UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1997 — Commission file number 0-4604

CINCINNATI FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	31-0746871
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6200 S. Gilmore Road, Fairfield, Ohio	45014-5141
(Address of principal executive offices)	(Zip Code)

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

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

NONE

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

Title of Each Class	Exchange on Which Registered
$2.00 Par, Common	Over The Counter
5 1/2% Convertible Senior Debentures Due 2002	Over The Counter

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. [X] Yes [ ] No

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

The aggregate market value of voting stock held by nonaffiliates of Cincinnati Financial Corporation was $6,342,769,953 as of March 2, 1998.

As of March 2, 1998, there were 55,562,285 shares of common stock outstanding.

Documents Incorporated by Reference

Annual Report to Shareholders for year ended December 31, 1997 (in part) into Parts I, II and IV and Registrant's Proxy Statement dated March 2, 1998 into Parts I, III and IV.

PART I

ITEM 1. BUSINESS

Cincinnati Financial Corporation ("CFC") was incorporated on September 20, 1968 under the laws of the State of Delaware. On April 4, 1992, the shareholders voted to adopt an Agreement of Merger by means of which the reincorporation of the Corporation from the State of Delaware to the State of Ohio was accomplished. CFC owns 100% of The Cincinnati Insurance Company ("CIC") and 100% of CFC Investment Company ("CFC-I"). The principal purpose of CFC is to be a holding company for CIC and CFC-I and in addition for the purpose of acquiring other companies.

CIC, incorporated in August, 1950, is an insurance carrier presently licensed to conduct multiple line underwriting in accordance with Section 3941.02 of the Revised Code of Ohio. This includes the sale of fire, automobile, casualty, bonds, and all related forms of property and casualty insurance in 50 states, the District of Columbia, and Puerto Rico. CIC is not authorized to write any other forms of insurance. CIC is in a highly competitive industry and competes in varying degrees with a large number of stock and mutual companies. CIC also owns 100% of the stock of the following insurance companies.

1. The Cincinnati Life Insurance Company ("CLIC") incorporated in 1987 under the laws of Ohio for the purpose of acquiring the business of Inter-Ocean and The Life Insurance Company of Cincinnati. CLIC acquired The Life Insurance Company of Cincinnati and Inter-Ocean Insurance Company on February 1, 1988. CLIC is engaged in the sale of life insurance and accident and health insurance in 46 states and the District of Columbia.

2. The Cincinnati Casualty Company ("CCC") (formerly the Queen City Indemnity Company), incorporated in 1972 under the laws of Ohio, is engaged in the fire and casualty insurance business on a direct billing basis in 31 states. The business of CIC and CCC is conducted separately, and there are no plans for combining the business of said companies.

3. The Cincinnati Indemnity Company ("CID"), incorporated in 1988 under the laws of Ohio, is engaged in the writing of nonstandard personal and casualty lines of insurance in 23 states. The business of CIC and CID is conducted separately, and there are no plans for combining the business of said companies.

CFC-I, organized in 1970, owns certain real estate in the Greater Cincinnati area and is in the business of leasing or financing various items, principally automobiles, trucks, computer equipment, machine tools, construction equipment, and office equipment.

Industry segment information for operating profits and identifiable assets is included on page 30 of the Company's Annual Report to Shareholders and is incorporated herein by reference (see Exhibit 13 to this filing).

As more fully discussed in pages 4 through 9 in the Company's Annual Report to Shareholders, incorporated herein by reference (see Exhibit 13 to this filing), the Company sells insurance primarily in the Midwest and Southeast through a network of a limited number (973 in 27 states at December 31, 1997) of selectively appointed independent agents, most of whom own stock in the Company. Gross written premiums by property/casualty lines increased 6% to $1.567 billion in 1997. The Company's mix of property/casualty business did not change significantly in 1997. Life and accident and health insurance (which constituted only 4% of the Company's premium income for 1997) is also sold primarily through property/casualty agencies and the growth rate of 11.5% was the result of increased sales of both traditional and interest-sensitive products.

The consolidated financial statements include the estimated liability for unpaid losses and loss adjustment expenses ("LAE") of the Company's property/casualty ("P/C") insurance subsidiaries. Property and casualty insurance is written in 50 states, the District of Columbia, and Puerto Rico. The liabilities for losses and LAE are determined using case-basis evaluations and statistical projections and represent estimates of the ultimate net cost of all unpaid losses and LAE incurred through December 31 of each year. These estimates are subject to the effect of trends in future claim severity and frequency. These estimates are continually reviewed; and as experience develops and new information becomes known, the liability is adjusted as necessary. Such adjustments, if any, are reflected in current operations.

The Company does not discount any of its property/casualty liabilities for unpaid losses and unpaid loss adjustment expenses.

There are two tables used to present an analysis of losses and LAE. The first table, providing a reconciliation of beginning and ending liability balances for 1997, 1996, and 1995, is on page 27 in the Company's Annual Report to Shareholders, incorporated herein by reference (see Exhibit 13 to this filing). The second table, showing the development of the estimated liability for the ten years prior to 1997 is presented on the next page.

The reconciliation referred to in the preceding paragraph shows a 1997 recognition of $119,654,000 redundancy in the December 31, 1996 liability. This redundancy is due in part to the effects of settling case reserves established in prior years for less than expected and also in part to the over estimation of the severity of IBNR losses. Average severity continues to increase primarily because of increases in medical costs related to workers' compensation and auto liability insurance. Litigation expenses for recent court cases on pending liability claims continue to be very costly; and judgments continue to be high and difficult to estimate. Reserves for environmental claims have been reviewed, and the Company believes that the reserves are adequate. Environmental exposures are minimal as a result of the types of risks we have insured in the past. Historically, most commercial accounts written post-date the coverages which afford clean-up costs and Superfund responses.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for anticipated changes in underwriting standards, policy provisions, and general economic trends. These trends are monitored based on actual development and are modified if necessary.

The limits on risks retained by the Company vary by type of policy, and risks in excess of the retention limits are reinsured. Because of the growth in the Company's capacity to underwrite risks and reinsurance market conditions, in 1987 and 1989, the Company raised its retention limits from $500,000 to $750,000 to $1,000,000, respectively, for casualty and property lines of insurance. In 1995, the casualty and property lines retention limits were further raised to $2,000,000.

There are no differences between the liability reported in the accompanying consolidated financial statements in accordance with generally accepted accounting principles ("GAAP") and that reported in the annual statements filed with state insurance departments in accordance with statutory accounting practices ("SAP").

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT
(Millions of Dollars)

Year Ended December 31	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Net Liability for Unpaid Losses and Loss Adjustment Expenses	$ 534	$ 631	$ 742	$ 833	$ 986	$1,138	$1,293	$1,432	$1,581	$1,702	$1,777
Net Liability Reestimated as of:											
One Year Later	548	671	751	869	956	1,098	1,200	1,306	1,429	1,582	
Two Years Later	584	634	747	816	928	993	1,116	1,220	1,380		
Three Years Later	544	622	696	795	823	949	1,067	1,214			
Four Years Later	535	596	676	723	814	937	1,067				
Five Years Later	523	580	635	720	824	943					
Six Years Later	508	551	637	732	827						
Seven Years Later	496	558	653	734							
Eight Years Later	505	571	655								
Nine Years Later	519	571									
Ten Years Later	518										
Net Cumulative Redundancy	$ 16	$ 60	$ 87	$ 99	$ 159	$ 195	$ 226	$ 218	$ 201	$ 120	
Net Cumulative Amount of Liability Paid Through:											
One Year Later	$ 178	$ 204	$ 238	$ 232	$ 280	$ 310	$ 343	$ 368	$ 395	$ 453	
Two Years Later	292	321	356	397	440	498	538	578	630		
Three Years Later	362	390	446	493	546	612	663	709			
Four Years Later	398	441	497	552	611	681	734				
Five Years Later	427	467	528	588	647	718					
Six Years Later	441	485	550	610	666						
Seven Years Later	454	496	563	621							
Eight Years Later	461	502	570								
Nine Years Later	465	507									
Ten Years Later	469										
Gross Liability--End of Year						$1,200	$1,365	$1,510	$1,690	$1,824	$1,889
Reinsurance Recoverable						62	72	78	109	122	112
Net Liability--End of Year						$1,138	$1,293	$1,432	$1,581	$1,702	$1,777
Gross Reestimated Liability--Latest						$1,035	$1,162	$1,319	$1,498	$1,699	
Reestimated Recoverable--Latest						92	95	105	118	117	
Net Reestimated Liability--Latest						$ 943	$1,067	$1,214	$1,380	$1,582	
Gross Cumulative Redundancy						$ 195	$ 226	$ 218	$ 201	$ 120	

The table above presents the development of balance sheet liabilities for 1987 through 1997. The top line of the table shows the estimated liability for unpaid losses and LAE recorded at the balance sheet date for each of the indicated years. This liability represents the estimated amount of losses and LAE for claims arising in all prior years that are unpaid at the balance sheet date, including losses that had been incurred but not yet reported to the Company. The upper portion of the table shows the reestimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the frequency and severity of claims for individual years.

The "cumulative redundancy" represents the aggregate change in the estimates over all prior years. For example, the 1987 liability has developed a $16,000,000 redundancy over ten years and has been reflected in income over the ten years. The effects on income of the past three years of changes in estimates of the liabilities for losses and LAE for all accident years is shown in the reconciliation table.

The lower section of the table shows the cumulative amount paid with respect to the previously recorded liability as of the end of each succeeding year. For example, as of December 31, 1997, the Company had paid $469,000,000 of the currently estimated $518,000,000 of losses and LAE that have been incurred as of the end of 1987; thus an estimated $49,000,000 of losses incurred as of the end of 1987 remain unpaid as of the current financial statement date.

In evaluating this information, it should be noted that each amount includes the effects of all changes in amounts for prior periods. For example, the amount of deficiency or redundancy related to losses settled in 1992, but incurred in 1987, will be included in the cumulative deficiency or redundancy amount for 1987 and each subsequent year. This table does not present accident or policy year development data which readers may be more accustomed to analyzing. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on this table.

The Company limits the maximum net loss that can arise by large risks or risks concentrated in areas of exposure by reinsuring (ceding) with other insurers or reinsurers. Related thereto, the Company's retention levels were last increased from $1,000,000 to $2,000,000 in 1995. The Company reinsures with only financially sound companies. The composition of its reinsurers has not changed, and the Company has not experienced any uncollectible reinsurance amounts or coverage disputes with its reinsurers in more than ten years.

Information concerning the Company's investment strategy and philosophy is contained on Pages 16 through 18 of the Annual Report to Shareholders, incorporated herein by reference (see Exhibit 13 to this filing). The Company's primary strategy is to maintain liquidity to meet both its immediate and long-range insurance obligations through the purchase and maintenance of medium-risk fixed maturity and equity securities, while earning optimal returns on medium-risk equity securities which offer growing dividends and capital appreciation. The Company usually holds these securities to maturity unless there is a change in credit risk or the securities are called by the issuer. Historically, municipal bonds (with concentrations in the essential services, i.e. schools, sewer, water, etc.) have been attractive to the Company due to their tax exempt features. Because of Alternative Minimum Tax matters, the Company uses a blend of tax-exempt and taxable fixed maturity securities. Investments in common stocks have been made with an emphasis on securities with an annual dividend yield of at least 2 to 3 percent and annual dividend increases. The Company's strategy in equity investments is to identify approximately 10 to 12 companies in which it can accumulate 10 to 20 percent of their common stock. As a long-term investor, a buy and hold strategy has been followed for many years, resulting in an accumulation of a significant amount of unrealized appreciation on equity securities.

As of December 31, 1997, CFC employed 2,670 associates.

ITEM 2. PROPERTIES

CFC-I owns a fully leased 85,000 square feet office building in downtown Cincinnati that is currently leased to Procter and Gamble Company, an unaffiliated company, on a net, net, net lease basis. This property is carried in the financial statements at $535,000 as of December 31, 1997.

CFC-I also owns the Home Office building located on 75 acres of land in Fairfield, Ohio. This building contains approximately 380,000 square feet. The John J. and Thomas R. Schiff & Company, an affiliated company, occupies approximately 5,350 square feet, and the balance of the building is occupied by CFC and its subsidiaries. The property is carried in the financial statements at $10,724,475 as of December 31, 1997.

CFC-I also owns the Fairfield Executive Center which is located on the northwest corner of the home office property in Fairfield, Ohio. This is a four-story office building containing approximately 103,000 rentable square feet. CFC and its subsidiaries occupy approximately 84% of the building, unaffiliated tenants occupy approximately 11% of the building, and the balance is available for Company expansion. The property is carried in the financial statements at $10,399,094 as of December 31, 1997.

The CLIC owns a four-story office building in the Tri-County area of Cincinnati containing approximately 127,000 square feet. At the present time, 100% of the building is currently being leased by an unaffiliated tenant. This property is carried in the financial statements at $4,010,201 as of December 31, 1997.

ITEM 3. LEGAL PROCEEDINGS

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

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

CFC filed with the commission on March 2, 1998, definitive proxy statements and annual reports pursuant to Regulation 14A. Material filed was the same as that described in Item 4 and is incorporated herein by reference. No matters were submitted during the fourth quarter.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

This information is included in the Annual Report of the Registrant to its shareholders on the inside back cover for the year ended December 31, 1997 and is incorporated herein by reference (see Exhibit 13 to this filing).

