

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

-----  
FORM 10-Q

X            Quarterly Report Under Section 13 or 15 (d) of the Securities  
----- Exchange Act of 1934

For the Quarterly Period Ended March 31, 1998

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

-----  
Commission File Number 0-4604

CINCINNATI FINANCIAL CORPORATION  
-----

(Exact name of registrant as specified in its charter)

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

6200 South Gilmore Road  
Fairfield, Ohio 45014-5141

(Address of principal executive offices)

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

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

YES    X    .                      NO    .  
      ---                      ---

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

\$2.00 Par Common--166,753,020 shares outstanding at March 31, 1998

(Shares outstanding reflect the effects of a 3-for-1 stock split effective to shareholders of record on April 24, 1998.)

\$56,723,000 of 5.5% Convertible Senior Debentures Due 2002

PART I  
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## ITEM 1. FINANCIAL STATEMENTS

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(000's omitted)

	(Unaudited) March 31, 1998	December 31, 1997
	-----	-----
ASSETS		
-----		
Investments		
Fixed Maturities (Cost: 1998--\$2,614,127; 1997--\$2,571,549) .....	\$ 2,792,065	\$ 2,751,219
Equity Securities (Cost: 1998--\$1,812,209; 1997--\$1,725,855) .....	6,523,354	5,999,271
Other Invested Assets .....	47,852	46,560
Cash .....	75,895	80,168
Investment Income Receivable .....	74,872	74,520
Finance Receivables .....	32,217	31,715
Premiums Receivable .....	160,526	158,539
Reinsurance Receivable .....	110,008	109,110
Prepaid Reinsurance Premiums .....	23,980	23,612
Deferred Acquisition Costs Pertaining to Unearned Premiums and to Life Policies in Force .....	135,304	135,313
Land, Buildings and Equipment for Company Use (at Cost Less Accumulated Depreciation) .....	55,074	52,559
Other Assets .....	29,576	30,839
	-----	-----
Total Assets .....	\$ 10,060,723	\$ 9,493,425
	=====	=====
LIABILITIES		
-----		
Insurance Reserves:		
Losses and Loss Expenses .....	\$ 1,968,091	\$ 1,936,534
Life Policy Reserves .....	494,261	482,447
Unearned Premiums .....	440,697	443,054
Notes Payable .....	281,100	280,558
5.5% Convertible Senior Debentures Due 2002 .....	56,723	58,430
Federal Income Taxes		
Current .....	51,970	24,335
Deferred .....	1,559,304	1,406,478
Other Liabilities .....	143,162	144,624
	-----	-----
Total Liabilities .....	4,995,308	4,776,460
	-----	-----
SHAREHOLDERS' EQUITY		
-----		
Common Stock, \$2 per Share; Authorized 200,000 Shares; Issued 1998--169,787; 1997--169,391 Shares; Outstanding 1998--166,753; 1997--166,356 Shares .....	339,574	338,782
Paid-In Capital .....	208,916	203,282
Retained Earnings .....	1,400,341	1,341,730
Accumulated Other Comprehensive Income .....	3,189,153	2,905,756
	-----	-----
	5,137,984	4,789,550
Less Treasury Shares at Cost (1998--3,034 Shares; 1997--3,035 Shares) .....	(72,569)	(72,585)
	-----	-----
Total Shareholders' Equity .....	5,065,415	4,716,965
	-----	-----
Total Liabilities and Shareholders' Equity .....	\$ 10,060,723	\$ 9,493,425
	=====	=====

Common Stock, Paid-In-Capital and Share figures reflect the effects of a 3-for-1 stock split effective to shareholders of record on April 24, 1998.

Accompanying notes are an integral part of these financial statements.

