

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

-----

FORM 10-Q

X Quarterly Report Under Section 13 or 15 (d) of the  
-----  
Securities Exchange Act of 1934  
  
For the Quarterly Period Ended March 31, 1997  
  
Transition Report Pursuant to Section 13 or 15 (d)  
-----  
of the Securities Exchange Act of 1934

-----

Commission File Number 0-4604

CINCINNATI FINANCIAL CORPORATION

-----  
(Exact name of registrant as specified in its charter)

An Ohio Corporation	31-0746871
-----	-----
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6200 South Gilmore Road  
Fairfield, Ohio 45014-5141

-----  
(Address of principal executive offices)

Registrant's telephone number, including area code: 513/870-2000

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

YES	X	NO
---	---	---

Securities registered pursuant to Section 12(g) of the Act:

\$2.00 Par Common--55,327,338 shares outstanding at March 31, 1997

\$79,804,000 of 5-1/2% Convertible Senior Debentures Due 2002

## PART I

## ITEM 1. FINANCIAL STATEMENTS

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 1997 ----	December 31, 1996 ----
<b>ASSETS</b>		
Cash . . . . .	\$ 30,335,614	\$ 59,933,485
Investments		
Fixed Maturities (Cost: 1997--\$2,527,516,131; 1996--\$2,431,785,016). . . . .	2,631,522,322	2,561,805,150
Equity Securities (Cost: 1997--\$1,590,166,603; 1996--\$1,537,188,704). . . . .	4,190,472,454	3,740,180,384
Other Invested Assets. . . . .	52,792,322	53,003,602
Finance Receivables. . . . .	28,324,662	26,864,459
Premiums Receivable. . . . .	159,193,319	162,045,482
Reinsurance Receivable . . . . .	101,425,587	115,906,385
Prepaid Reinsurance Premiums . . . . .	23,217,845	22,924,443
Investment Income Receivable . . . . .	72,625,590	70,446,495
Land, Buildings and Equipment for Company Use (at Cost Less Accumulated Depreciation) . . . . .	39,227,124	39,486,095
Deferred Acquisition Costs Pertaining to Unearned Premiums and to Life Policies in Force . . . . .	127,761,445	127,587,814
Other Assets . . . . .	23,584,395	65,330,026
	-----	-----
Total Assets . . . . .	\$7,480,482,679	\$7,045,513,820
	=====	=====
<b>LIABILITIES</b>		
Insurance Reserves:		
Life Policy Reserves . . . . .	\$ 450,186,756	\$ 440,280,714
Losses and Loss Expenses . . . . .	1,884,033,129	1,881,167,249
Unearned Premiums. . . . .	422,075,066	425,750,431
Notes Payable. . . . .	263,950,538	262,097,826
5-1/2% Convertible Senior Debentures Due 2002. . . . .	79,804,000	79,847,000
Federal Income Taxes		
Current. . . . .	33,538,299	13,408,903
Deferred . . . . .	810,963,460	676,892,687
Other Liabilities. . . . .	102,009,826	103,180,572
	-----	-----
Total Liabilities . . . . .	4,046,561,074	3,882,625,382
	-----	-----
<b>SHAREHOLDERS' EQUITY</b>		
Common Stock, \$2 per Share; Authorized 80,000,000 Shares; Issued 1997--55,863,253; 1996--55,828,615 Shares; Outstanding 1997--55,327,338; 1996--55,636,476 Shares . . . . .	111,726,506	111,657,230
Paid-In Capital. . . . .	403,166,053	401,861,619
Retained Earnings. . . . .	1,184,238,621	1,132,879,714
Unrealized Gain on Investments, Less Taxes . . . . .	1,769,077,878	1,527,707,080
	-----	-----
Total Shareholders' Equity . . . . .	3,468,209,058	3,174,105,643
	-----	-----
Less Treasury Shares at Cost (1997--535,915 Shares; 1996--192,139 Shares). . . . .	(34,287,453)	(11,217,205)
	-----	-----
Total Shareholders' Equity . . . . .	3,433,921,605	3,162,888,438
	-----	-----
Total Liabilities and Shareholders' Equity . . . . .	\$7,480,482,679	\$7,045,513,820
	=====	=====

Accompanying notes are an integral part of these financial statements.