ITEM 6. SELECTED FINANCIAL DATA

This information is included in the Annual Report of the Registrant to its shareholders on pages 12 and 13 for the year ended December 31, 1997 and is incorporated herein by reference (see Exhibit 13 to this filing).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This information is included in the Annual Report of the Registrant to its shareholders on pages 14 through 18 for the year ended December 31, 1997 and is incorporated herein by reference (see Exhibit 13 to this filing).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) Financial Statements
The following consolidated financial statements of the Registrant and its subsidiaries, included in the Annual Report of the Registrant to its shareholders on pages 19 to 30 for the year ended December 31, 1997, are incorporated herein by reference (see Exhibit 13 to this filing).

Independent Auditors' Report
Consolidated Balance Sheets--December 31, 1997 and 1996
Consolidated Statements of Income--Years ended December 31, 1997, 1996, and 1995
Consolidated Statements of Shareholders' Equity--Years ended December 31, 1997, 1996, and 1995
Consolidated Statements of Cash Flows--Years ended December 31, 1997, 1996, and 1995.

Notes to Consolidated Financial Statements

(b) Supplementary Data
Selected quarterly financial data, included in the Annual Report of the Registrant to its shareholders on the inside back cover for the year ended December 31, 1997, is incorporated herein by reference (see Exhibit 13 to this filing).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements on accounting and financial disclosure requirements with accountants within the last 24 months prior to December 31, 1997.

PART III

CFC filed with the Commission on March 2, 1998 definitive proxy statements pursuant to regulation 14-A. Material filed was the same as that described in Item 10, Directors and Executive Officers of the Registrant; Item 11, Executive Compensation; Item 12, Security Ownership of Certain Beneficial Owners and Management; Item 13, Certain Relationships and Related Transactions, and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Filed Documents. The following documents are filed as part of this report:

1. Financial Statements--incorporated herein by reference (see Exhibit 13 to this filing) as listed in Part II of this Report.

2. Financial Statement Schedules and Independent Auditors' Report:
   Independent Auditors' Report
   Schedule I--Summary of Investments
   Other than Investments in Related Parties
   Schedule II--Condensed Financial Information of Registrant
   Schedule III--Supplementary Insurance Information
   Schedule IV--Reinsurance
   Schedule VI--Supplemental Information Concerning
   Property-Casualty Insurance Operations

   All other schedules are omitted because they are not required, inapplicable or the information is included in the financial statements or notes thereto.

3. Exhibits:

   Exhibit 11--Statement recomputation of per share earnings for years ended December 31, 1997, 1996, and 1995
   Exhibit 13--Material incorporated by reference from the annual report of the registrant to its shareholders for the year ended December 31, 1997
   Exhibit 21--Subsidiaries of the registrant--information contained in Part I of this report
   Exhibit 22--Notice of Annual Meeting of Shareholders and Proxy Statement dated March 2, 1998--incorporated by reference to such document previously filed with Securities and Exchange Commission, Washington, D.C., 20549
   Exhibit 23--Independent Auditors' Consent
   Exhibit 27--Financial Data Schedule

(b) Reports on Form 8-K--NONE

INDEPENDENT AUDITORS' REPORT

To The Shareholders and Board of Directors of
Cincinnati Financial Corporation

We have audited the consolidated financial statements of Cincinnati Financial Corporation and its subsidiaries as of December 31, 1997 and 1996, and for each of the three years in the period ended December 31, 1997, and have issued our report thereon dated February 4, 1998; such consolidated financial statements and report are included in your 1997 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedules of Cincinnati Financial Corporation and its subsidiaries, listed in Item 14(a)(2). These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein

DELOITTE & TOUCHE LLP

/S/ Deloitte & Touche LLP

Cincinnati, Ohio
February 4, 1998

SCHEDULE I

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES
SUMMARY OF INVESTMENTS--OTHER THAN INVESTMENTS IN RELATED PARTIES
DECEMBER 31, 1997

(000 omitted)

Type of Investment	Cost	Fair Value	Amount at which shown in balance sheet
Fixed Maturities:			
Bonds:			
United States Government and government agencies and authorities			
The Cincinnati Insurance Company	$ 2,250	$ 2,323	$ 2,323
The Cincinnati Indemnity Company	456	474	474
The Cincinnati Casualty Company	403	428	428
The Cincinnati Life Insurance Company	6,169	6,289	6,289
Total	9,278	9,514	9,514
States, municipalities and political subdivisions:			
The Cincinnati Insurance Company	810,174	852,806	852,806
The Cincinnati Indemnity Company	8,553	9,438	9,438
The Cincinnati Casualty Company	21,121	22,469	22,469
The Cincinnati Life Insurance Company	3,216	3,517	3,517
Total	843,064	888,230	888,230
Public utilities:			
The Cincinnati Insurance Company	38,330	40,679	40,679
The Cincinnati Casualty Company	5,208	5,731	5,731
The Cincinnati Life Insurance Company	30,903	32,925	32,925
Cincinnati Financial Corporation	430	500	500
Total	74,871	79,835	79,835
Convertibles and bonds with warrants attached:			
The Cincinnati Insurance Company	78,425	82,503	82,503
The Cincinnati Life Insurance Company	15,617	16,901	16,901
Cincinnati Financial Corporation	9,082	9,988	9,988
Total	103,124	109,392	109,392
All other corporate bonds:			
The Cincinnati Insurance Company	610,918	662,932	662,932
The Cincinnati Indemnity Company	16,501	18,168	18,168
The Cincinnati Casualty Company	34,031	38,173	38,173
The Cincinnati Life Insurance Company	482,530	528,188	528,188
Cincinnati Financial Corporation	397,232	416,787	416,787
Total	1,541,212	1,664,248	1,664,248
TOTAL FIXED MATURITIES	$2,571,549	$2,751,219	$2,751,219

(000 omitted)

Type of Investment	Cost	Fair Value	Amount at which shown in balance sheet
Equity Securities:			
Common Stocks			
Public Utilities			
The Cincinnati Insurance Company	$ 88,011	$ 252,429	$ 252,429
The Cincinnati Casualty Company	3,697	9,503	9,503
The Cincinnati Life Insurance Company	18,752	69,670	69,670
Cincinnati Financial Corporation	66,430	360,500	360,500
Total	176,890	692,102	692,102
Banks, trust and insurance companies			
The Cincinnati Insurance Company	210,744	1,000,427	1,000,427
The Cincinnati Casualty Company	16,883	71,353	71,353
The Cincinnati Life Insurance Company	40,094	147,070	147,070
Cincinnati Financial Corporation	364,129	2,443,424	2,443,424
Total	631,850	3,662,274	3,662,274
Industrial miscellaneous and all other			
The Cincinnati Insurance Company	371,041	842,887	842,887
The Cincinnati Indemnity Company	7,896	15,297	15,297
The Cincinnati Casualty Company	18,203	38,577	38,577
The Cincinnati Life Insurance Company	53,075	114,100	114,100
Cincinnati Financial Corporation	43,161	103,665	103,665
Total	493,376	1,114,526	1,114,526
Nonredeemable preferred stocks			
The Cincinnati Insurance Company	367,982	466,116	466,116
The Cincinnati Life Insurance Company	49,340	56,793	56,793
Cincinnati Financial Corporation	6,417	7,460	7,460
Total	423,739	530,369	530,369
TOTAL EQUITY SECURITIES	$1,725,855	$5,999,271	$5,999,271
Other Invested Assets:			
Mortgage loans on real estate			
The Cincinnati Life Insurance Company	$ 3,329	XXXXXX	$ 3,329
CFC-I Investment Company	8,236	XXXXXX	8,236
Total	11,565	XXXXXX	11,565
Real estate			
The Cincinnati Life Insurance Company	4,010	XXXXXX	4,010
CFC-I Investment Company	688	XXXXXX	688
Total	4,698	XXXXXX	4,698
Policy loans			
The Cincinnati Life Insurance Company	20,035	XXXXXX	20,035
Notes receivable			
CFC-I Investment Company	10,262	XXXXXX	10,262
TOTAL OTHER INVESTED ASSETS	$ 46,560	XXXXXX	$ 46,560
TOTAL INVESTMENTS	$4,343,964	XXXXXX	$8,797,050

SCHEDULE II

CINCINNATI FINANCIAL CORPORATION
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(000 OMITTED)

Condensed Statements of Income (Parent Company Only)

For the Years ended December 31	1997	1996	1995
Income			
Dividends from Subsidiaries	$ 125,000	$ 85,000	$ 149,000
Investment Income	87,312	81,220	65,839
Realized Gains on Investments	4,415	2,232	742
Other	99	0	0
Total	$ 216,826	$ 168,452	$ 215,581
Expenses			
Interest	$ 20,306	$ 20,098	$ 17,229
Other	8,568	6,620	3,071
Total Expenses	28,874	26,718	20,300
Income Before Taxes and Earnings of Subsidiaries	187,952	141,734	195,281
Applicable Income Taxes	11,066	9,760	8,286
Net Income Before Change in Undistributed Earnings of Subsidiaries	176,886	131,974	186,995
Increase in Undistributed Earnings of Subsidiaries	122,489	91,786	40,355
Net Income	$ 299,375	$ 223,760	$ 227,350

Condensed Balance Sheets (Parent Company Only)

December 31	1997	1996
Assets		
Cash	$ 6,942	$ 5,494
Fixed Maturities, at Fair Value	427,275	435,368
Equity Securities, at Fair Value	2,915,049	1,641,291
Investment Income Receivable	18,569	18,341
Inter-Company Dividends Receivable	50,000	20,500
Equity in Net Assets of Subsidiaries	2,525,086	1,837,226
Finance Receivables	7,829	-0-
Other Assets	7,101	10,518
Total Assets	$5,957,851	$3,968,738
Liabilities		
Notes Payable	$ 265,564	$ 262,098
Dividends Declared but Unpaid	22,704	20,584
Federal Income Tax		
Current	10,729	9,422
Deferred	863,298	425,543
5.5% Convertible Senior Debentures Due 2002	58,430	79,847
Other Liabilities	20,161	8,355
Total Liabilities	$1,240,886	$ 805,849
Stockholders' Equity	4,716,965	3,162,889
Total Liabilities and Stockholders' Equity	$5,957,851	$3,968,738

SCHEDULE II

CINCINNATI FINANCIAL CORPORATION
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(000 OMITTED)

Condensed Statements of Cash Flows (Parent Company Only)

For the Years ended December 31	1997	1996	1995
Operating Activities			
Net Income	$ 299,375	$ 223,760	$ 227,350
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Amortization	(624)	(782)	(706)
Increase in investment income receivable	(228)	(2,602)	(4,590)
Increase in Current Federal Income Taxes Payable	1,307	1,733	2,236
Provision for Deferred Income Taxes	159	1,116	1,125
Increase in Dividends Receivable from Subsidiaries	(29,500)	(7,973)	(4,227)
Decrease (Increase) in Other Assets	3,417	(6,928)	206
Increase (Decrease) in Other Liabilities	11,806	3,391	(1,843)
Increase in Undistributed Earnings of Subsidiaries	(122,489)	(91,786)	(40,355)
Realized Gains on Investments	(4,415)	(2,232)	(742)
Net Cash Provided by Operating Activities	158,808	117,697	178,454
Investing Activities			
Sale of Fixed Maturity Investments	62,712	78,701	44,063
Maturity of Fixed Maturity Investments	77,380	6,807	14,641
Sale of Equity Security Investments	9,982	36,825	19,830
Collection of Finance Receivables	1,330	-0-	-0-
Purchase of Fixed Maturity Investments	(119,592)	(139,934)	(203,081)
Purchase of Equity Security Investments	(40,834)	(52,282)	(79,739)
Investment in Finance Receivables	(9,159)	-0-	-0-
Net Cash Used in Investing Activities	(18,181)	(69,883)	(204,286)
Financing Activities			
Increase in Other Short-Term Borrowings	3,466	41,093	91,889
Payment of Cash Dividends	(88,405)	(79,203)	(69,542)
Purchase/Issuance of Treasury Shares	(60,714)	(8,963)	(287)
Proceeds from Stock Options Exercised	6,474	3,399	4,113
Net Cash (Used in) Provided by Financing Activities	(139,179)	(43,674)	26,173
Increase in Cash	1,448	4,140	341
Cash at Beginning of Year	5,494	1,354	1,013
Cash at End of Year	$ 6,942	$ 5,494	$ 1,354

SCHEDULE III

CINCINNATI FINANCIAL CORPORATION & SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION
FOR YEARS ENDED DECEMBER 31 1997, 1996, AND 1995
(000 omitted)

Column A	Column B	Column C	Column D	Column E	Column F	Column G
Segment	Deferred Policy Acquisition Cost	Future Policy Benefits, Losses, Claims & Expense Losses	Unearned Premiums	Other Policy Claims & Benefits Payable	Premium Revenue	Net Investment Income
1997						
Property and Liability Insurance.....................	$ 83,759	$1,888,883	$442,078	$24,614	$1,453,526	$199,427
Life/Health Insurance.........	51,554	491,374	976	14,110	62,852	60,923
Total.........................	$135,313	$2,380,257	$443,054	$38,724	$1,516,378	$260,350
1996						
Property and Liability Insurance.....................	$ 79,914	$1,824,296	$424,487	$35,500	$1,366,544	$190,318
Life/Health Insurance.........	47,674	448,969	1,263	12,683	56,353	54,687
Total.........................	$127,588	$2,273,265	$425,750	$48,183	$1,422,897	$245,005
1995						
Property and Liability Insurance.....................	$ 76,365	$1,690,461	$407,254	$32,180	$1,263,257	$180,074
Life/Health Insurance.........	43,224	412,552	1,371	11,604	50,869	52,440
Total.........................	$119,589	$2,103,013	$408,625	$43,784	$1,314,126	$232,514

	Column H	Column I	Column J	Column K
Segment	Benefits, Claims, Losses & Settlement Expenses	Amortization of Deferred Policy Acquisition Costs	Other Operating Expenses	Premium Written
1997				
Property and Liability Insurance.....................	$ 994,274	$305,336	$130,960	$1,471,603
Life/Health Insurance.........	60,650	9,056	17,737	8,112(4)
Total.........................	$1,054,924	$314,392	$148,697	$1,479,715
1996				
Property and Liability Insurance.....................	$1,030,157	$287,222	$ 98,844	$1,383,525
Life/Health Insurance.........	56,948	7,890	16,879	7,652(4)
Total.........................	$1,087,105	$295,112	$115,723	$1,391,177
1995				
Property and Liability Insurance.....................	$ 913,139	$264,281	$ 87,420	$1,295,852
Life/Health Insurance.........	51,077	8,032	15,289	7,277(4)
Total.........................	$ 964,216	$272,313	$102,709	$1,303,129

Notes to Schedule III:

(1) The sum of columns C, D, & E is equal to the sum of Losses and loss expense reserves, Life policy reserves, and Unearned premium reserves reported in the Company's consolidated balance sheets.