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

(000's omitted except per share data)

Revenues:	Three Months Ended March 31, 1998	1997
	-----	-----
Premiums Earned:		
Property and Casualty .....	\$ 378,400	\$ 357,500
Life .....	14,128	13,533
Accident and Health .....	2,064	1,950
	-----	-----
Net Premiums Earned .....	394,592	372,983
Investment Income, Less Expenses .....	90,300	84,231
Realized Gain on Investments .....	25,642	24,303
Other Income .....	2,020	2,220
	-----	-----
Total Revenues .....	512,554	483,737
	-----	-----
Benefits & Expenses:		
Insurance Losses and Policyholder Benefits .....	270,131	266,498
Commissions .....	70,211	67,443
Other Operating Expenses .....	36,121	33,135
Taxes, Licenses & Fees .....	12,821	11,982
Increase in Deferred Acquisition Costs Pertaining to Unearned Premiums and to Life Policies in Force .....	9	(174)
Interest Expense .....	5,338	5,037
Other Expenses .....	1,590	1,538
	-----	-----
Total Benefits & Expenses .....	396,221	385,459
	-----	-----
Income Before Income Taxes .....	116,333	98,278
	-----	-----
Provision for Income Taxes:		
Current .....	31,927	20,236
Deferred .....	228	3,995
	-----	-----
Total Provision for Income Taxes .....	32,155	24,231
	-----	-----
Net Income .....	\$ 84,178	\$ 74,047
	=====	=====
Average Shares Outstanding .....	166,601	166,437
	=====	=====
Average Shares Outstanding (diluted) .....	172,538	172,817
	=====	=====
Per Common Share:		
Net Income .....	\$ .51	\$ .44
	=====	=====
Net Income (diluted) .....	\$ .49	\$ .43
	=====	=====
Cash Dividends Declared .....	\$ .1533	\$ .1367
	=====	=====

Per share amounts reflect the effects of a 3-for-1 stock split effective to shareholders of record on April 24, 1998.

Accompanying notes are an integral part of these financial statements.

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

NOTE I - ACCOUNTING POLICIES

The consolidated financial statements include the accounts of the Company and all of its subsidiaries, each of which is wholly owned, and are presented in conformity with generally accepted accounting principles. All significant inter-company investments and transactions have been eliminated in consolidation. The December 31, 1997 consolidated balance sheet amounts are derived from the audited financial statements but do not include all disclosures required by generally accepted accounting principles.

INVESTMENTS--Fixed maturities and equity securities have been classified as available for sale and are carried at fair values at March 31, 1998 and December 31, 1997.

UNREALIZED GAINS AND LOSSES (000's omitted)--The increases (decreases) in unrealized gains for fixed maturities and equity securities (net of income tax effect) for the three-month periods ended March 31 are as follows:

	Fixed Maturities -----	Equity Securities -----	Total -----
1998 ----	\$ (1,126)	\$ 284,523	\$ 283,397
1997 ----	\$ (16,883)	\$ 258,254	\$ 241,371

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

REINSURANCE (000's omitted)--Premiums earned are net of \$24,054 and \$24,205 of premium on ceded business for March 31, 1998 and 1997, respectively. Insurance losses and policyholder benefits in the accompanying consolidated statements of income are net of \$11,954 and \$13,010 reinsurance recoveries for March 31, 1998 and 1997, respectively.

NOTE II - STOCK OPTIONS

The Company has primarily qualified stock option plans under which options are granted to employees of the Company at prices which are not less than market price at the date of grant and which are exercisable over ten-year periods. On March 31, 1998, outstanding options for Stock Option Plan No. III totalled 49,614 shares with a purchase price of \$7.34, outstanding options for Stock Plan No. IV totalled 2,834,211 shares with purchase prices ranging from a low of \$7.46 to a high of \$42.88 and outstanding options for Stock Plan V totalled 1,419,405 shares with purchase prices ranging from a low of \$20.48 to a high of \$45.38. These amounts reflect the effects of a 3-for-1 stock split effective to shareholders of record on April 24, 1998.

NOTE III - INTERIM ADJUSTMENTS

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

NOTE IV - SUBSEQUENT EVENTS

On April 4, 1998, the Company's authorized capital was increased to 200,000,000 shares of common stock and a 3-for-1 stock split, in the form of a 200% stock dividend, was declared to shareholders of record April 24, 1998, to be distributed May 15, 1998.