10Q/sa

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

	Three Months Ended March 31,	
	1997	1996
Revenues:		
Premiums Earned:		
Property and Casualty . . . . .	\$ 357,500,253	\$ 333,372,036
Life . . . . .	13,532,845	11,952,931
Accident and Health . . . . .	1,949,980	1,895,383
Net Premiums Earned . . . . .	372,983,078	347,220,350
Investment Income, Less Expenses . . . . .	84,231,210	82,471,695
Realized Gain on Investments . . . . .	24,303,137	19,277,148
Other Income . . . . .	2,219,452	2,829,255
Total Revenues . . . . .	483,736,877	451,798,448
Benefits & Expenses:		
Insurance Losses and Policyholder Benefits . . . . .	266,498,172	272,754,764
Commissions . . . . .	67,442,424	61,077,667
Other Operating Expenses . . . . .	33,135,077	26,528,905
Taxes, Licenses & Fees . . . . .	11,981,821	9,904,410
Increase in Deferred Acquisition . . . . .		
Costs Pertaining to Unearned Premiums and to Life Policies in Force . . . . .	(173,631)	(344,158)
Interest Expense . . . . .	5,036,550	4,558,151
Other Expenses . . . . .	1,538,186	870,113
Total Expenses . . . . .	385,458,599	375,349,852
Income Before Income Taxes . . . . .	98,278,278	76,448,596
Provision (Benefit) for Income Taxes:		
Current . . . . .	20,236,042	19,921,333
Deferred . . . . .	3,995,235	(2,921,119)
Total . . . . .	24,231,277	17,000,214
Net Income . . . . .	\$ 74,047,001	\$ 59,448,382
Weighted Average Shares Outstanding including Common Stock Equivalents	57,605,679	57,816,427
Per Common Share:		
Total Net Income . . . . .	\$1.30	\$1.04
Cash Dividends Declared . . . . .	\$ .41	\$ .35

Accompanying notes are an integral part of these financial statements.

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(UNAUDITED)

THREE MONTHS ENDED MARCH 31, 1996 AND 1997

	Common Stock Shares -----	Amount -----	Treasury Stock -----	Paid-In Capital -----	Retained Earnings -----	Unrealized Capital Gains -----
Bal. Dec. 31, 1995	53,084,081	\$106,168,162	\$(1,383,492)	\$237,171,509	\$1,156,626,751	\$1,159,388,263
Net Income					59,448,382	
Change in Unreal. Gains Net of Inc. Taxes of \$73,261,132						136,056,391
Div. Declared					(19,645,462)	
5% Stock Div. at Market	2,652,110	5,304,220		160,452,655	(166,008,727) *	
Issuance of Treasury Shares			173,214	58,105		
Stock Options Exercised	38,591	77,182	-----	1,778,668	-----	-----
Bal. March 31, 1996	55,774,782 =====	\$111,549,564 =====	\$ (1,210,278) =====	\$399,460,937 =====	\$1,030,420,944 =====	\$1,295,444,654 =====
Bal. Dec. 31, 1996	55,828,615	\$111,657,230	\$(11,217,205)	\$401,861,619	\$1,132,879,714	\$1,527,707,080
Net Income					74,047,001	
Change in Unreal. Gains Net of Inc. Taxes of \$129,968,891						241,370,798
Div. Declared					(22,688,053)	
Purchase/Issuance of Treasury Shares			(23,070,248)	16,733		
Stock Options Exercised	33,675	67,350	-----	1,246,627	-----	-----
Conversion of Debentures	963	1,926	-----	41,074	(41)	-----
Bal. March 31, 1997	55,863,253 =====	\$111,726,506 =====	\$(34,287,453) =====	\$403,166,053 =====	\$1,184,238,621 =====	\$1,769,077,878 =====

Accompanying notes are an integral part of these financial statements.

\*Includes \$251,851 for fractional shares on March 15, 1996.

