. President until 2004.
Larry R. Webb, CPCU (50)	Director since 1979. President, director, a principal owner and agent of Webb Insurance Agency, Inc., an independent insurance agency based in Lima, Ohio.

Continuing Directors Whose Terms Expire 2007

Michael Brown (70)	Director since 1980. President and director of the Cincinnati Bengals, Inc., a professional football team based in Cincinnati.
Dirk J. Debbink (50)	Director since 2004. President of MSI General Corporation, a design/build construction firm based in Oconomowoc, Wisconsin. Rear Admiral, Reserve deputy and chief of staff, U.S. Pacific Fleet, U.S. Navy Reserve. Director of ProHealth Care, Inc., of Waukesha, Wisconsin.
John M. Shepherd (70)	Director since 2001. Chairman and chief executive officer of The Shepherd Chemical Company, based in the Cincinnati area.
Douglas S. Skidmore (43)	Director since 2004. Chief executive officer (since 2003), president and director of Skidmore Sales & Distributing Company, Inc., a family-owned, full-service distributor and broker of quality industrial food ingredients, based in the Cincinnati area. Managing partner, Mustang Real Estate Holdings, LLC.

*

John J. Schiff, Jr., and Thomas R. Schiff are brothers.

Information Regarding the Board of Directors

Director Compensation

Cincinnati Financial Corporation directors are compensated solely for their attendance at meetings; there is no retainer. Non-employee directors of the company are paid a fee of $4,500 for attendance at each board meeting and $1,500 for attendance at each committee meeting and each subsidiary board and committee meeting, with fees for all meetings in any one day not to exceed $6,000. They also are reimbursed for actual travel expenses incurred in attending meetings.

Non-Employee Director Compensation 2005

Name	**Total ($)**	**Fees earned or paid in cash ($)**	**Stock Awards ($)**	**All Other Compensation ($)**
William F. Bahl	150,232	87,000	59,966	3,266 (1)
Michael Brown	82,476	30,000	50,995	1,481 (2)
Dirk J. Debbink	77,685	36,000	38,976	2,709 (3)
Kenneth C. Lichtendahl	100,087	43,500	50,995	5,592 (4)
W. Rodney McMullen	135,082	73,500	59,966	1,616 (5)
Gretchen W. Price	91,234	42,000	47,990	1,244 (6)
Thomas R. Schiff	126,586	64,500	59,966	2,120 (7)
John M. Shepherd	81,381	33,000	46,488	1,893 (8)
Douglas S. Skidmore	84,858	39,000	40,478	5,380 (9)
John F. Steele, Jr.	30,843	25,500		5,343 (10)
Larry R. Webb	112,732	48,000	58,463	7,172 (11)
E. Anthony Woods	146,247	81,000	59,966	5,281 (12)

(1)

Includes premiums paid for life and personal umbrella policies in the amounts of $275 and $2,991, respectively.

(2)

Includes premiums paid for life and personal umbrella policies in the amounts of $275 and $1,206, respectively.

(3)

Includes premiums paid for life and personal umbrella policies in the amounts of $275 and $2,434, respectively.

(4)

Includes premiums paid for life and personal umbrella policies in the amounts of $102 and $1,490, respectively; $4,000 for expenses associated with spouse travel to company s annual incentive meeting for agents.

(5)

Includes premiums paid for life and personal umbrella policies in the amounts of $275 and $1,341, respectively.

(6)

Includes premiums paid for life and personal umbrella policies in the amounts of $102 and $1,142, respectively.

(7)

Includes premiums paid for life and personal umbrella policies in the amounts of $275 and $1,845, respectively.

(8)

Includes premiums paid for life and personal umbrella policies in the amounts of $102 and $1,791, respectively.

(9)

Includes premiums paid for life and personal umbrella policies in the amounts of $275 and $1,105, respectively; $4,000 for expenses associated with spouse travel to company s annual incentive meeting for agents.

(10)

Includes premiums paid for life and personal umbrella policies in the amounts of $275 and $1,068, respectively; $4,000 for expenses associated with spouse travel to company s annual incentive meeting for agents.

(11)

Includes premiums paid for life and personal umbrella policies in the amounts of $275 and $1,994, respectively; $4,000 for expenses associated with spouse travel to company s annual incentive meeting for agents and $903 for catering service.

(12)

Includes premiums paid for life and personal umbrella policies in the amounts of $102 and $1,179, respectively; $4,000 for expenses associated with spouse travel to company s annual incentive meeting for agents.