Cincinnati Financial Corporation filed a Form S-3 Registration Statement with the Securities and Exchange Commission on May 1, 1998, to issue \$350,000,000 of debentures due 2028. The offering will be completed in late May 1998.

NOTE V - FINANCIAL ACCOUNTING PRONOUNCEMENTS

COMPREHENSIVE INCOME--SFAS No. 130 "Reporting Comprehensive Income" is 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. The accompanying consolidated financial statements have reflected the effects of this pronouncement.

SEGMENT INFORMATION--SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information" is effective for the Company in 1998 and will require additional disclosures for the Company's operating segments in the annual consolidated financial statement. Beginning in 1999, certain segment information is required to be reported quarterly.

## CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(UNAUDITED)

THREE MONTHS ENDED MARCH 31, 1997 AND 1998

							(000's omitted)
	Common Shares -----	Stock Amount -----	Treasury Stock -----	Paid-In Capital -----	Retained Earnings -----	Accumulated Other Comprehensive Income -----	Total Shareholders' Equity -----
Bal. Dec. 31, 1996	167,486	\$334,972	\$ (11,217)	\$ 178,547	\$1,132,880	\$ 1,527,707	\$3,162,889 -----
Net Income					74,047		74,047
Change in Unreal. Gains Net of Inc. Taxes of \$129,969						241,371	241,371 -----
Comprehensive Income							315,418
Div. Declared					(22,688)		(22,688)
Purchase/Issuance of Treasury Shares			(23,070)	17			(23,053)
Stock Options Exercised	101	202		1,112			1,314
Conversion of Debentures	3	6		37			43
	-----	-----	-----	-----	-----	-----	-----
Bal. March 31, 1997	167,590 =====	\$335,180 =====	\$ (34,287) =====	\$ 179,713 =====	\$ 1,184,239 =====	\$ 1,769,078 =====	\$3,433,923 =====
Bal. Dec. 31, 1997	169,391	\$338,782	\$ (72,585)	\$ 203,282	\$ 1,341,730	\$ 2,905,756	\$4,716,965 -----
Net Income					84,178		84,178
Change in Unreal. Gains Net of Inc. Taxes of \$152,599						283,397	283,397 -----
Comprehensive Income							367,575
Div. Declared					(25,567)		(25,567)
Purchase/Issuance of Treasury Shares			16	14			30
Stock Options Exercised	281	562		4,142			4,704
Conversion of Debentures	115	230		1,478			1,708
	-----	-----	-----	-----	-----	-----	-----
Bal. March 31, 1998	169,787 =====	\$ 339,574 =====	\$ (72,569) =====	\$ 208,916 =====	\$ 1,400,341 =====	\$ 3,189,153 =====	\$5,065,415 =====

Common Stock, Paid-In-Capital and Share figures reflect the effects of a 3-for-1 stock split effective to shareholders of record on April 24, 1998.

Accompanying notes are an integral part of these financial statements.

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

(000's omitted)