(2) The sum of columns I & J is equal to the sum of Commissions, Other operating expenses, Taxes, licenses, and fees, Increase in deferred acquisition costs, and Other expenses shown in the consolidated statements of income, less other expenses not applicable to the above insurance segments.

(3) Investment income amounts for the above insurance segments represent investment income on the actual investment securities in each such segment. Investment expenses, which are deducted from investment income, and other operating expenses include both expenses incurred directly in the insurance segments and expenses allocated to and among the insurance segments based on historical usage factors. The life/health segment is conducted totally within one subsidiary that has no other segments.

(4) Amounts represent written premiums on accident and health insurance business

only.

SCHEDULE IV

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES
REINSURANCE
FOR YEARS ENDING DECEMBER 31, 1997, 1996, AND 1995
(000 omitted)

Column A	Column B	Column C	Column D	Column E	Column F
	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
1997					
Life Insurance in Force	$ 10,844,743	$1,313,957	$ 13,631	$9,544,417	.1%
Premiums					
Life/Health Insurance	$ 68,073	$ 5,357	$ 136	$ 62,852	.2%
Property/Liability Insurance	1,506,229	94,397	41,694	1,453,526	2.9%
Total Premiums	$ 1,574,302	$ 99,754	$ 41,830	$1,516,378	2.8%
1996					
Life Insurance in Force	$ 9,775,948	$1,272,331	$ 15,919	$8,519,536	.2%
Premiums					
Life/Health Insurance	$ 60,994	$ 4,749	$ 108	$ 56,353	.2%
Property/Liability Insurance	1,416,801	91,396	41,139	1,366,544	3.0%
Total Premiums	$ 1,477,795	$ 96,145	$ 41,247	$1,422,897	2.9%
1995					
Life Insurance in Force	$ 8,328,764	$ 980,023	$ 20,047	$7,368,788	.3%
Premiums					
Life/Health Insurance	$ 54,437	$ 3,713	$ 145	$ 50,869	.3%
Property/Liability Insurance	1,310,105	83,804	36,956	1,263,257	2.9%
Total Premiums	$ 1,364,542	$ 87,517	$ 37,101	$1,314,126	2.8%

SCHEDULE VI

CINCINNATI FINANCIAL CORPORATION & SUBSIDIARIES
SUPPLEMENTAL INFORMATION CONCERNING PROPERTY/CASUALTY INSURANCE OPERATIONS
FOR YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995
(000 omitted)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H		Column I
							Claims and Claim Adjustment Expenses Incurred Related to		
Affiliation with Registrant	Deferred Policy Acquisition Costs	Reserves for Unpaid Claims and Claim Adjustment Expenses	Discount, if any, Deducted in Column C	Unearned Premiums	Earned Premiums	Net Investment Income	(1) Current Year	(2) Prior Years	Amortization of Deferred Policy Acquisition Costs
Consolidated Property-Casualty Entities									
1997	$ 83,759	$1,888,883	$ 0	$ 442,078	$1,453,526	$ 199,427	$1,115,140	$(119,654)	$ 305,336
1996	$ 79,914	$1,824,296	$ 0	$ 424,487	$1,366,544	$ 190,318	$1,183,251	$(151,996)	$ 287,222
1995	$ 76,365	$1,690,461	$ 0	$ 407,254	$1,263,257	$ 180,074	$1,040,541	$(126,509)	$ 264,281

	Column J	Column K
	Paid Claims and Claim Adjustment Expenses	Premiums Written
Consolidated Property-Casualty Entities		
1997	$ 921,253	$1,471,603
1996	$ 909,582	$1,383,525
1995	$ 765,315	$1,295,852

Index of Exhibits

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Signature	Title	Date
/s/ Robert B. Morgan Robert B. Morgan	Chief Executive Officer President and Director	March 19, 1998
/s/ Theodore F. Elchynski Theodore F. Elchynski	Senior Vice President Chief Financial Officer Treasurer and Secretary (Principal Financial Officer) (Principal Accounting Officer)	March 19, 1998
/s/ William F. Bahl William F. Bahl	Director	March 23, 1998
/s/ Michael Brown Michael Brown	Director	March 19, 1998
Richard M. Burridge	Director	March , 1998
John E. Field	Director	March , 1998
William R. Johnson	Director	March , 1998
/s/ Kenneth C. Lichtendahl Kenneth C. Lichtendahl	Director	March 20, 1998
/s/ James G. Miller James G. Miller	Senior Vice President Chief Investment Officer and Director	March 19, 1998

Signature	Title	Date
- -------------------------- Jackson H. Randolph	Director	March , 1998
/s/ John J. Schiff - -------------------------- John J. Schiff	Director	March 14, 1998
/s/ John J. Schiff, Jr. - -------------------------- John J. Schiff, Jr.	Chairman of the Board and Director	March 19, 1998
/s/ Robert C. Schiff - -------------------------- Robert C. Schiff	Director	March 23, 1998
/s/ Thomas R. Schiff - -------------------------- Thomas R. Schiff	Director	March 19, 1998
- -------------------------- Frank J. Schultheis	Director	March , 1998
- -------------------------- Larry R. Webb	Director	March , 1998
- -------------------------- Alan R. Weiler	Director	March , 1998

EXHIBIT 11

CINCINNATI FINANCIAL CORPORATION
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
(000's omitted except per share amounts)

	1997	1996	1995
Basic Earnings per share:			
Net income	$ 299,375	$ 223,760	$ 227,350
Average shares outstanding	55,179	55,736	55,668
Net income per common share	$ 5.43	$ 4.01	$ 4.08
Diluted earnings per share:			
Net income	$ 299,375	$ 223,760	$ 227,350
Interest on convertible debentures--net of tax	2,712	2,859	2,860
Net income for per share calculation (diluted)	$ 302,087	$ 226,619	$ 230,210
Average shares outstanding	55,179	55,736	55,668
Effective of dilutive securities:			
5.5% convertible senior debentures	1,309	1,789	1,793
Stock options	443	256	221
Total dilutive shares	56,931	57,781	57,682
Net income per common share--diluted	$ 5.31	$ 3.92	$ 3.99

EXHIBIT 13

Material incorporated by reference from the annual report of the registrant to the shareholders for the year ended December 31, 1997.

Segment information from page 30 (incorporated into Item 1).

16. SEGMENT INFORMATION

(000's omitted)

The Company operates principally in two industries--property and casualty insurance and life insurance. Information concerning the Company's operations in different industries is presented below. Revenue is primarily from unaffiliated customers. Identifiable assets by industry are those assets that are used in the Company's operations in each industry. Corporate assets are principally cash and marketable securities.

	Income Before Income Taxes		
	1997	1996	1995
Property/casualty insurance	$ 28,955	$ (44,449)	$ 2,894
Life/health insurance	2,763	(2,906)	(2,512)
Investment income (less required interest on life reserves)	321,620	305,211	279,346
Realized gains on investments	69,230	47,946	30,781
Other	865	3,337	4,979
General corporate expenses	(28,874)	(26,718)	(20,300)
Total	$ 394,559	$ 282,421	$ 295,188

	Identifiable Assets		
	1997	1996	1995
Property/casualty insurance	$4,953,259	$3,986,658	$3,526,900
Life/health insurance	1,094,445	902,354	809,418
Other	66,227	53,351	44,487
Corporate assets	3,379,494	2,103,151	1,728,493
Total	$9,493,425	$7,045,514	$6,109,298

Text data from pages 4 through 9 (incorporated into Item 1).

TARGETING THE YEAR 2000 AND BEYOND:
EXPANDING THE PRODUCT LINE, EXTENDING OUR REACH

The Cincinnati Insurance Companies are preparing to welcome the next millennium as a larger, more aggressive competitor. Our target is to reach $2 billion in direct written premium during the year 2000. Along with this growth, we are renewing our commitments to provide products people need; to operate profitably; to deliver prompt and personal service; to listen and learn continuously; and to build financial strength that benefits agents, policyholders, shareholders, associates and community.

PROPERTY AND CASUALTY INSURANCE

Net written property and casualty premiums reached $1.472 billion, up 6.4 percent. The combined loss and expense ratio improved to 97.7 percent, our best annual ratio since 1988. This profitability and an all-time high of $202.6 million in new business helped offset depressed pricing of commercial accounts.

COMMERCIAL INSURANCE

Net written premiums for commercial insurance grew only 3.6 percent to $987.3 million with a 53.2 percent pure loss ratio. We had to write more accounts, more carefully, to compensate for the lower premium pricing brought about by intense price competition. Total direct workers' compensation premium fell 6 percent despite $30.1 million in new business. While we expect low pricing to prevail into 1998, strong unit growth and underwriting quality of our accounts position us favorably for longer-term growth.

Sales of our new Commercial Output Policy (COP) began in October. Our agents wrote 26 COP policies for a total of $1.7 million by year-end. This product offers flexible pricing and coverage for larger property risks. As agencies consolidate and eliminate carriers, they need to represent a company that can handle complex, marquee accounts. We expect the COP and the Special Accounts Marketing

Program (SAMP) for larger accounts to become an important source of growth. In the first month of 1998, total SAMP premiums were already $3.0 million versus $7.8 million in all of 1997.

Working with professional trade associations, we continued to gain endorsements of our products and access to their members for our local agents. In several states, associations of dentists, funeral service providers or water quality dealers recommend Cincinnati coverage and service.

Other popular commercial products attained production milestones this year. The Cincinnati Commercial Umbrella crossed the $100 million mark and Employment Practices Liability Insurance, on the market for less than two years, reached $4 million. We will heighten our product advantages during 1998 with introduction of an improved Property Optional Coverage endorsement, an improved Businessowners Policy and a new Worldwide Commercial General Liability endorsement.

Cincinnati earned the highest overall score on surveys of 30,000 agents across 16 commercial product lines, according to Property/Casualty Rates & Ratings newsletter (August, 1997). Cincinnati was named Company of the Year by the Young Agents Committee of the Independent Insurance Agents of North Carolina, where we market primarily commercial insurance. And Cincinnati earned the top spot on an agent survey conducted by the Professional Independent Insurance Agents of Illinois, our second largest state by premium volume.

PERSONAL INSURANCE

On the personal insurance side, net written premiums grew 12.4 percent to $484.3 million with a 68.9 percent pure loss ratio. Profitability is improving due to homeowner and automobile rate increases approved in many states. While some premium growth came from these increases, much of it comes from new business as our agents look for stable markets and achieve economies by reducing the number of carriers they represent. Some insurers have reduced writings in order to remedy high concentration of risk in certain regions. Others have reduced coverages or experimented with distribution methods. Agents are weighing other carriers' lack of focus against our commitment and are giving us their prime personal insurance accounts.

1998 product innovations will include a new Master Group Personal Umbrella Liability Policy. Electronic funds transfer and other flexible billing options may boost worksite marketing. We will capitalize on renewed agent interest in stable, personal lines business by "blitzing" 50 agencies with our interdepartmental teams empowered to remove all barriers to production, from systems issues to producer education.

EXPANSION ACTIVITIES

The Cincinnati Insurance Companies are represented by fewer than 1,000 agencies while some other insurers appoint many thousands. We are from the "do more with less" school of thought. By being very selective in our representation, we can invest in better relationships, earn more loyalty and expect a higher percentage of agency premium. This will not change as we diversify geographically by reaching into new states, and as we increase market penetration by forming new territories in established ones. Our count should remain fairly stable, with new agencies taking the place of consolidated agencies or agencies discontinued for not living up to our expectations. During 1997, we made 34 new agency appointments. During 1998, we expect to appoint 84.

We are appointing financially strong, sales-oriented agencies that invest in technology and people to grow with us in the future. These elite agencies have put out the welcome mat for us as we began marketing in new states and expanded established territories. During 1997, we opened North Dakota and split off new marketing territories in several profitable areas where we wanted to increase service and do more business. We staffed new territories in Wisconsin, Missouri, Tennessee, Illinois and Michigan. Plans for 1998 call for opening Montana and two upstate New York territories, as well as adding territories in Louisville and Greater Atlanta. Additionally, some territories where we market commercial insurance will be opened for personal insurance. We are evaluating possible entry over future years into five new states--Delaware, Idaho, Oregon, Utah and Washington.