In 2003, the company s board of directors adopted the 2003 Non-Employee Directors Stock Plan. The purpose of this shareholder-approved plan is to enable Cincinnati Financial Corporation to attract and retain the services of experienced and knowledgeable non-employee directors and to strengthen the alignment of interests between non-employee directors and the shareholders of the company through the increased ownership of shares of the company s common stock. This is accomplished by granting directors shares of common stock as a part of their annual compensation.

Under the plan, directors receive shares with a fair market value on the date of grant equal to the cash director s fees received by such directors during the prior calendar year. The plan limits the annual value of any grant to an individual director to a maximum of $60,000. Since the stock plan was adopted, a total of 55,749 shares, or less than one-tenth of one percent of the outstanding shares of common stock, have been issued to non-employee directors under the plan.

Meetings of the Board of Directors

Board members are encouraged to attend the Annual Meeting of Shareholders, all meetings of the board and the meetings of committees of which they are a member. The annual meeting of directors is held immediately

following the annual shareholders meeting at the same location. In April 2005, all of the company s 14 directors attended the Annual Meeting of Shareholders. The board of directors of the company met five times and the executive committee of the board met five times during the previous fiscal year. All directors attended at least 75 percent of the board and committee meetings of which they are members.

Corporate Governance

On February 2, 2006, the board of directors re-adopted the Corporate Governance Guidelines, Code of Ethics for Senior Financial Officers, Code of Conduct and charters for the audit, compensation, executive and nominating committees of the board that were effective April 24, 2004. The guidelines, codes and charters are available on our Web site at *www.cinfin.com*.

Shareholders may direct a communication to board members by sending it to the attention of the secretary of the company, Cincinnati Financial Corporation, P.O. Box 145496, Cincinnati, Ohio, 45250-5496. The company and board of directors have not established a formal process for determining whether all shareholder communication received by the secretary will be forwarded to directors. Nonetheless, the board welcomes shareholder communication and has instructed the secretary of the company to use reasonable criteria to determine whether or not correspondence should be forwarded. The board believes that correspondence has been and will continue to be forwarded under most circumstances. However, exceptions may occur, and the board does not intend to provide management with instructions that limit its ability to make reasonable business decisions. Examples of exceptions would be routine items such as requests for publicly available information that can be provided by company associates; vendor solicitations that appear to be mass-directed to board members of a number of companies; or correspondence that raises issues related to specific company transactions (insurance policies or investment accounts) where there may be privacy concerns or other issues.

In some circumstances, the board anticipates that management would provide the board or board member with summary information regarding correspondence.

Board Composition and Director Independence

Each year, based on all relevant facts and circumstances, the board determines which directors satisfy the criteria for independence. To be found independent, a director must not have a material relationship with the company, either directly or indirectly as a partner, other than a limited partner, controlling shareholder or executive officer of another organization that has a relationship with the company that could affect the director s ability to exercise independent judgment. Directors deemed independent are believed to satisfy the definitions of independence required by the rules and regulations of the SEC and the listing standards of Nasdaq. The board has determined that these directors and nominees meet the applicable criteria for independence in 2006: William F. Bahl, Dirk J. Debbink, Kenneth C. Lichtendahl, W. Rodney McMullen, Gretchen W. Price, John M. Shepherd, Douglas S. Skidmore, John F. Steele, Jr. and E. Anthony Woods. Following the re-election of the directors included in this proxy, a majority (nine) of the 14 directors would meet the applicable criteria for independence under the listing standards of Nasdaq.

Consideration of Director Nominees

The nominating committee considers many factors when determining the eligibility of candidates for nomination as director. The committee s goal is to nominate candidates who contribute to the board s overall effectiveness in meeting its mission. The committee is charged with identifying nominees with certain characteristics:

- Demonstrated character and integrity

- An ability to work with others
- Sufficient time to devote to the affairs of the company
- Willingness to enter into a long-term association with the company, in keeping with the company's overall business strategy

The nominating committee also considers the needs of the board in accounting and finance, business judgment, management, industry knowledge, leadership and such other areas as the board deems appropriate. The committee further considers factors included in the Corporate Governance Guidelines that might preclude nomination or re-nomination.

In particular, the nominating committee seeks to support the company s unique, agent-centered business model. The committee believes that the board should include a variety of individuals, serving alongside independent insurance agents who bring a special knowledge of policyholders and agents in the communities where the company does business.