	Three Months Ended March 31,	
	1998	1997
	----	----
Cash flows from operating activities:		
Net income .....	\$ 84,178	\$ 74,047
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization .....	2,626	2,503
Increase in investment income receivable .....	(352)	(2,179)
(Increase) decrease in premiums receivable .....	(1,987)	2,852
(Increase) decrease in reinsurance receivable ....	(898)	14,481
Increase in prepaid reinsurance premiums .....	(368)	(294)
Increase in deferred acquisition costs .....	9	(174)
Decrease in accounts receivable .....	3,811	216
Decrease in other assets .....	3,663	44,215
Increase in loss and loss expense reserves .....	31,557	2,866
Increase in life policy reserves .....	11,814	9,906
Decrease in unearned premiums .....	(2,357)	(3,675)
Decrease in other liabilities .....	(4,327)	(3,274)
Decrease in deferred income taxes .....	228	4,102
Realized gains on investments .....	(25,642)	(24,303)
Increase in current income taxes .....	27,394	20,129
Other .....	(5,645)	(2,528)
	-----	-----
Net cash provided by operating activities .....	123,704	138,890
	-----	-----
Cash flows from investing activities:		
Sale of fixed maturities .....	3,034	78,236
Call or maturity of fixed maturities investments .	79,408	9,264
Sale of equity securities investments .....	80,437	61,472
Collection of finance receivables .....	3,426	2,716
Purchase of fixed maturities investments .....	(123,074)	(179,683)
Purchase of equity securities investments .....	(142,547)	(93,175)
Investment in land, buildings and equipment .....	(5,946)	(2,632)
Investment in finance receivables .....	(3,928)	(4,177)
Investment in other invested assets .....	(1,359)	(38)
	-----	-----
Net cash used in investing activities .....	(110,549)	(128,017)
	-----	-----
Cash flows from financing activities:		
Proceeds from stock options exercised .....	4,704	1,314
Purchase/Issuance of treasury shares .....	30	(23,053)
Increase in notes payable .....	542	1,853
Payment of cash dividends to shareholders .....	(22,704)	(20,585)
	-----	-----
Net cash used in financial activities .....	(17,428)	(40,471)
	-----	-----
Net decrease in cash .....	(4,273)	(29,598)
Cash at beginning of period .....	80,168	59,934
	-----	-----
Cash at end of period .....	\$ 75,895	\$ 30,336
	=====	=====
Supplemental disclosures of cash flow information		
Interest paid .....	\$ 4,248	\$ 5,256
	=====	=====
Income taxes paid .....	\$ 0	\$ 0
	=====	=====

Accompanying notes are an integral part of these financial statements.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (000's omitted)

Premiums earned for the three months ended March 31, 1998 have increased \$21,609 (6%) over the three months ended March 31, 1997. For our property and casualty insurance companies, gross written premiums increased \$22,000 and gross earned premiums increased by \$20,759. The growth rate of our property and casualty subsidiaries on a gross written and earned basis is less than last year. The growth rate is less than last year because the increase in new business and some rate increases on personal lines business were offset by lower premiums on workers' compensation coverages. The premium volume of our life and health company has increased approximately 5% as the Company had increases in both life and health insurance production. The premium growth in our life subsidiary is mainly attributable to increased sales of both traditional and work site marketing products. For the three-month period ended March 31, 1998, investment income, net of expenses, has increased \$6,069 (7%) when compared with the first three months of 1997. This increase is the result of the growth of the investment portfolio because of investing cash flows from operations and dividend increases from equity securities.

Realized gains on investments for the three months ended March 31, 1998 amounted to \$25,642 compared to \$24,303 for the comparable three-month period ended March 31, 1997. The realized gains are predominantly the result of the sale of equity securities and management's decision to realize the gains and reinvest the proceeds at higher yields.

Insurance losses and policyholder benefits (net of reinsurance recoveries) increased \$3,633 (1%) for the first three months of 1998 over the same period in 1997. Property and casualty company losses increased \$2,758 in the first quarter of 1998, compared to the first quarter of 1997. Catastrophic claims were lower by \$2,699 in the same period. Policyholder benefits increased \$875 over the first quarter of 1997 in the life insurance subsidiary. The increase is the result of a higher incidence of death claims, health claims, and related costs.

Other operating expenses increased \$2,986 for the first quarter of 1998 compared to the first quarter of 1997. The increase is attributable to increases in staff and costs associated with the upgrading of our computer systems to handle projected increases in premium and to make our systems year 2000 compliant.

Provision for income taxes, current and deferred, have increased by \$7,923 for the first three months of 1998 compared to the first three months of 1997. The increase in federal taxes is primarily attributable to an increase in the effective tax rate from 24.75% to 27.64% at March 31, 1997 and 1998.

In the first quarter of 1998, the Company experienced significantly more unrealized gains in equity securities than in the first quarter of 1997, resulting in comprehensive income of \$367,575 in 1998, compared to \$315,418 in 1997.