LIFE INSURANCE

The Cincinnati Life Insurance Company contributed $29.2 million to net income, up 10.2 percent over last year. Net operating income rose 23.3 percent to $24.8 million. Total net written premiums grew 7.6 percent to $92.4 million.

Direct term life insurance premiums rose 16.8 percent to $14.8 million. Near the end of 1997, we rolled out a new term policy to launch the Life Horizons product series. We will introduce additional new and improved Life Horizons products at the rate of about one per quarter during 1998, including low-cost universal life, guaranteed whole life and worksite universal life policies.

Cincinnati Life has an established expertise in the worksite marketing area, which brings convenient payroll deduction policies and professional agent service to underserved consumers. Direct premiums from worksite marketing rose 8.9 percent to $13.3 million in 1997. Worksite marketing is increasing in popularity among employers in search of valuable low-cost benefits. We plan to market worksite products aggressively during 1998.

We continue to develop the life insurance production network made up of Cincinnati's property and casualty agents, which was the source of approximately 93 percent of new life premiums in 1997. Additionally, we have begun appointing independent life agencies to sell our products in states such as California and Texas, where Cincinnati has no property and casualty agents. As we form these complementary, nonconflicting independent life agent relationships, our property and casualty agencies will benefit from product development, field representative training, streamlining of processes and our higher profile.

Cincinnati's property and casualty Claims Department is now funding claims settlements with Cincinnati Life annuity purchases. A total of 45 of these structured settlements brought in $8.3 million of annuity premium in 1997. During the first month of 1998, four cases were settled with $2 million in annuity premium. This inter-company cooperation provides secure income and convenience for claimants, while keeping funds in our investment stream.

FINANCIAL SERVICES

CFC Investment Company leases and finances equipment and vehicles for independent agencies, their commercial clients and other businesses. 1997 net after-tax earnings rose to $2.2 million versus $1.2 million in 1996. Gross receivables have doubled over the past three years, reaching $62.8 million at year-end 1997.

The leasing customer base is 50 percent independent property casualty agents and a large portion of our business comes from agent referrals of their commercial insurance clients. Many agencies lease or finance agency management systems that Cincinnati Insurance funds under incentive agreements requiring specified levels of premium growth and profitability.

We have begun to deploy a leasing field sales force, improving support for agencies and their clients while providing direct availability of our financial services to businesses. During the first part of 1998, our fourth field sales territory should open and our representative will begin calling on lease/finance prospects in Illinois and Wisconsin.

TARGETING THE YEAR 2000 AND BEYOND
SUPERIOR SERVICE AND PEOPLE--BRIDGES
TO PROFITABILITY

Under today's competitive conditions, running our business profitably requires a commitment to invest, on the customer's behalf, in state-of-the-art technical and human resources. During 1997, we sharpened our service advantages:

PROCESS IMPROVEMENT--Every department is examining internal and interdepartmental processes. By discovering and recognizing internal customers, we have been able to restructure workflows and stream-line processes, gaining speed and accuracy. Cross-functional teams formed in many areas to find the best way to deliver timely, personal service. Whether processing a policy change, examining a claim, calculating a premium or commission, introducing a new product or evaluating proposed territory expansions, we found room to improve and made positive changes.

In the Commercial Lines Department, service requests rose 18 percent over 1996 to 565,000, yet service complaints declined 16 percent versus last year. Four years ago, work-in-progress files held in the department averaged 12,000 per month; now fewer than 4,000 files were pending for 54 of the past 56 weeks.

TECHNOLOGY--New systems are presenting us with opportunities to eliminate duplicate effort, speed service and communicate more effectively. This year, the Information Systems Department introduced systems and training for accounting, leasing and investment functions. They continued system and network upgrades to address Year 2000 issues; the few systems not yet compliant will be by mid-year 1999. In Commercial Lines, the DocuSolve typing system proved to be a powerful tool to improve processing time. DocuSolve cut training time by 50 percent and cut errors affecting accounting and premium audit functions. Our goal is that raters and typists will have access to online procedures and underwriting guidelines. New software will allow us to bypass paper files and bring key policy pages online.

Information Systems rolled out software and completed training to upgrade and standardize software, including a new e-mail system, on all company personal computers. They installed a super data server for an Intranet-based policy processing and administration system now under development. A single, integrated system will replace the current manual work processes between our field and headquarters operations. We will connect headquarters to our Intranet as early as this year, then connect field staff and agents in 1999.

CLAIMS MANAGEMENT--The timely, personal, fair claims service we provide cements our agents' bond with clients. Claims management programs are introducing new conveniences and economies for consumers. Our Subrogation and Salvage unit recovered $30.9 million in 1997, up 24 percent over 1996 recoveries. Similar success came from fraud investigation efforts and managed care techniques applied to workers' compensation claims. A glass program and an auto estimate service will soon bring consumers new options for quick, easy repairs at a cost savings.

EDUCATION--We continue extensive programs to train professional associates, encouraging them to acquire industry credentials and certifications, develop customer service awareness and acquire computer skills. New programs in 1997 included a school to develop new Cincinnati Life field marketing representatives with a level of technical expertise, company knowledge and authority parallel to that of our property and casualty field marketing representatives. New programs for agents included alternative risk transfer seminars, designed to increase awareness of market trends and make them informed, strong competitors.

PUBLIC RESPONSIBILITY--We serve our agents and our industry by being active participants in the legislative and regulatory processes impacting your Company. We study proposals and take positions in support of tort reform and against activist state Supreme Court candidates. We support private enterprise solutions versus unfunded federal assumption of liability for catastrophic claims. 1997 activities included work to preserve the deduction for dividends received so taxation of the same income at multiple levels would not occur. We supported the Commerce Committee version of banking reform legislation, which affirms state authority over insurance, whether transactions are made by an insurance company or by a bank. We believe strong state regulation serves the public and our industry better than any proposals for dual federal/state regulation of insurance.

Loss and loss expenses in Notes to Financial Statements from page 27 (incorporated into Item 1).

4. LOSSES AND LOSS EXPENSES

Activity in the reserve for losses and loss expenses is summarized as follows (000's omitted):

	Years Ended December 31,		
	1997	1996	1995
Balance at January 1	$ 1,824,296	$ 1,690,461	$ 1,510,150
Less reinsurance receivable	121,881	109,719	78,125
Net balance at January 1	1,702,415	1,580,742	1,432,025
Incurred related to:			
Current year	1,115,140	1,183,251	1,040,541
Prior years	(119,654)	(151,996)	(126,509)
Total incurred	995,486	1,031,255	914,032
Paid related to:			
Current year	467,843	514,186	396,856
Prior years	453,410	395,396	368,459
Total paid	921,253	909,582	765,315
Net balance at December 31 ..	1,776,648	1,702,415	1,580,742
Plus reinsurance receivable	112,235	121,881	109,719
Balance at December 31	$ 1,888,883	$ 1,824,296	$ 1,690,461

As a result of changes in estimates of insured events in prior years, the provision for losses and loss expenses decreased by $119,654,000, $151,996,000 and $126,509,000 in 1997, 1996 and 1995. These decreases are due in part to the effects of settling reported (case) and unreported (IBNR) reserves established in prior years for less than expected.

The reserve for losses and loss expenses in the accompanying balance sheets also includes $47,651,000 and $56,871,000 at December 31, 1997 and 1996, respectively, for certain life/health losses and loss checks payable.

"Price range of Common Stock" section from the inside back cover (incorporated into Item 5).

PRICE RANGE OF COMMON STOCK

Shares are traded nationally over the counter. Closing sale price is quoted under the symbol CINF on the National Market List of Nasdaq (National Association of Securities Dealers Automated Quotation System). Tables below show the price range reported for each quarter based on daily last sale prices.

	1997				1996			
Quarter	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High	$ 73 1/4	$ 82 1/2	$ 83 3/4	$ 140 3/4	$ 64 1/4	$ 63 1/2	$ 58 13/16	$ 65 3/16
Low	62	67 3/8	78 1/2	83 7/8	57 5/8	57 3/8	54	54 1/4
Dividend Paid	.37	.41	.41	.41	.32	.37	.37	.37

"Selected Financial Information" from pages 12 and 13 (incorporated into Item 6).

SELECTED FINANCIAL INFORMATION

(000's omitted except per share data and ratios)
Cincinnati Financial Corporation and Subsidiaries

	Years Ended December 31, 1997	1996	1995	1994
TOTAL ASSETS	$ 9,493,425	$ 7,045,514	$ 6,109,298	$ 4,734,279
LONG-TERM OBLIGATIONS	$ 58,430	$ 79,847	$ 80,000	$ 80,000
REVENUES				
Premium Income	$ 1,516,378	$ 1,422,897	$ 1,314,126	$ 1,219,033
Investment Income (Less Expense)	348,597	327,307	300,015	262,649
Realized Gains on Investments	69,230	47,946	30,781	19,557
Other Income	8,179	10,599	10,729	11,267
NET INCOME BEFORE REALIZED GAINS ON INVESTMENTS				
In Total	$ 254,375	$ 192,595	$ 207,342	$ 188,538
Per Common Share	4.61	3.45	3.72	3.40
NET INCOME				
In Total	$ 299,375	$ 223,760	$ 227,350	$ 201,230
Per Common Share	5.43	4.01	4.08	3.62
Per Common Share (Diluted)	5.31	3.92	3.99	3.54
CASH DIVIDENDS DECLARED				
Per Common Share	$ 1.64	$ 1.46	$ 1.28	$ 1.16
CASH DIVIDENDS PAID				
Per Common Share	$ 1.60	$ 1.43	$ 1.26	$ 1.12
PROPERTY AND CASUALTY OPERATIONS				
Gross Premiums Written	$ 1,566,688	$ 1,476,011	$ 1,377,426	$ 1,287,280
Net Premiums Written	1,471,603	1,383,525	1,295,852	1,190,824
Premiums Earned	1,453,526	1,366,544	1,263,257	1,169,940
Loss Ratio	58.3%	61.6%	57.6%	63.3%
Loss Expense Ratio	10.1	13.8	14.7	9.8
Underwriting Expense Ratio	29.3	27.6	27.1	27.5
Combined Ratio	97.7%	103.0%	99.4%	100.6%
Investment Income Before Taxes	$ 199,427	$ 190,318	$ 180,074	$ 162,260
Property and Casualty Reserves				
Unearned Premiums	$ 418,465	$ 401,562	$ 385,418	$ 353,697
Losses	1,373,950	1,319,286	1,274,180	1,213,383
Loss Adjustment Expense	402,698	383,135	306,570	218,642
Statutory Policyholders' Surplus	$ 2,468,944	$ 1,608,084	$ 1,268,597	$ 998,595

* 1993 earnings include a credit for $13,845,000 ($.25 per share) cumulative effect of a change in the method of accounting for income taxes to conform with FASB Statement No. 109 and a net charge of $8,641,000 ($.16 per share) related to the effect of the 1993 increase in income tax rates on deferred taxes recorded for various prior year items.

Cincinnati Financial Corporation and Subsidiaries

1993	1992	1991	1990	1989	1988	1987
$ 4,602,288	$ 4,098,713	$ 3,513,749	$ 2,626,156	$ 2,602,990	$ 2,163,341	$ 1,828,032
$ 80,000	$ 80,000	$ 182	$ 202	$ 753	$ 890	$ 3,898
$ 1,140,791	$ 1,038,772	$ 947,576	$ 871,196	$ 813,313	$ 754,335	$ 747,266
239,436	218,942	193,220	167,425	149,285	130,885	108,915
51,529	35,885	7,641	1,488	4,678	6,423	3,845
10,396	10,552	12,698	8,822	7,134	10,281	7,686
$ 182,530*	$ 147,669	$ 141,273	$ 128,052	$ 111,477	$ 124,618	$ 90,714
3.30*	2.69	2.59	2.37	2.08	2.34	1.74
$ 216,024*	$ 171,325	$ 146,280	$ 128,962	$ 114,490	$ 128,748	$ 93,154
3.91*	3.12	2.69	2.38	2.14	2.42	1.79
3.81*	3.08	2.67	2.37	2.11	2.40	1.76
$ 1.02	$ .93	$ .83	$ .73	$ .66	$ .52	$ .45
$ 1.00	$ .90	$ .81	$ .71	$ .63	$ .51	$ .43
$ 1,216,766	$ 1,089,901	$ 996,807	$ 896,204	$ 845,346	$ 782,143	$ 763,925
1,123,780	1,014,971	930,296	838,554	790,971	718,853	702,785
1,092,135	992,335	903,465	828,046	771,205	712,771	687,429
63.5%	63.8%	61.6%	61.6%	61.6%	55.1%	61.8%
8.7	9.0	9.2	9.0	9.0	10.1	10.4
27.9	29.0	28.9	29.0	29.1	30.7	27.5
100.1%	101.8%	99.7%	99.6%	99.7%	95.9%	99.7%
$ 153,190	$ 141,958	$ 126,332	$ 110,827	$ 97,661	$ 84,379	$ 67,871
$ 333,550	$ 302,473	$ 280,404	$ 254,000	$ 244,011	$ 224,545	$ 218,840
1,100,051	960,571	825,952	692,081	616,730	522,162	449,159
193,305	177,262	160,260	140,501	124,993	109,323	84,359
$ 1,011,609	$ 933,529	$ 735,557	$ 477,355	$ 494,460	$ 422,521	$ 346,623

Per share data adjusted for three-for-one stock split in 1992 and stock
dividends of 5 percent in 1996, 1995 and 1987.