10Q/sa

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Three Months Ended March 31,	
	1997	1996
	----	----
Cash flows from operating activities:		
Net income . . . . .	\$ 74,047,001	\$ 59,448,382
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization . . . . .	2,502,512	(564,606)
Decrease in net unearned premiums . . . . .	(3,968,767)	(1,323,957)
Increase in net life policy reserves . . . . .	9,906,042	9,557,426
Increase in net loss and loss expense reserves . . . . .	17,346,678	38,572,556
Decrease (Increase) in net premiums receivable . . . . .	2,852,163	(1,501,168)
Increase in deferred acquisition costs . . . . .	(173,631)	(344,158)
Decrease in other liabilities . . . . .	(3,274,225)	(16,129,744)
Increase in investment income receivable . . . . .	(2,179,095)	(2,227,273)
Decrease in accounts receivable . . . . .	216,353	5,664,701
Decrease in other assets . . . . .	41,745,631	3,633,415
Increase (Decrease) in deferred income taxes . . . . .	4,101,880	(2,921,119)
Increase in current income taxes . . . . .	20,129,396	19,921,333
Realized gain on investments . . . . .	(24,303,137)	(19,277,148)
Other . . . . .	(58,504)	(5,357,504)
	-----	-----
Net cash provided by operating activities . . . . .	138,890,297	87,151,136
	-----	-----
Cash flows from investing activities:		
Sale of fixed maturities investments . . . . .	78,235,936	57,477,616
Maturity of fixed maturities investments . . . . .	9,263,980	33,964,392
Sale of equity securities investments . . . . .	61,472,148	56,449,745
Collection of finance receivables . . . . .	2,716,641	2,088,718
Purchase of fixed maturities investments . . . . .	(179,683,220)	(142,549,614)
Purchase of equity securities investments . . . . .	(93,175,111)	(79,678,432)
Investment in land, buildings and equipment . . . . .	(2,632,193)	(2,857,885)
Investment in finance receivables . . . . .	(4,176,844)	(3,228,321)
Investment in other invested assets . . . . .	(38,063)	(135,857)
	-----	-----
Net cash used in investing activities . . . . .	(128,016,726)	(78,469,638)
	-----	-----
Cash flows from financing activities:		
Proceeds from stock options exercised . . . . .	1,313,977	1,855,850
Purchase/Issuance of treasury shares . . . . .	(23,053,515)	231,319
Increase in notes payable . . . . .	1,852,712	463,375
Payment of cash dividends to shareholders . . . . .	(20,584,616)	(18,038,129)
	-----	-----
Net cash used in financing activities . . . . .	(40,471,442)	(15,487,585)
	-----	-----
Net decrease in cash . . . . .	(29,597,871)	(6,806,087)
Cash at beginning of period . . . . .	59,933,485	20,019,459
	-----	-----
Cash at end of period . . . . .	\$ 30,335,614	\$ 13,213,372
	=====	=====
Supplemental disclosures of cash flow information		
Interest paid . . . . .	\$ 5,255,807	\$ 3,966,246
	=====	=====
Income taxes paid . . . . .	\$ 0	\$ 0
	=====	=====

Accompanying notes are an integral part of these financial statements.

10Q/sa

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE I - ACCOUNTING POLICIES

The consolidated financial statements include the accounts of the Company and all of its subsidiaries, each of which is wholly owned, and are presented in conformity with generally accepted accounting principles. All significant inter-company investments and transactions have been eliminated in consolidation. The December 31, 1996 consolidated balance sheet amounts are derived from the audited financial statements but do not include all disclosures required by generally accepted accounting principles.

INVESTMENTS--Fixed maturities and equity securities have been classified as available for sale and are carried at fair values at March 31, 1997 and December 31, 1996.

UNREALIZED GAINS AND LOSSES--The increases (decreases) in unrealized gains for fixed maturities and equity securities (net of income tax effect) for the three-month periods ended March 31 are as follows:

	Fixed Maturities -----	Equity Securities -----	Total -----
1997	\$(16,883,414)	\$258,254,212	\$241,370,798
1996	\$(21,528,076)	\$157,584,467	\$136,056,391

Such amounts are included as additions to and deductions from shareholders' equity.