Potential board nominees generally are identified by referral. The nominating committee follows a five-part process to evaluate nominees for director. The committee first performs initial screening that includes reviewing background information on the candidates, evaluating their qualifications against the established criteria and, as the committee believes is appropriate, discussing the potential candidates with the individual or individuals making the referrals. Second, for candidates who qualify for additional consideration, the committee interviews the potential nominees as to their background, interests and potential commitment to the company and its operating philosophy. Third, the committee may seek references from sources identified by the candidates as well as sources known to the committee members. Fourth, the committee may ask other members of the board for their input.

Finally, the committee develops a list of nominees who exhibit the characteristics desired of directors and satisfy the needs of the board. There have been no vacancies on the board since the last Annual Meeting of Shareholders.

The company is required to disclose that the nominating committee considers qualified candidates referred by shareholders for nomination as director. Information about such a candidate should be provided in writing to the secretary of the company, giving the candidate s name, biographical data and qualifications, emphasizing the characteristics set forth in the company s Corporate Governance Guidelines available on the company s Web site at *www.cinfin.com*. Preferably, any such referral would contain sufficient information to enable the committee to preliminarily screen the referred candidate for the needs of the board, if any, in accounting and finance, business judgment, management, industry knowledge, leadership, and also the board s independence requirements. Such information should be provided by August 1 to receive appropriate consideration for the annual meeting held in the following year. The nominating committee does not differentiate among candidates based on the source of the nomination. Since the 2005 annual shareholders meeting, no fees were paid to any third party to identify, evaluate, or assist in identifying and evaluating, potential nominees.

Standing Committees of the Board of Directors

The board of directors has five standing committees. Current committee assignments are noted below. The board of directors will review committee assignments at its meeting on May 6, 2006. Charters for the audit, compensation, executive and nominating committees are available on the company s Web site at *www.cinfin.com*.

Audit Committee The purpose of the audit committee is to oversee the process of accounting and financial reporting of the company and the audits and financial statements of the company. The committee met 10 times during the last year. The report of the audit committee begins on Page 21.

Six independent directors serve on the audit committee: William F. Bahl, Dirk J. Debbink, Kenneth C. Lichtendahl (chair), Gretchen W. Price, Douglas S. Skidmore and John Steele, Jr. Each of these individuals meets the Nasdaq standards for audit committee member independence. Further, Mr. Bahl and Ms. Price qualify as financial experts according to the SEC definition and meet the standards established by Nasdaq for financial expertise.

Compensation Committee The compensation committee discharges the responsibility of the board of directors relating to compensation of the company s directors and officers, including its principal executive officers and its internal audit officer. The committee also administers the company s stock option and performance-based compensation plans. The committee met four times during the last year. The report of the compensation committee begins on Page 15.

Four independent directors serve on the compensation committee: Kenneth C. Lichtendahl, W. Rodney McMullen (chair), Gretchen W. Price and E. Anthony Woods. Lawrence H. Rogers II, a former director, serves as an adviser to the committee.

Executive Committee The purpose of the executive committee is to exercise the powers of the board of directors in the management of the business and affairs of the company between meetings of the board of directors. The committee met five times during the last year.

Six directors serve on the executive committee: William F. Bahl, James E. Benoski, Michael Brown, John J. Schiff, Jr. (chair), John M. Shepherd and Larry R. Webb. Independence requirements do not apply to the executive committee.

Investment Committee The investment committee provides oversight of the policies and procedures of the investment department of the company and its subsidiaries and reviews the invested assets of the company. The objective of the committee is to oversee the management of the portfolio to ensure the long-term security of the company. The committee met 10 times during the last year.

Six directors serve on the investment committee: William F. Bahl, James E. Benoski, W. Rodney McMullen, John J. Schiff, Jr. (chair), Thomas R. Schiff and E. Anthony Woods. Richard M. Burridge, CFA, a former director, serves as an adviser to the committee. Independence requirements do not apply to the investment committee.

Nominating Committee The nominating committee identifies, recruits and recommends qualified candidates for election as directors and officers of the company and as directors of its subsidiaries. The committee also nominates directors for committee membership. Further, the committee oversees compliance with the corporate governance policies for the company. The committee met three times during the last year.

Three independent directors serve on the nominating committee: William F. Bahl (chair), Kenneth C. Lichtendahl and John M. Shepherd.