"Management Discussion" from pages 14 through 18 (incorporated into Items 1 and 7).

MANAGEMENT DISCUSSION

Cincinnati Financial Corporation and Subsidiaries

INTRODUCTION

This Management Discussion is intended to supplement the data contained in the financial statements and related notes of Cincinnati Financial Corporation and subsidiaries.

Cincinnati Financial Corporation (CFC) has five subsidiaries. The lead property and casualty insurance subsidiary, The Cincinnati Insurance Company, markets a broad range of business and personal policies in 27 states through an elite corps of 973 independent insurance agencies. Also engaged in the property and casualty business are The Cincinnati Casualty Company, which works on a direct billing basis, and The Cincinnati Indemnity Company, which markets nonstandard policies for preferred risk accounts. The Cincinnati Life Insurance Company markets life, health and accident policies through property and casualty agencies and independent life agencies. CFC Investment Company complements the insurance subsidiaries with leasing, financing and real estate services. Investment operations are CFC's primary source of profits, with a total return strategy emphasizing investment in fixed maturities securities as well as equity securities that contribute to current earnings through dividend increases and add to net worth through long-term appreciation.

The following discussion, related consolidated financial statements and accompanying notes contain certain forward-looking statements that involve potential risks and uncertainties. The Company's future results could differ materially from those discussed. Factors that could cause or contribute to such differences include, but are not limited to: unusually high levels of catastrophe losses due to changes in weather patterns or other natural causes; changes in insurance regulations or legislation that place the Company at a disadvantage in the marketplace; recession or other economic conditions resulting in lower demand for insurance products; sustained decline in overall stock market values negatively impacting the Company's equity portfolio and the ability to generate investment income; and, the potential inability of the Company and/or the independent agents with which it works to complete the necessary information system changes required to handle the Year 2000 issue. Readers are cautioned that the Company undertakes no obligation to review or update the forward-looking statements included in this material.

RESULTS OF OPERATION

OVERVIEW OF RESULTS--Primarily as a result of continued market penetration and entry into new states, CFC revenues have increased at a compound annual rate of 8.3%, reaching $1.942 billion in 1997, with property/casualty net written premiums growing at a 7.7% rate to $1.472 billion over the past five years. In the same five-year period, total net income, including realized capital gains, grew at an 11.8% rate to $299.4 million, or $5.43 per share, from $216.0 million, or $3.91, while net operating income increased at an 11.5% rate to $254.4 million, or $4.61 per share, from $182.5 million, or $3.30, in 1993. Book value grew at a 22.2% compound rate over the same period to $85.06 per share from $31.26.

A number of factors, including the Company's strong reputation among independent insurance agencies and management's belief that the Company can achieve additional market penetration in states in which it currently operates, have led management to target $2 billion in direct written premiums during the year 2000, up from $1.621 billion in 1997. At the same time, the Company seeks to generate an underwriting profit and maximize annual growth in investment income.

The following discusses and analyzes results for the three-year period ending December 31, 1997 and provides insight into management's strategic direction for the Company.

(000,000 omitted except per share data and ratios)	1997	CHANGE $	CHANGE %	1996	Change $	Change %	1995	Change $	Change %
Revenues	$1,942.4	$133.7	7	$1,808.7	$153.0	9	$1,655.7	$143.2	9
Net Operating Income	254.4	61.8	32	192.6	(14.7)	(7)	207.3	18.8	10
Net Capital Gains (after tax)	45.0	13.8	44	31.2	11.2	56	20.0	7.3	58
Net Income	299.4	75.6	34	223.8	(3.5)	(2)	227.3	26.2	13
Net Operating Income Per Share	$ 4.61	$ 1.16	34	$ 3.45	$ (.30)	(7)	$ 3.72	$ .32	9
Net Capital Gains Per Share	.82	.26	46	.56	.20	54	.36	.14	68
Net Income Per Share	$ 5.43	$ 1.42	35	$ 4.01	$ (.10)	(2)	$ 4.08	$ .46	13
Catastrophe Losses	$ 25.5	$ (39.2)	(60)	$ 64.7	$ 37.6	138	$ 27.1	$ 6.4	31
Catastrophe Losses Per Share (after tax)	.30	(.45)	(60)	.75	.44	142	.31	.07	28

The Company's financial results for the three years ending December 31, 1997 reflect steady growth in new insurance business and high retention of renewal business quoted on behalf of the Company's independent insurance agents, offset by competitive property and casualty pricing. In addition, 1997 marked a return to a more normal level of catastrophe losses from the unusually high 1996 level. Results for 1997 also reflect the Company's consistent underwriting philosophy and strategy-maintaining high underwriting standards by carefully evaluating individual risks, reviewing agency performance and controlling overall expenses.

Net operating income for 1997 rose substantially over the prior year. The Company generated 6.5% growth in pre-tax investment income and an underwriting profit versus an underwriting loss in 1996, primarily due to lower catastrophe losses. In 1996, net operating income declined 7% because of the catastrophe losses, while pre-tax investment income rose 9.1%. The contribution from net realized capital gains after-tax rose in both years primarily due to the sale of equity securities.

PROPERTY AND CASUALTY INSURANCE OPERATIONS

(000,000 omitted except per share data and ratios)	1997	CHANGE $	CHANGE %	1996	Change $	Change %	1995	Change $	Change %
Gross Written Premiums	$1,566.7	$ 90.7	6.1	$1,476.0	$ 98.6	7.2	$1,377.4	$ 90.1	7.0
Net Written Premiums	1,471.6	88.1	6.4	1,383.5	87.6	6.8	1,295.9	105.1	8.8
Net Earned Premiums	1,453.5	87.0	6.4	1,366.5	103.2	8.2	1,263.3	93.4	8.0
Loss and LAE Ratio	68.4%	N/A	(9.3)	75.4%	n/a	4.3	72.3%	n/a	(1.1)
Expense Ratio	29.3%	N/A	6.2	27.6%	n/a	1.8	27.1%	n/a	(1.5)
Combined Ratio	97.7%	N/A	(5.1)	103.0%	n/a	3.6	99.4%	n/a	(1.2)

PREMIUMS--While premium growth rates have declined in 1997 and 1996, the Company's property and casualty group continued to increase net written premiums at rates well above estimated industry growth rates. In 1997 and 1996, the primary source of growth was personal lines insurance, for which net written premiums advanced 12.4% in 1997 (9.4% in 1996), while commercial lines insurance growth was 3.6% (5.6% in 1996).

During 1997 and 1996, the commercial insurance market experienced intense price competition, most notably in workers' compensation where market-share competition and mandated rate reductions in some states led to renewal account discounts of as much as a third from the previous year's premium. The Company is committed to prudent underwriting standards and emphasizing account profitability. The emphasis on profitability contributed to the 53.2% pure loss ratio for the commercial lines area, in line with the 54.8% reported in 1996.

As a result of the market factors, direct written workers' compensation premiums in 1997 declined 6% and growth in other commercial insurance lines was limited. Management believes these competitive forces will continue for at least the next six to twelve months. To help offset these pressures, the Company is emphasizing personal lines insurance, entering new states to expand market opportunities, pursuing a marketing strategy that permits field representatives to spend more time assisting the independent insurance agents and expanding its life insurance operations.

The Company sees heightened interest from independent insurance agents in writing personal lines insurance as a means of buffering the price competition in the commercial sector and stabilizing their revenue. CFC is taking advantage of this trend by encouraging independent agents to move to the Company their proven, profitable business. Agents who are streamlining operations by reducing the number of carriers they represent have been rolling-over entire books of business to the Company.

Management believes CFC can achieve additional market penetration by leveraging its strong relationships with independent agencies and entering new states. The Company also can take advantage of key competitive advantages of CFC's insurance products, for example three- and five-year policies for many types of insurance coverage.

At year-end 1997, approximately 98% of the Company's property and casualty premium volume was in states in which the Company has had a presence since 1994 or earlier. Over the past three years, the Company has added nine marketing representatives in several established states, restructuring territories so that each representative has fewer agencies to serve. This has allowed field representatives to appoint additional agencies and, more importantly, spend more time with each agent. During 1998, management anticipates adding two marketing territories in existing regions.

Entry into new states also has been a source of premium growth. At year-end 1997, the states the Company entered between 1994 and 1997 contributed more than $28 million of property and casualty premium volume. An example of these successful new market entries is Minnesota, where premium volume reached $11.7 million in 1997, up from $800,000 in 1994. During 1996 and 1997, the Company began marketing commercial lines in North Dakota and added personal lines in Arkansas, Maryland, Minnesota, North Dakota, Pennsylvania and Vermont. During 1998, management anticipates beginning to market insurance products in Montana and in two planned upstate New York territories. Five western states currently are being researched with the intention of selecting one or two additional states in which to seek approval during 1998 to market the Company's products in 1999. The Company's criteria for entry into new states include a favorable regulatory climate.

EXPENSES--The Company recorded a $24.8 million underwriting profit in 1997 compared with an $45.0 million underwriting loss in 1996 and a $1.4 million underwriting profit in 1995. The 1997 underwriting profit, reflecting a combined ratio of 97.7%, was primarily the result of a more normal level of catastrophe losses contributing to a seven point reduction in the loss and loss adjustment expense ratio compared with 1996. The return to a more normal level of catastrophe losses also helped offset a one and seven-tenths point increase in the expense ratio. The underwriting loss in 1996, reflecting a combined ratio of 103.0%, was the result of the higher catastrophe losses, as well as a half percentage point increase in the expense ratio over 1995.

The expense ratio increased in both years as the Company raised spending on staff and costs associated with upgrading technology and facilities to accommodate anticipated growth in premium volume while making computer systems Year 2000 compliant. Because the Company issues three- and five- year policies, management believes that Year 2000 compliance issues have been initiated for most of the computer systems. Many systems are already Year 2000 compliant; most other programs will be compliant by year-end 1998, with the balance completed during 1999. Management believes this goal will be attained. CFC's largest risk lies with Year 2000 compliance by its independent agencies, which handle most of the customer billing and collections. In response to this concern, CFC is proactively contacting agents regarding this issue and will be monitoring each agency's actions closely. Adding to expenses in 1997 were higher profit-sharing commissions to many of the Company's independent insurance agents, due to the overall profitability of the business they wrote.

In 1997, catastrophe losses accounted for 1.8% of the combined ratio, more closely in line with the Company's historic results and in contrast to the unusually high 4.7% from ten large storms in 1996. In 1995, catastrophe losses accounted for 2.1% of the combined ratio. Due to the nature of catastrophic events, management is unable to predict accurately the frequency or potential cost of such occurrences in the future; however, the Company has continued not to market property and casualty insurance in California, not to write flood insurance, to review exposure to huge disasters and reduce coverage in certain coastal regions in an effort to control such catastrophe losses. For property catastrophes, the Company retains the first $25 million of losses and is reinsured to cover 95% of the losses from $25 million up to $200 million.

As discussed in the Notes to the Consolidated Financial Statements, the Company's insurance reserve liabilities are estimated by management based upon Company experience data. The Company consistently has established property and casualty insurance reserves, including adjustments of estimates, using information from internal analysis and review by external actuaries. Though uncertainty always exists as to the adequacy of established reserves, management believes this uncertainty is less than it otherwise would be, due to the stability of the Company's book of business. Such reserves are related to various lines of business and will be paid out over future periods.

Reserves for environmental claims have been reviewed and the Company believes that the reserves are adequate. Environmental exposures are minimal as a result of the types of risks the Company has insured in the past. Historically, most commercial accounts written post-date the coverages, which afford clean-up costs and Superfund responses.

LIFE AND ACCIDENT AND HEALTH--CFC's life insurance subsidiary had total net premium income for 1997 of $62.9 million, up from $56.4 million in 1996 and $50.9 million in 1995. Life insurance premiums were $54.7 million, $48.7 million and $43.6 million, respectively. The life insurance subsidiary contributed 10% of CFC's operating income in 1997, 1996 and 1995.

During 1997, the Company hired a new president for the life insurance subsidiary. Under his direction, the life insurance subsidiary is expanding worksite marketing activities, introducing a competitive new life insurance product series and researching opportunities to sell life insurance in states in which the Company does not have property and casualty agency representation. The initiatives, which were undertaken in the second half of 1997, had little impact on results for the year. Management believes, however, that opportunities exist to increase the life insurance subsidiary's contribution to total operating income through expanded life insurance sales.

INVESTMENT INCOME AND INVESTMENTS--Investment income rose 6.5% to $348.6 million in 1997 and increased 9.1% to $327.3 million in 1996. The slower growth rate in 1997 reflected the amount of fixed maturities investments called early and the generally lower interest rate environment. The increases were primarily the result of investing the cash flows from operating activities and dividend increases from equity securities in the investment portfolio. In 1997, 34 of the 62 common stocks in the Company's investment portfolio increased dividends during the year, adding more than $8.1 million to future annualized investment earnings.

The Company's primary investment strategy is to maintain liquidity to meet both immediate and long-range insurance obligations through the purchase and maintenance of medium-risk, fixed maturity and equity securities, while earning optimal returns on the equity portfolio through higher dividends and capital appreciation. The Company's investment decisions on an individual insurance company basis are influenced by insurance statutory requirements designed to protect policyholders from investment risk. Cash generated from insurance operations is invested almost entirely in corporate, municipal, public utility and other fixed maturity securities or equity securities. Such securities are evaluated prior to purchase based on yield and risk.