REINSURANCE--Premiums earned are net of \$24,205,119 and \$22,928,950 of premium on ceded business for March 31, 1997 and 1996, respectively. Insurance losses and policyholder benefits in the accompanying statements of income are net of \$13,010,436 and \$9,929,733 reinsurance recoveries for March 31, 1997 and 1996, respectively,

NOTE II - STOCK OPTIONS

The Company has primarily qualified stock option plans under which options are granted to employees of the Company at prices which are not less than market price at the date of grant and which are exercisable over ten-year periods. On March 31, 1997, outstanding options for Stock Option Plan No. III totalled 92,378 shares with purchase prices ranging from a low of \$11.87 to a high of \$22.03, outstanding options for Stock Option Plan No. IV totalled 949,894 shares with purchase prices ranging from a low of \$22.38 to a high of \$64.00 and outstanding options for Stock Option Plan V totalled 186,675 shares with purchase prices ranging from a low of \$61.43 to a high of \$61.50.

The Financial Accounting Standards Board recently issued Statement of Financial Accounting Standards No. 128 "Earnings Per Share," which is effective for financial statements for both interim and annual periods ending after December 15, 1997. Early adoption of the statement is not permitted. The company has applied this statement to the 1997 and 1996 first quarter results and determined that the restated amounts are as follows:

	1997	1996
	----	----
Net Income per Common Share	\$1.33	\$1.07
	=====	=====
Net Income per Common Share-- Assuming Dilution	\$1.30	\$1.04
	=====	=====

#### NOTE III INTERIM ADJUSTMENTS

The preceding summary of financial information for Cincinnati Financial Corporation and consolidated subsidiaries is unaudited, but the Company believes that all adjustments (consisting only of normal recurring accruals) necessary for fair presentation have been made. The results of operations for this interim period is not necessarily an indication of results to be expected for the remaining nine months of the year.

10Q/sa

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Premiums earned for the three months ended March 31, 1997 have increased \$25,762,728 (7%) over the three months ended March 31, 1996. For our property and casualty insurance companies, gross written premiums increased \$23,965,707 and earned premiums increased by \$24,128,217. The growth rate of our property and casualty subsidiaries on a gross written and earned basis is less than last year. The growth rate is less than last year because the increase in new business and some rate increases on personal lines business were offset by lower premiums on workers' compensation coverages. The premium volume of our life and health company has increased approximately 12% as the Company had increases in both life and health insurance production. The premium growth in our life subsidiary is mainly attributable to increased sales of both traditional and interest-sensitive products. For the three-month period ended March 31, 1997, investment income, net of expenses, has increased \$1,759,515 (2%) when compared with the first three months of 1996. This increase is the result of the growth of the investment portfolio because of investing cash flows from operations and dividend increases from equity securities. The growth rate of our investment earnings is lower than usual because the 1996 first quarter investment income included a one-time adjustment of \$2.7 million related to accrual of discount.

Realized gains on investments for the three months ended March 31, 1997 amounted to \$24,303,137 compared to \$19,277,148 for the comparable three-month period ended March 31, 1996. The realized gains are predominantly the result of the sale of equity securities and management's decision to realize the gains and reinvest the proceeds at higher yields.

Insurance losses and policyholder benefits (net of reinsurance recoveries) decreased \$6,256,592 (2%) for the first three months of 1997 over the same period in 1996. The losses of the property and casualty companies have decreased by \$5,768,431 because of lower catastrophic claims. Policyholder benefits decreased \$488,161 over the first quarter of 1996 in the life insurance subsidiary. The decrease is the result of a lower incidence of death claims, health claims, and related costs.

Commission expenses increased \$6,364,757 for the first quarter of 1997 compared to the first quarter of 1996. The increase is mainly attributable to increases in the contingent commission expenses because of favorable underwriting results along with increased commissions due to increases in premiums written. Other operating expenses increased \$6,606,172 for the first quarter of 1997 compared to the first quarter of 1996. The increase is attributable to increases in staff and costs associated with the upgrading of our computer systems to handle projected increases in premium and to make our systems year 2000 compliant.

Provision for income taxes, current and deferred, have increased by \$7,231,063 for the first three months of 1997 compared to the first three months of 1996. The increase in federal taxes is primarily attributable to an increase in the effective tax rate from 22.2% to 24.75% at March 31, 1996 and 1997.