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.

On November 22, 1996, the Board authorized repurchase of up to three million of the Company's outstanding shares. As of March 31, 1998 the Company has repurchased 934 shares, before the 1998 three-for-one split, and plans to repurchase the remaining 2,066 shares as management deems appropriate, over an unspecified period of time.



PART II  
OTHER INFORMATION

ITEM 1. Legal Proceedings  
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The Company is involved in no material litigation other than routine litigation incident to the nature of the insurance industry.

ITEM 2. Changes in Securities  
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There have been no material changes in securities during the first quarter.

At the Annual Meeting of the Board of Directors, which occurred on April 4, 1998, the directors approved a 3-for-1 stock split in the form of a 200% stock dividend to be distributed on May 15, 1998 to shareholders of record on April 24, 1998.

ITEM 3. Defaults Upon Senior Securities  
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The Company has not defaulted on any interest or principal payment, and no arrearage in the payment of dividends has occurred.

ITEM 4. Submission of Matters to a Vote of Security Holders  
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No special matters were voted upon by security holders during the first quarter.

On April 4, 1998, the Company's authorized capital was increased to 200,000,000 shares of common stock.

ITEM 5. Other Information  
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No matters to report.

ITEM 6. Exhibits and Reports on Form 8-K  
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(a) Exhibits included:

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

(b) The Company was not required to file any reports on Form 8-K during the quarter ended March 31, 1998.

Signature

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

CINCINNATI FINANCIAL CORPORATION  
-----  
(Registrant)

Date May 11, 1998  
-----

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

EXHIBIT 11  
CINCINNATI FINANCIAL CORPORATION  
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS  
FOR THE QUARTER ENDED MARCH 31,  
(000's omitted except per share data)

	1998	1997
	-----	-----
Basic Earnings per share:		
Net income	\$ 84,178 =====	\$ 74,047 =====
Average shares outstanding	166,601 =====	166,437 =====
Net income per common share	\$ .51 =====	\$ .44 =====
Diluted earnings per share:		
Net income	\$ 84,178	\$ 74,047
Interest on convertible debentures--net of tax	497 -----	713 -----
Net income for per share calculation (diluted)	\$ 84,675 =====	\$ 74,760 =====
Average shares outstanding	166,601	166,437
Effective of dilutive securities:		
5.5% convertible senior debentures	3,813	5,365
Stock options	2,124 -----	1,015 -----
Total dilutive shares	172,538 =====	172,817 =====
Net income per common share--diluted	\$ .49 =====	\$ .43 =====

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

3-MOS	
	DEC-31-1998
	JAN-01-1998
	MAR-31-1998
2,792,065	
0	
0	
	6,523,354
	11,536
	4,630
9,363,271	
	75,895
2,256	
135,304	
	10,060,723
	2,417,619
440,697	
	41,126
15,870	
	337,823
0	
	0
	339,574
	4,725,841
10,060,723	
	394,592
90,300	
25,642	
	2,020
	270,131
82,749	
43,341	
	116,333
	32,155
84,178	
	0
	0
	0
	84,178
	.51
	.49
1,776,648	
0	
0	
0	
0	
1,805,385	
0	

Equals the sum of Fixed Maturities, Equity Securities and other Invested Assets

Equals the sum of Life Policy Reserves and Losses and Loss Expenses less the Life Company liability for Supplementary Contracts without Life Contingencies of \$3,607 which is classified as Other Policyholder Funds

Equals the sum of Notes Payable and the 5.5% Convertible Senior Debenture

Equals the Total Shareholders' Equity

Equals the Sum of Commissions, Other Operating Expenses, Taxes and licenses and Fees, Increase in deferred acquisition costs, Interest expense and other expenses

Equals the net reserve for unpaid claims for the property casualty subsidiaries less loss checks payable as of December 31, 1997

Equals the net reserve for unpaid claims for the property casualty subsidiaries less loss checks payable as of March 31, 1998