Investments in common stocks have emphasized securities with an annual dividend yield of at least 2%-3% and annual dividend increases. The Company's portfolio of equity investments had an average dividend yield to cost of 7.8% at December 31, 1997. Management's strategy in equity investments includes identifying approximately ten to twelve companies, for the core of the investment portfolio, in which the Company can accumulate 10%-20% of their common stock.

INTEREST AND INCOME TAXES--The Company's income tax expense was $95.2 million, $58.7 million and $67.8 million for 1997, 1996 and 1995, respectively, while the effective tax rate was 24.12%, 20.77% and 22.98%, for the same periods. The higher tax rate in 1997 primarily was due to the strong underwriting profit recorded for the year and higher capital gains. The lower rate in 1996 was partially the result of a higher percentage of net income earned from tax-exempt interest on state, municipal and political subdivision fixed maturities and dividends received on equity investments. The Company incurred no additional alternative minimum tax expenses for the three years.

CASH FLOW AND LIQUIDITY

(000,000 omitted)	1997	1996	1995
Net cash provided by operating activities	$427.0	$308.3	$389.5
Net cash used in investing activities	(282.5)	(224.8)	(443.9)
Net cash (used) provided in financing activities	(124.2)	(43.7)	26.2
Net increase (decrease) in cash	20.2	39.9	(28.2)
Cash at beginning of year	59.9	20.0	48.3
Cash at end of year	80.2	59.9	20.0
Supplemental			
Interest paid	21.8	20.9	16.0
Income taxes paid	95.5	65.0	67.0

CASH FLOW--Over the past three years, operating cash flows have been sufficient to meet operating needs and provide for financing needs and increased investment. Management expects operating cash flow will continue to be CFC's primary source of funds because no substantial changes are anticipated in the Company's mix of business nor are there plans to reduce protection by ceded reinsurance agreements with financially stable reinsurance companies. Further, the Company has no significant exposure to assumed reinsurance. Assumed reinsurance comprised no more than 3% of gross premiums in each of the last three years.

The change in net cash used in investing activities reflected a steady increase over the three years in calls of fixed maturity investments, offset in 1997 by increased purchases of fixed maturities and equity securities. Cash flows used in net purchases of fixed maturity and equity securities, respectively, amounted to $122.6 million and $134.1 million in 1997, $98.0 million and $95.4 million in 1996, and $309.7 million and $114.9 million in 1995.

Over the three-year period, the primary increases in net cash used for financing activities were for the payment of cash dividends and the purchase of treasury shares.

Notes Payable-- Increases in notes payable, primarily short-term debt used to enhance liquidity, were reduced from $91.9 million in 1995 to $41.1 million in 1996 to $18.5 million in 1997. Management used short-term debt for cash management and other purposes.

Dividends -- CFC has increased cash dividends to shareholders for 37 consecutive years and, periodically, the Board of Directors authorizes stock dividends or splits. In February 1997, the CFC Board voted to increase the regular quarterly dividend by four cents to an indicated annual rate of $1.64 per share. On February 7, 1998, the Board authorized a 12.2% increase, raising the regular quarterly dividend by five cents to an indicated annual rate of $1.84. At the same time, the Board announced its intention to declare a three-for-one split to be distributed on May 15, 1998, to shareholders of record as of April 24, 1998, contingent upon shareholder approval of a proposal to increase authorized shares to 200 million from 80 million.

Since 1987, the Company's Board of Directors has authorized four additional stock splits or stock dividends:

---

a 5% stock dividend in 1996; a 5% stock dividend in 1995; a three-for-one stock split in 1992; and, a 5% stock dividend in 1987. After the stock dividend in 1996, a shareholder who purchased one Cincinnati Insurance share before 1957 would own 649 CFC shares, if all shares from accrued stock dividends and splits were held. The Company's policy for the past ten years has been to reinvest approximately 70% of net income in future growth and to distribute remaining income as dividends. The ability of the Company to continue paying cash dividends is subject to such factors as the Board of Directors may deem relevant.

FINANCIAL CONDITION

ASSETS--Cash and marketable securities of $8.831 billion make up 93.0% of the Company's $9.493 billion assets; this compares with 90.3% in 1996 and 90.2% in 1995. The Company has only minor investments in real estate and mortgages, which are typically illiquid. At December 31, 1997, the Company's portfolio of fixed maturity securities had an average yield-to-cost of 8.4% and an average maturity of 12 years. For the insurance companies' purposes, strong emphasis has been placed on purchasing current income-producing securities and maintaining such securities as long as they continue to meet the Company's yield and risk criteria. Historically, municipal bonds have been attractive due to their tax-exempt feature. Essential service (e.g., schools, sewer, water, etc.) bonds issued by municipalities are prevalent in this area. Many of these bonds are not rated due to the small size of their offerings.

At year-end 1997 and 1996, investments totaling approximately $836 million and $729 million ($797 million and $706 million at cost) of the Company's $8.797 billion and $6.344 billion investment portfolio related to securities rated non-investment grade or not rated by Moody's Investors Service or Standard & Poor's. Such investments, which tend to have higher yields, historically have benefited the Company's results of operations. Further, many have been upgraded to investment grade while owned by CFC.

Because of alternative minimum tax matters, the Company uses a blend of tax-exempt and taxable fixed maturity securities. Tax exempt bonds comprise 10% of invested assets as of December 31, 1997, compared with 14% at year-end 1996 and 16% at year-end 1995. Additional information regarding the composition of investments, together with maturity data regarding investments in fixed maturities, is included in the Notes to Consolidated Financial Statements.

MARKET RISK--The Company could incur losses due to adverse changes in market rates and prices. The Company's primary market risk exposures are to changes in price for equity securities and changes in interest rates and credit ratings for fixed maturity securities. The Company could alter the existing investment portfolios or change the character of future investments to manage exposure to market risk. CFC, with the Board of Directors, administers and oversees investment risk through the Investment Committee, which provides executive oversight of investment activities. The Company has specific investment guidelines and policies that define the overall framework used daily by investment portfolio managers to limit the Company's exposure to market risk.

LIABILITIES AND SHAREHOLDERS' EQUITY--At December 31, 1997, long- and short-term debt were 4%, insurance reserves were 25% and total shareholders' equity was 50% of total assets, with remaining liabilities consisting of unearned premiums, deferred income taxes and other liabilities.

Debt--Total long- and short-term debt was less than 5% of total assets at year-end 1997 and 1996. At December 31, 1997 and 1996, long-term debt consisted of $58.4 million and $79.8 million, respectively, of convertible debentures. Short-term debt is used to provide working capital as discussed above.

Equity--Shareholders' equity has continued to grow as a percentage of total assets, reaching 50% for 1997 from 45% for 1996 and 44% for 1995, due to retained earnings and unrealized appreciation of investments. Statutory risk-based capital requirements became effective for life insurance companies in 1993 and for property casualty companies in 1994. The Company's capital has been well above required amounts in each year since those effective dates.

(000,000 omitted)	1997	1996	1995
Shareholders' equity excluding retained earnings and unrealized gains on investments	$ 469.5	$ 502.3	$ 342.0
Retained earnings	1,341.7	1,132.9	1,156.6
Unrealized gains on investments	2,905.8	1,527.7	1,159.4
Total shareholders' equity	$4,717.0	$3,162.9	$2,658.0

As a long-term investor, the Company has followed a buy-and-hold strategy for more than 38 years. A significant amount of unrealized appreciation on equity investments has been generated as a result of this policy. Unrealized appreciation on equity investments, before deferred income taxes, was $4.273 billion as of December 31, 1997 and constituted 49% of the total investment portfolio; 71% of the equities investment portfolio; and, after deferred income taxes, 59% of total shareholders' equity. Such unrealized appreciation, before deferred income taxes, amounted to $2.203 billion and $1.618 billion, at year-end 1996 and 1995, respectively.

On November 22, 1996, the Board of Directors authorized the repurchase of up to three million of the Company's outstanding shares as management deemed appropriate over an unspecified period of time. As of December 31, 1997, the Company had repurchased 934,041 shares, at an accumulated cost of $68.1 million.

Independent Auditors' Report and Financial Statements from pages 19 thru 30 (incorporated into Items 8 and 14).

INDEPENDENT AUDITORS' REPORT

[DELOITTE & TOUCHE LLP LOGO]

To the Shareholders and Board of Directors of Cincinnati Financial Corporation:

We have audited the consolidated balance sheets of Cincinnati Financial Corporation and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Cincinnati Financial Corporation and subsidiaries at December 31, 1997 and 1996 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP
Cincinnati, Ohio
February 4, 1998

CONSOLIDATED BALANCE SHEETS
(000's omitted)

Cincinnati Financial Corporation and Subsidiaries

	December 31, 1997	December 31, 1996
ASSETS		
Investments		
Fixed maturities, at fair value (cost: 1997--$2,571,549; 1996--$2,431,785)	$ 2,751,219	$ 2,561,805
Equity securities, at fair value (cost: 1997--$1,725,855; 1996--$1,537,189)	5,999,271	3,740,180
Other invested assets	46,560	42,419
Cash	80,168	59,933
Investment income receivable	74,520	70,446
Finance receivables	31,715	26,864
Premiums receivable	158,539	162,045
Reinsurance receivable	109,110	115,906
Prepaid reinsurance premiums	23,612	22,924
Deferred acquisition costs pertaining to unearned premiums and to life policies in force	135,313	127,588
Land, buildings and equipment for Company use (at cost, less accumulated depreciation: 1997--$97,248; 1996--$85,541)	52,559	50,071
Other assets	30,839	65,333
Total assets	$ 9,493,425	$ 7,045,514
LIABILITIES		
Insurance reserves		
Losses and loss expenses	$ 1,936,534	$ 1,881,167
Life policy reserves	482,447	440,281
Unearned premiums	443,054	425,750
Other liabilities	168,959	116,589
Deferred income taxes	1,406,478	676,893
Notes payable	280,558	262,098
5.5% convertible senior debentures due 2002	58,430	79,847
Total liabilities	4,776,460	3,882,625
SHAREHOLDERS' EQUITY		
Common stock, par value--$2 per share; authorized 80,000 shares; issued, 1997--56,464; 1996--55,829	112,927	111,657
Paid-in capital	429,137	401,862
Retained earnings	1,341,730	1,132,880
Unrealized gains on investments	2,905,756	1,527,707
	4,789,550	3,174,106
Less treasury shares at cost (1997--1,012 shares; 1996--192 shares)	(72,585)	(11,217)
Total shareholders' equity	4,716,965	3,162,889
Total liabilities and shareholders' equity	$ 9,493,425	$ 7,045,514

Accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF INCOME
(000's omitted except per share data)

Cincinnati Financial Corporation and Subsidiaries

	Years Ended December 31, 1997	1996	1995
REVENUE			
Premium income			
Property and casualty	$ 1,453,526	$ 1,366,544	$ 1,263,257
Life	54,742	48,694	43,551
Accident and health	8,110	7,659	7,318
Net premiums earned	1,516,378	1,422,897	1,314,126
Investment income	348,597	327,307	300,015
Realized gains on investments	69,230	47,946	30,781
Other income	8,179	10,599	10,729
Total revenues	1,942,384	1,808,749	1,655,651
BENEFITS AND EXPENSES			
Insurance losses and policyholder benefits	1,054,924	1,087,105	964,216
Commissions	282,690	259,291	244,862
Other operating expenses	139,030	117,034	97,909
Taxes, licenses and fees	48,573	43,392	38,887
Increase in deferred acquisition costs pertaining to unearned premiums and to life policies in force	(7,725)	(7,999)	(10,086)
Interest expense	20,821	20,102	17,231
Other expenses	9,512	7,403	7,444
Total benefits and expenses	1,547,825	1,526,328	1,360,463
INCOME BEFORE INCOME TAXES	394,559	282,421	295,188
PROVISION FOR INCOME TAXES			
Current	107,046	67,827	76,012
Deferred	(11,862)	(9,166)	(8,174)
Total provision for income taxes	95,184	58,661	67,838
NET INCOME	$ 299,375	$ 223,760	$ 227,350
PER COMMON SHARE			
Net Income	$ 5.43	$ 4.01	$ 4.08
Net Income (diluted)	$ 5.31	$ 3.92	$ 3.99
Cash dividends (declared)	$ 1.64	$ 1.46	$ 1.28

Accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(000's omitted)

Cincinnati Financial Corporation and Subsidiaries

	COMMON STOCK	TREASURY STOCK	PAID-IN CAPITAL	RETAINED EARNINGS	UNREALIZED GAINS ON INVESTMENTS
Balance, December 31, 1994	$ 100,872	$ (914)	$ 105,792	$ 1,133,105	$ 601,192
Net income				227,350	
Change in unrealized gains on investments					858,763
Income taxes on unrealized gains					(300,567)
Dividends declared				(71,262)	
5% stock dividend at market	5,043		127,338	(132,566)*	
Purchase/issuance of treasury shares		(470)	182		
Stock options exercised	253		3,860		
Balance, December 31, 1995	106,168	(1,384)	237,172	1,156,627	1,159,388
Net income				223,760	
Change in unrealized gains on investments					566,644
Income taxes on unrealized gains					(198,325)
Dividends declared				(81,498)	
5% stock dividend at market	5,304		160,453	(166,009)*	
Purchase/issuance of treasury shares		(9,833)	870		
Stock options exercised	178		3,221		
Conversion of debentures	7		146		
Balance, December 31, 1996	111,657	(11,217)	401,862	1,132,880	1,527,707
Net income				299,375	
Change in unrealized gains on investments					2,120,075
Income taxes on unrealized gains					(742,026)
Dividends declared				(90,525)	
Purchase/issuance of treasury shares		(61,368)	654		
Stock options exercised	310		6,164		
Conversion of debentures	960		20,457		
Balance, December 31, 1997	$ 112,927	$ (72,585)	$ 429,137	$ 1,341,730	$ 2,905,756

*Includes $183,718 and $251,851 for fractional shares paid in April 1995 and 1996, respectively.

Accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(000's omitted)

Cincinnati Financial Corporation and Subsidiaries

	Years Ended December 31,		
	1997	1996	1995
Cash flows from operating activities:			
Net income	$ 299,375	$ 223,760	$ 227,350
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization	11,327	7,100	9,641
Increase in investment income receivable	(4,074)	(5,401)	(8,976)
Decrease (increase) in premiums receivable	3,506	(928)	(19,145)
Decrease (increase) in reinsurance receivable	6,796	(12,223)	(36,558)
(Increase) decrease in prepaid reinsurance premiums	(688)	(1,089)	2,231
Increase in deferred acquisition costs	(7,725)	(7,999)	(10,086)
Increase in accounts receivable	(7,230)	(2,080)	(3,900)
Decrease (increase) in other assets	42,084	(31,538)	(6,773)
Increase in loss and loss expense reserves	55,367	137,633	191,237
Increase in life policy reserves	42,166	37,017	33,169
Increase in unearned premiums	17,304	17,126	26,505
Increase in other liabilities	49,672	6,984	9,522
Decrease in deferred income taxes	(11,862)	(9,272)	(8,174)
Realized gains on investments	(69,230)	(47,946)	(30,781)
Other	169	(2,805)	14,245
Net cash provided by operating activities	426,957	308,339	389,507
Cash flows from investing activities:			
Sale of fixed maturities investments	138,741	219,131	118,986
Call or maturity of fixed maturities investments	376,496	247,205	187,320
Sale of equity securities investments	266,296	257,981	255,542
Collection of finance receivables	8,588	10,449	8,222
Purchase of fixed maturities investments	(637,858)	(564,317)	(616,001)
Purchase of equity securities investments	(400,405)	(353,340)	(370,445)
Investment in land, buildings and equipment	(16,485)	(17,798)	(10,538)
Investment in finance receivables	(13,439)	(17,032)	(12,335)
Increase in other invested assets	(4,471)	(7,030)	(4,666)
Net cash used in investing activities	(282,537)	(224,751)	(443,915)
Cash flows from financing activities:			
Proceeds from stock options exercised	6,474	3,399	4,113
Purchase/issuance of treasury shares	(60,714)	(8,963)	(287)
Increase in notes payable	18,460	41,093	91,889
Payment of cash dividends to shareholders	(88,405)	(79,203)	(69,542)
Net cash (used) provided in financing activities	(124,185)	(43,674)	26,173
Net increase (decrease) in cash	20,235	39,914	(28,235)
Cash at beginning of year	59,933	20,019	48,254
Cash at end of year	$ 80,168	$ 59,933	$ 20,019
Supplemental disclosures of cash flow information:			
Interest paid	$ 21,823	$ 20,922	$ 16,001
Income taxes paid	$ 95,488	$ 65,000	$ 67,000

Accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cincinnati Financial Corporation and Subsidiaries

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS--Cincinnati Financial Corporation (the "Company") sells insurance primarily in the Midwest and Southeast through a network of local independent agents. Insurance products sold include fire, automobile, casualty, bonds and all related forms of property and casualty insurance as well as life insurance and accident and health insurance.

BASIS OF PRESENTATION--The consolidated financial statements include the accounts of the Company and its subsidiaries, each of which is wholly owned, and are presented in conformity with generally accepted accounting principles. Generally accepted accounting principles differ in certain respects from statutory insurance accounting practices prescribed or permitted for insurance companies by regulatory authorities. All significant inter-company balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The accompanying consolidated financial statements include estimates for such items as insurance reserves and income taxes. Actual results could differ from those estimates.

PROPERTY AND CASUALTY INSURANCE--
Expenses incurred in the issuance of policies are deferred and amortized over the terms of the policies. Anticipated investment income is not considered in determining if a premium deficiency related to insurance contracts exists. Policy premiums are included in income on a pro rata basis over the terms of the policies. Losses and loss expense reserves are based on claims reported prior to the end of the year and estimates of unreported claims.

LIFE INSURANCE--Policy acquisition costs are deferred and amortized over the premium paying period of the policies. Life policy reserves are based on anticipated rates of mortality derived primarily from industry experience data, anticipated withdrawal rates based principally on Company experience and estimated future interest earnings using initial interest rates ranging from 3% to 10 1/2%. Interest rates on approximately $324,000,000 and $296,000,000 of such reserves at December 31, 1997 and 1996, respectively, are periodically adjusted based upon market conditions.

Payments received for investment, limited pay and universal life-type contracts are recognized as income only to the extent of the current cost of insurance and policy administration, with the remainder recognized as liabilities and included in life policies reserves.

ACCIDENT AND HEALTH INSURANCE--Expenses incurred in the issuance of policies are deferred and amortized over a five-year period. Policy premium income, unearned premiums and reserves for unpaid losses are accounted for in substantially the same manner as property and casualty insurance discussed above.

REINSURANCE--In the normal course of business, the Company seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance companies, reinsurers and involuntary state pools. Reinsurance contracts do not relieve the Company from any obligation to policyholders. Although the Company historically has not experienced uncollectible reinsurance, failure of reinsurers to honor their obligations could result in losses to the Company. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

The Company also assumes some reinsurance from other insurance companies, reinsurers and involuntary state pools. Such assumed reinsurance activity is recorded principally on the basis of reports received from the ceding companies.

INVESTMENTS--Fixed maturities (bonds and notes) and equity securities (common and preferred stocks) are classified as available for sale and are stated at fair values.

Unrealized gains and losses on investments, net of income taxes associated therewith, are included in shareholders' equity. Realized gains and losses on sales of investments are recognized in net income on a specific identification basis.

INCOME TAXES--Deferred tax liabilities and assets are computed using the tax rates in effect for the time when temporary differences in book and taxable income are estimated to reverse. Deferred income taxes are recognized for numerous temporary differences between the Company's taxable income and book-basis income and other changes in shareholders' equity. Such temporary differences relate primarily to unrealized gains on investments and differences in the recognition of deferred acquisition costs and insurance reserves. Deferred taxes associated with unrealized appreciation (except the amounts related to the effect of income tax rate changes) are charged to shareholders' equity, and deferred taxes associated with other differences are charged to income.

EARNINGS PER SHARE--Net income per common share is based on the weighted average number of common shares outstanding during each of the respective years. The calculation of net income per common share (diluted) assumes the conversion of convertible senior debentures and the exercise of stock options.

FAIR VALUE DISCLOSURES--Fair values for investments in fixed maturity securities (including redeemable preferred stock) are based on quoted market prices, where available.

For such securities not actively traded, fair values are estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investments. Fair values for equity securities are based on quoted market prices.

The fair values for liabilities under investment-type insurance contracts (annuities) are estimated using discounted cash flow calculations, based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. Fair values for short-term notes payable are estimated using interest rates currently available to the Company. Fair values for long-term convertible debentures are based on the quoted market prices for such debentures.

OTHER--Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings Per Share" was adopted in 1997, and all prior period earnings per share data has been restated.

SFAS No. 130 "Reporting Comprehensive Income" will be effective for the Company in 1998. This statement requires financial statement reporting of comprehensive income, which includes net income and other items, such as the change in unrealized gains on investments, net of income taxes.

SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information " will be effective for the Company in 1998 and will require additional disclosures for the Company's operating segments.

RECLASSIFICATIONS--Certain prior year amounts have been reclassified to conform with 1997 classifications.

2. INVESTMENTS
(000'S omitted)

	Year Ended December 31, 1997	1996	1995
Investment income summarized by investment category:			
Interest on fixed maturities	$ 218,065	$ 208,907	$ 186,071
Dividends on equity securities	128,403	118,932	111,458
Other investment income	6,865	5,744	6,480
Total	353,333	333,583	304,009
Less investment expenses	4,736	6,276	3,994
Net investment income	$ 348,597	$ 327,307	$ 300,015
Realized gains on investments summarized by investment category:			
Fixed maturities:			
Gross realized gains	$ 22,075	$ 20,823	$ 14,466
Gross realized losses	(6,732)	(10,207)	(7,263)
Equity securities:			
Gross realized gains	62,337	47,310	38,705
Gross realized losses	(8,450)	(9,980)	(15,127)
Realized gains on investments	$ 69,230	$ 47,946	$ 30,781
Change in unrealized gains on investments summarized by investment category:			
Fixed maturities	$ 49,650	$ (18,257)	$ 181,475
Equity securities	2,070,425	584,901	677,288
Change in unrealized gains on investments	$ 2,120,075	$ 566,644	$ 858,763

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

Cincinnati Financial Corporation and Subsidiaries

Analysis of cost, gross unrealized gains, gross unrealized losses and fair value as of December 31, 1997 and 1996 (000's omitted):

1997	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Fixed maturities:				
States, municipalities and political subdivisions....	$ 843,064	$ 47,811	$ 2,645	$ 888,230
Convertibles and bonds with warrants attached........	103,124	7,973	1,705	109,392
Public utilities....................................	74,871	4,982	18	79,835
United States government and government agencies and authorities..........................	9,278	258	22	9,514
All other corporate bonds............................	1,541,212	125,174	2,138	1,664,248
Total..	$ 2,571,549	$ 186,198	$ 6,528	$ 2,751,219
Equity securities......................................	$ 1,725,855	$ 4,277,294	$ 3,878	$ 5,999,271
1996				
Fixed maturities:				
States, municipalities and political subdivisions....	$ 838,008	$ 38,457	$ 1,092	$ 875,373
Convertibles and bonds with warrants attached........	125,629	7,626	1,630	131,625
Public utilities....................................	85,573	3,697	349	88,921
United States government and government agencies and authorities..........................	8,790	156	143	8,803
All other corporate bonds............................	1,373,785	88,713	5,415	1,457,083
Total..	$ 2,431,785	$ 138,649	$ 8,629	$ 2,561,805
Equity securities......................................	$ 1,537,189	$ 2,207,805	$ 4,814	$ 3,740,180

Contractual maturity dates for investments in fixed maturity securities as of December 31, 1997 (000's omitted):

	COST	FAIR VALUE	% OF FAIR VALUE
Maturity dates occurring:			
One year or less..................................	$ 58,119	$ 58,306	2.1
After one year through five years.................	337,683	360,838	13.1
After five years through ten years................	905,388	958,526	34.9
After ten years...................................	1,270,359	1,373,549	49.9
Total..	$ 2,571,549	$ 2,751,219	100.0

Actual maturities may differ from contractual maturities when there exists a right to call or prepay obligations with or without call or prepayment penalties.

At December 31, 1997, investments with a cost of $51,585,000 were on deposit with various states in compliance with certain regulatory requirements.

Investments in companies that exceed 10% of the Company's shareholders' equity include the following as of December 31 (000's omitted):

	1997		1996	
	COST	FAIR VALUE	Cost	Fair Value
Fifth Third Bancorp common stock......................	$ 255,089	$ 2,612,607	$ 238,087	$ 1,331,625
Alltel Corporation common stock.......................	$ 95,810	$ 522,527	$ 95,720	$ 399,252

3. DEFERRED ACQUISITION COSTS

Acquisition costs incurred and capitalized during 1997, 1996 and 1995 amounted to $322,117,000, $303,111,000 and $282,399,000, respectively. Amortization of deferred acquisition costs was $314,392,000, $295,112,000 and $272,313,000 for 1997, 1996 and 1995, respectively.

4. LOSSES AND LOSS EXPENSES

Activity in the reserve for losses and loss expenses is summarized as follows (000's omitted):

	Years Ended December 31,		
	1997	1996	1995
Balance at January 1	$ 1,824,296	$ 1,690,461	$ 1,510,150
Less reinsurance receivable	121,881	109,719	78,125
Net balance at January 1	1,702,415	1,580,742	1,432,025
Incurred related to:			
Current year	1,115,140	1,183,251	1,040,541
Prior years	(119,654)	(151,996)	(126,509)
Total incurred	995,486	1,031,255	914,032
Paid related to:			
Current year	467,843	514,186	396,856
Prior years	453,410	395,396	368,459
Total paid	921,253	909,582	765,315
Net balance at December 31	1,776,648	1,702,415	1,580,742
Plus reinsurance receivable	112,235	121,881	109,719
Balance at December 31	$ 1,888,883	$ 1,824,296	$ 1,690,461

As a result of changes in estimates of insured events in prior years, the provision for losses and loss expenses decreased by $119,654,000, $151,996,000 and $126,509,000 in 1997, 1996 and 1995. These decreases are due in part to the effects of settling reported (case) and unreported (IBNR) reserves established in prior years for less than expected.

The reserve for losses and loss expenses in the accompanying balance sheets also includes $47,651,000 and $56,871,000 at December 31, 1997 and 1996, respectively, for certain life/health losses and loss checks payable.