Certain Relationships and Transactions

The audit committee pre-approves all related-party transactions, as defined by Item 404 of Regulation S-K. A portion of the reported transactions relate to members of the company s board of directors who are associated with independent insurance agencies that market the company s insurance products. These agencies are paid according to the same commission schedule and have the same agency contract with the company s insurance affiliates as other agencies appointed in the same state. Each of the agencies has associates and producers who are not directors or executive officers of the company s insurance affiliates. Participation in a premium incentive loan program has been offered to agencies as a production incentive, and automobile finance leases have been made in the ordinary course of business to credit-worthy agencies of the company s insurance affiliates. In the past, loans to the foregoing agencies were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans and leases to other agencies. After adoption of the Sarbanes-Oxley Act of 2002, agencies associated with the company s directors no longer participate in these loan programs, and any existing loans were frozen and are being paid off according to their terms.

Other reported related-party transactions primarily consist of business transactions involving the purchase of insurance by directors or their affiliated companies or organizations. Premiums for the insurance purchased were determined using underwriting guidelines in effect at the time of policy issuance and applicable to other policyholders with substantially similar risk characteristics purchasing comparable insurance coverage.

William F. Bahl is a director of Cincinnati Financial Corporation. During the year ended December 31, 2005, Mr. Bahl purchased property, casualty and life insurance from the company s insurance affiliates for premiums totaling $82,107.

Michael Brown is a director of Cincinnati Financial Corporation and a director and president of Cincinnati Bengals, Inc. During the year ended December 31, 2005, Mr. Brown purchased property, casualty and life insurance from the company s insurance subsidiaries for premiums totaling $65,824. Cincinnati Bengals, Inc. purchased property and casualty insurance from the company s insurance subsidiaries for premiums totaling $564,303. Cincinnati Financial Corporation and its subsidiaries made payments to Cincinnati Bengals, Inc. for tickets and suite rental in the amount of $220,009.

Dirk J. Debbink is a director of Cincinnati Financial Corporation and president of MSI General Corporation. During the year ended December 31, 2005, MSI General Corporation purchased property, casualty and life insurance from the company s insurance subsidiaries for premiums totaling $136,226.

John J. Schiff, Jr. is chairman of the board, president, and chief executive officer of Cincinnati Financial Corporation, The Cincinnati Insurance Company and The Cincinnati Indemnity Company; chairman and chief executive officer of The Cincinnati Casualty Company, chief executive officer and a director of The Cincinnati Life Insurance Company, and a director of CFC Investment Company. During the year ended

December 31, 2005, Mr. J. Schiff purchased property, casualty and life insurance from the company s insurance subsidiaries for premiums totaling $69,582.

John J. Schiff, Jr. and Thomas R. Schiff, also a director of Cincinnati Financial Corporation, are principal owners and directors of John J. & Thomas R. Schiff & Co., Inc., an insurance agency that represents a number of insurance companies, including the company s insurance subsidiaries. During the year ended December 31, 2005, the company s insurance subsidiaries paid John J. & Thomas R. Schiff & Co., Inc. commissions of $5,362,997. The company also purchased various insurance policies through John J. & Thomas R. Schiff & Co., Inc. for premiums totaling $1,148,315. John J. & Thomas R. Schiff & Co., Inc. purchased group health coverage from one of the company s insurance subsidiaries for a premium of $119,032 and paid rent to the company in the amount of $105,454 for office space located in the headquarters building.

John M. Shepherd is a director of Cincinnati Financial Corporation and chairman, chief executive officer and a principal owner of The Shepherd Chemical Company. The Shepherd Chemical Company and its subsidiary and affiliated entities purchased property and casualty insurance from the company s insurance subsidiaries for premiums totaling $677,990.

Douglas S. Skidmore is a director of Cincinnati Financial Corporation and director, chief executive officer and president of Skidmore Sales & Distributing Company, Inc. During the year ended December 31, 2005, Skidmore Sales & Distributing Company, Inc. purchased property, casualty and life insurance from the company s insurance subsidiaries for premiums totaling $82,888.

Larry R. Webb is a director of Cincinnati Financial Corporation and president, director and a principal owner of Webb Insurance Agency, Inc., an insurance agency that represents a number of insurance companies, including the company s insurance subsidiaries. During the year ended December 31, 2005, the company s insurance subsidiaries paid Webb Insurance Agency, Inc. commissions of $869,920. During 2005, Webb Insurance Agency, Inc. also participated in the premium incentive loan program through a loan secured prior to 2003 through CFC Investment Company in the principal amount of $250,000 at 9.25 percent. The balance at December 31, 2005, was $50,072.