Unrealized appreciation will fluctuate with changes in the overall fixed maturities and equity securities markets. Changes in unrealized appreciation are discussed in Note 1. The Company's equity investment portfolio continues to be primarily investments in common stocks of public utility companies and financial institutions.

On November 22, 1996, the Board authorized repurchase of up to three million of the Company's outstanding shares as management deems appropriate, over an unspecified period of time. As of March 31, 1997, the Company has repurchased 443,480 shares.

10Q/sa

PART II  
OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

The Company is involved in no material litigation other than routine litigation incident to the nature of the insurance industry.

## ITEM 2. CHANGES IN SECURITIES

There have been no material changes in securities during the first quarter.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company has not defaulted on any interest or principal payment, and no arrearage in the payment of dividends has occurred.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No special matters were voted upon by security holders during the first quarter.

## ITEM 5. OTHER INFORMATION

No matters to report.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## (a) Exhibits included:

Exhibit 11--Statement re Computation of Per Share Earnings.  
Exhibit 27--Financial Data Schedule

## (b) The Company was not required to file any reports on Form 8-K during the quarter ended March 31, 1997.

## Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CINCINNATI FINANCIAL CORPORATION  
-----  
(Registrant)

Date May 12, 1997  
-----

By /s/ T.F. ELCHYNSKI  
-----  
T.F. Elchynski  
Senior Vice President and Chief  
Financial Officer  
(Principal Financial Officer)

10Q/sa

## EXHIBIT 11

CINCINNATI FINANCIAL CORPORATION  
 STATEMENT RE COMPUTATION OF PER SHARE EARNINGS  
 FOR THE QUARTER ENDED MARCH 31,  
 (in thousands except for per share amounts)

	1997	1996
	----	----
Weighted average shares outstanding	55,479	55,730
Equivalent shares assumed to be outstanding for:		
Stock options	339	294
Convertible debentures	1,788	1,792
	-----	-----
Number of shares for primary computation	57,606	57,816
Other dilutive equivalent shares-- stock options	46	21
	-----	-----
Number of shares assuming full dilution	57,652	57,837
	=====	=====
Net income	\$74,047	\$59,448
Interest on convertible debentures-- net of tax	713	715
	-----	-----
Net income for per share computation	\$74,760	\$60,163
	=====	=====
Earnings per share:		
Primary	\$ 1.30	\$ 1.04
	=====	=====
Fully Diluted	\$ 1.30	\$ 1.04
	=====	=====

10Q/sa

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS  
 DEC-31-1997  
 JAN-01-1997  
 MAR-31-1997  
 2,631,522,322  
 0  
 0  
 4,190,472,454  
 8,926,996  
 15,356,184  
 6,874,787,098  
 30,335,614  
 5,961,053  
 127,761,445  
 7,480,482,679  
 2,289,905,946  
 422,075,066  
 41,160,425  
 11,683,252  
 343,754,538  
 0  
 0  
 111,726,506  
 3,322,195,099  
 7,480,482,679  
 372,983,078  
 84,231,210  
 24,303,137  
 2,219,452  
 266,498,172  
 77,335,845  
 41,624,582  
 98,278,278  
 24,231,277  
 74,047,001  
 0  
 0  
 0  
 74,047,001  
 1.30  
 1.30  
 1,702,415,290  
 0  
 0  
 0  
 0  
 1,730,067,823  
 0

Equals the sum of Fixed Maturities, Equity Securities and other Invested Assets  
 Equals the sum of Life Policy Reserves and Losses and Loss Expenses less the  
 Life Company liability for Supplementary Contracts without Life Contingencies  
 of \$3,153,514 which is classified as Other Policyholder Funds  
 Equals the sum of Notes Payable and the 5-1/2% convertible Senior Debenture  
 Equals the Total Shareholders Equity  
 Equals the Sum of Commissions, Other Operating Expenses, Taxes licenses and  
 Fees, Increase in deferred acquisition costs, Interest expense and other  
 expenses  
 Equals the net reserve for unpaid claims for the property casualty  
 subsidiaries less loss checks payable as of December 31, 1996  
 Equals the net reserve for unpaid claims for the property casualty subsidiaries  
 less loss checks payable as of March 31, 1997