5. LIFE POLICY RESERVES

Life policy reserves have been calculated using the account value basis for universal life and annuity policies and primarily the Basic Table (select) mortality basis for ordinary/traditional, industrial and other policies. Following is a summary of such reserves (000's omitted):

	1997	1996
Ordinary/traditional life......	$ 137,734	$ 123,473
Universal life.................	202,696	183,967
Annuities......................	121,284	112,496
Industrial.....................	16,470	16,881
Other..........................	4,263	3,464
Total........................	$ 482,447	$ 440,281

At December 31, 1997 and 1996, the fair value associated with the annuities shown above approximated $123,000,000 and $114,000,000, respectively.

6. NOTES PAYABLE

The Company and subsidiaries had no compensating balance requirement on debt for either 1997 or 1996. Notes payable in the accompanying balance sheets are short term, and interest rates charged on such borrowings ranged from 5.14% to 8.50% during 1997 which resulted in an average interest rate of 6.14%. At December 31, 1997 and 1996, the fair value of the notes payable approximated the carrying value and the weighted average interest rate approximated 6.44% and 6.12%, respectively.

7. CONVERTIBLE SENIOR DEBENTURES

The convertible senior debentures are convertible by the debenture holders into shares of common stock at a conversion price of $44.63 (22.41 shares for each $1,000 principal). At December 31, 1997 and 1996, the fair value of the debentures approximated $175,000,000 and $115,000,000, respectively.

8. REINSURANCE

Property and casualty premium income in the accompanying statements of income includes approximately $41,694,000, $41,139,000 and $36,956,000 of earned premiums on assumed business and is net of approximately $94,397,000, $91,396,000 and $83,805,000 of earned premiums on ceded business for 1997, 1996 and 1995, respectively.

Written premiums for 1997, 1996 and 1995 consist of the following (000's omitted):

	1997	1996	1995
Direct business.....	$1,523,915	$1,433,340	$1,338,205
Assumed business....	42,773	42,671	39,221
Ceded business......	(95,085)	(92,486)	(81,574)
Net...............	$1,471,603	$1,383,525	$1,295,852

Insurance losses and policyholder benefits in the accompanying statements of income are net of approximately $34,744,000, $44,770,000 and $40,316,000 of reinsurance recoveries for 1997, 1996 and 1995, respectively.

9. FEDERAL INCOME TAXES

Significant components of the Company's net deferred tax liability as of December 31, 1997 and 1996 are as follows (000's omitted):

	1997	1996
Deferred tax liabilities:		
Unrealized gains on investments......	$1,558,580	$816,554
Deferred acquisition costs...........	42,936	38,966
Other................................	10,514	8,447
Total................................	1,612,030	863,967
Deferred tax assets:		
Losses and loss expense reserves.....	127,994	133,692
Unearned premiums....................	29,293	28,109
Life policy reserves.................	19,460	15,962
Other................................	28,805	9,311
Total................................	205,552	187,074
Net deferred tax liability............	$1,406,478	$676,893

The provision for federal income taxes is based upon a consolidated income tax return for the Company and subsidiaries.

The differences between the statutory federal rates and the Company's effective federal income tax rates are as follows:

	1997 PERCENT	1996 Percent	1995 Percent
Tax at statutory rate	35.00	35.00	35.00
Increase (decrease) resulting from:			
Tax-exempt municipal bonds	(4.44)	(6.41)	(6.10)
Dividend exclusion	(6.54)	(8.50)	(8.04)
Other	.10	.68	2.12
Effective rate	24.12	20.77	22.98

No provision has been made (at December 31, 1997, 1996 and 1995) for federal income taxes on approximately $14,000,000 of the life insurance subsidiary's retained earnings, since such taxes will become payable only to the extent that such retained earnings are distributed as dividends or exceed limitations prescribed by tax laws. The Company does not contemplate any such dividend.

10. NET INCOME PER COMMON SHARE
(000's omitted except per share data)

1997	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income per common share	$299,375	55,179	$5.43
Effect of dilutive securities:			
5.5% convertible senior debentures	2,712	1,309	
Stock options		443	
Net income per common share (diluted)	$ 302,087	56,931	$5.31
1996			
Net income per common share	$ 223,760	55,736	$4.01
Effect of dilutive securities:			
5.5% convertible senior debentures	2,859	1,789	
Stock options		256	
Net income per common share (diluted)	$ 226,619	57,781	$3.92
1995			
Net income per common share	$227,350	55,668	$4.08
Effect of dilutive securities:			
5.5% convertible senior debentures	2,860	1,793	
Stock options		221	
Net income per common share (diluted)	$ 230,210	57,682	$3.99

Options to purchase 25,000, 486,000 and 124,000 shares of common stock were outstanding during 1997, 1996 and 1995, respectively, but were not included in the computation of net income per common share (diluted) because the options' exercise prices were greater than the average market price of the common shares.

11. PENSION PLAN

The Company and subsidiaries have a defined benefit pension plan covering substantially all employees. Benefits are based on years of credited service and compensation level. Contributions to the plan are based on the frozen entry age actuarial cost method. Pension expense is composed of several components that are determined using the projected unit credit actuarial cost method and based on certain actuarial assumptions. The following table sets forth the plan's funded status and the amounts recognized in the Company's balance sheets as of December 31, 1997 and 1996 (000's omitted):

	1997	1996

	1997	1996
Actuarial present value of accumulated benefit obligation (vested benefits: 1997--$34,094; 1996--$29,704)	$ 35,202	$ 30,740
Plan assets at fair value	$ 133,470	$ 92,740
Actuarial present value of projected benefit obligation	61,457	54,208
Plan assets in excess of projected benefit obligation	72,013	38,532
Unrecognized net transition asset at January 1, 1987 ($7,774 amortized over 21 years)	(3,702)	(4,072)
Unrecognized prior service costs	(397)	(437)
Unrecognized net gain	(68,558)	(34,730)
Accrued pension cost	$ (644)	$ (707)

Net pension expense for 1997, 1996 and 1995 includes the following components (000's omitted):

	1997	1996	1995
Service cost for current year	$ 3,449	$ 3,306	$ 2,555
Interest cost	3,938	3,572	3,014
Actual return on plan assets	(43,752)	(15,057)	(20,717)
Net amortization and deferral	36,302	8,615	14,720
Net pension expense	$ (63)	$ 436	$ (428)

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation as of December 31 was 6.75%, 7% and 6.75% in 1997, 1996 and 1995, respectively. The rates of increase in future compensation levels were 5% to 7% for each year. The expected long-term rate of return on retirement plan assets, consisting principally of equity securities (including those of the Company), was 8% as of December 31, 1997, 1996 and 1995.

12. SHAREHOLDERS' EQUITY AND RESTRICTION

The insurance subsidiaries paid cash dividends to the Company of approximately $95,500,000, $77,027,000 and $143,773,000 in 1997, 1996 and 1995, respectively. Dividends paid to the Company by insurance subsidiaries are restricted by regulatory requirements of the insurance subsidiaries' domiciliary state. Generally, the maximum dividend that may be paid without prior regulatory approval is limited to the greater of 10% of statutory surplus or 100% of statutory net income for the prior calendar year, up to the amount of statutory unassigned surplus as of the end of the prior calendar year. Dividends exceeding these limitations can be paid only with approval of the insurance department of the subsidiaries' domiciliary state. During 1998, the total dividends that can be paid to the Company without regulatory approval are approximately $246,941,000.

314,178 shares of common stock were available for future stock option grants, as of December 31, 1997.

On November 22, 1996, the Board of Directors of the Company authorized the repurchase of up to three million of the Company's outstanding shares as management deemed appropriate, over an unspecified period of time. As of December 31, 1997, the Company had repurchased 934,041 shares.

13. STATUTORY ACCOUNTING INFORMATION

Net income and shareholders' equity, as determined in accordance with statutory accounting practices for the Company's insurance subsidiaries, are as follows (000's omitted):

	Years Ended December 31,		
	1997	1996	1995
Net income:			
Property/casualty insurance subsidiaries............	$ 212,808	$136,041	$ 152,003
Life/health insurance subsidiary..............	$ 6,261	$ (1,812)	$ 7,096

	December 31,	
	1997	1996
Shareholders' equity:		
Property/casualty insurance subsidiaries	$ 2,148,746	$ 1,393,954
Life/health insurance subsidiary.	$ 320,198	$ 214,130

14. TRANSACTION WITH AFFILIATED PARTIES

The Company paid certain officers and directors, or insurance agencies of which they are shareholders, commissions of approximately $11,780,000, $10,874,000 and $10,034,000 on premium volume of approximately $78,727,000, $70,418,000 and $60,720,000 for 1997, 1996 and 1995, respectively.

15. 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. The Company applies APB Opinion 25 and related Interpretations in accounting for these plans. Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No.123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		1997	1996	1995
Net income	As reported	$ 299,375	$ 223,760	$ 227,350
	Pro forma	296,078	221,665	227,106
Net income per common share	As reported	$ 5.43	$ 4.01	$ 4.08
	Pro forma	5.41	3.98	4.08
Net income per common share	As reported	$ 5.31	$ 3.92	$ 3.99
(diluted)	Pro forma	5.25	3.89	3.99

In determining the pro forma amounts above, the fair value of each option was estimated on the date of grant using the Binomial option-pricing model with the following weighted-average assumptions used for grants in 1997, 1996 and 1995, respectively: dividend yield of 1.22%, 2.26% and 2.26%; expected volatility of 19.67%, 20.5% and 21.3%; risk-free interest rates of 5.89%, 6.56% and 5.73%; and expected lives of ten years for all years. Compensation cost comprehended in the above pro forma disclosures is not indicative of future amounts (when the SFAS No.123 methodology will be applied to additional outstanding nonvested awards).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

Cincinnati Financial Corporation and Subsidiaries

(000's omitted except per share data)

A summary of options information for the years ended December 31, 1997, 1996 and 1995 follows:

	1997		1996		1995	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	1,258,164	$ 47.93	895,249	$ 40.24	892,131	$ 36.19
Granted	218,479	62.91	512,603	60.76	155,713	53.17
Exercised	(155,143)	33.93	(90,926)	37.38	(136,291)	29.18
Forfeited/revoked	(10,743)	53.89	(58,762)	58.68	(16,304)	39.91
Outstanding at end of year	1,310,757	53.64	1,258,164	47.93	895,249	40.24
Options exercisable at end of year	702,930		652,010		641,655	
Weighted-average fair value of options granted during the year		$ 22.97		$ 20.55		$ 15.80

Options outstanding at December 31, 1997 consisted of the following:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED-AVERAGE EXERCISE PRICE
$ 12 TO 15	34,056	.25 YRS	$ 13.77	34,056	$ 13.77
22 TO 31	48,993	2.50 YRS	25.22	48,993	25.22
33 TO 44	237,763	4.15 YRS	37.04	237,763	37.04
46 TO 57	297,270	6.57 YRS	50.45	229,571	50.24
59 TO 64	482,175	8.31 YRS	61.13	152,547	61.05
67 TO 69	166,500	9.28 YRS	68.06	0	N/A
79 TO 100	44,000	9.75 YRS	90.79	0	N/A
	1,310,757	6.91 YRS	53.64	702,930	44.61

"Selected Quarterly Financial Data" from the inside back cover (incorporated into Item 8).

SELECTED QUARTERLY FINANCIAL DATA

(000's omitted except per share data)
Financial data for each quarter in the two years ended December 31,

Quarter	1997 1ST	2ND	3RD	4TH	FULL YEAR
Revenues	$ 483,737	$ 484,203	$ 492,038	$ 482,406	$ 1,942,384
Income Before Income Taxes	98,278	100,341	101,964	93,975	394,559
Net Income	74,047	75,830	77,000	72,498	299,375
Net Income Per Common Share	1.33	1.37	1.42	1.32	5.43
Net Income Per Common Share (Diluted)	1.30	1.33	1.37	1.28	5.31

Quarter	1996 1st	2nd	3rd	4th	Full Year
Revenues	$ 451,798	$ 442,042	$ 455,681	$ 459,227	$ 1,808,749
Income Before Income Taxes	76,449	67,022	58,658	80,291	282,421
Net Income	59,448	54,396	46,949	62,966	223,760
Net Income Per Common Share	1.07	.98	.84	1.13	4.01
Net Income Per Common Share (Diluted)	1.04	.95	.82	1.10	3.92

Note: The sum of the quarterly reported amounts may not equal the full year as each is computed independently.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 2-71575 (on Form S-8), No. 33-34127 (on Form S-8), No. 333-24815 (on Form S-8), No. 333-24817 (on Form S-8), and No. 33-48970 (on Form S-4) of Cincinnati Financial Corporation of our reports dated February 4, 1998, appearing in and incorporated by reference in the Annual Report on Form 10-K of Cincinnati Financial Corporation for the year ended December 31, 1997.

DELOITTE & TOUCHE LLP

/S/ Deloitte & Touche LLP

Cincinnati, Ohio
March 23, 1998

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.

1,000

YEAR
DEC-31-1997
JAN-01-1997
DEC-31-1997
2,751,219
0
0
5,999,271
11,565
4,698
8,797,050
80,168
2,432
135,313
9,493,425
2,376,951
443,054
38,724
15,204
338,988
0
0
112,927
4,604,038
9,493,425
1,516,378
348,597
69,230
8,179
1,054,924
314,392
178,509
394,559
95,184
299,375
0
0
0
299,375
5.43
5.31
1,702,415
1,115,140
(119,654)
467,843
453,410
1,776,648
(119,654)

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 $3,306 which is classified as Other Policyholder Funds
Equals the sum of Notes Payable and the 5 1/2% Convertible Senior Debentures
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