E. Anthony Woods is a director of Cincinnati Financial Corporation. During the year ended December 31, 2005, Mr. Woods purchased property, casualty and life insurance from the company s insurance subsidiaries for premiums totaling $84,103.

Certain executive officers have immediate family members who are employed by a subsidiary of the company and earned over $60,000 in 2005. The compensation of each such family member was established by the company in accordance with its employment and compensation practices applicable to associates with equivalent qualifications and responsibilities and holding similar positions. None of the executive officers has a material interest in the employment relationships nor do any of them share a home with these associates. None of them is an executive officer of the company. A son of Mr. McCurdy is a senior regional director in the Sales & Marketing department with 13 years of underwriting and marketing experience with the company. He recently was transferred to and now manages the Southern Tennessee, Northern Georgia field marketing territory. A son of Mr. Plum is a senior regional director in the Sales & Marketing department with 12 years of underwriting and marketing experience with the company and currently manages the field marketing territory in Northeast Illinois. A son-in-law of Mr. Plum is a senior underwriting manager in the Commercial Lines department at headquarters with 18 years of underwriting and marketing experience with the company. A brother of Mr. Timmel is a secretary of the company s property casualty insurance subsidiaries and manager of workers compensation claims in the Headquarters Claims department with 28 years of experience in both the Field Claims and Headquarters Claims departments. Compensation earned by these associates in 2005 was $89,611; $109,714; and $88,448; $123,727, respectively, including cost of living adjustments and compensation related to relocation expenses in connection with the company-initiated transfer. Options granted to these associates in 2005 were 788; 788; 315; and 1,050, respectively, adjusted for stock dividends. Similar to options granted to other associates, all options were granted in January 2005 at fair market value.

14

Compensation Committee Interlocks and Insider Participation

In 2005, the compensation committee members were Kenneth C. Lichtendahl, W. Rodney McMullen (chair), Gretchen W. Price and E. Anthony Woods. Lawrence H. Rogers II, a former director, serves as an adviser to the committee. No executive officer of the company serves on the board of directors or compensation committee of any entity that compensates any member of the compensation committee.

In 2005, Michael Brown was a director of Cincinnati Financial Corporation and a director and president of Cincinnati Bengals, Inc. and John J. Schiff, Jr. was the chairman, president and chief executive officer of Cincinnati Financial Corporation and a director of Cincinnati Bengals, Inc. Cincinnati Bengals, Inc. has no compensation committee. Rather, the board determines the compensation for Mr. Brown. During the year ended December 31, 2005, Mr. Brown purchased property, casualty and life insurance from the company s insurance subsidiaries for premiums totaling $65,824. Cincinnati Financial Corporation and its subsidiaries paid Cincinnati Bengals, Inc. for tickets and suite rental in the amount of $220,009. Mr. J. Schiff paid Cincinnati Bengals, Inc. for tickets, suite rental and security deposit in the amount of $210,381

Report of the Compensation Committee

The compensation committee of the board of directors consists entirely of independent outside directors. We are responsible for establishing and implementing the compensation policy for the company s principal executive officers and internal auditor. This report discusses that policy and the compensation paid for calendar year 2005. For further information regarding our responsibilities, please see the compensation committee charter, which can be found on the company s Web site.

The goal of the company s compensation program is to attract, motivate, reward and retain the management talent required to achieve corporate objectives and increase shareholder value. The major components of compensation are the same for executives and other associates. They include a base salary, an annual bonus, stock option grants, retirement benefits and certain non-cash benefits. As part of our duties, we establish the salary, cash bonus and option components for the executive officers named in the Summary Compensation Table, including the company s Chief Executive Officer John J. Schiff, Jr. These components are substantially all of the compensation paid annually to the named executive officers. We do not control components of compensation imputed to associates attributable to certain non-cash benefits. We believe that the total compensation paid to the named executive officers, giving effect to all of its components, is reasonable.

The first component of compensation we control is base salary. Base salaries of the principal executive officers and the company s internal auditor are determined according to the responsibilities of their positions and their respective skills and experience. Those salaries are reviewed annually and, in adjusting salary levels, we consider changes in general economic conditions and changes in salaries paid by certain other property, casualty or multi-line insurance companies. That peer group includes some of the property casualty insurance companies in the Standard & Poor s Composite 1500 Property & Casualty Insurance I