

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

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FORM 10-Q

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

For the Quarterly Period Ended Date  
June 30, 1994

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

\_\_\_\_\_  
Commission File Number 0-4604

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

An Ohio Corporation  
(State or other jurisdiction of  
incorporation or organization)

31-0746871  
(I.R.S. Employer  
Identification No.)

6200 South Gilmore Road  
Fairfield, Ohio 45014-5141

(Address of principal executive offices)

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

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

YES    X                    NO  
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Securities registered pursuant to Section 12(g) of the Act:

\$2.00 Par Common--Amount~50,363,728 shares outstanding at June 30, 1994

\$80,000,000 of 5-1/2% Convertible Senior Debentures Due 2002

## PART I

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## ITEM 1. FINANCIAL STATEMENTS

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 1994 -----	December 31, 1993 -----
<b>ASSETS</b>		
- - - - -		
Cash . . . . .	\$ 20,409,273	\$ 48,113,639
Investments		
Fixed Maturities . . . . .	1,855,537,903	1,759,655,272
Equity Securities . . . . .	2,267,125,234	2,318,803,191
Other Invested Assets . . . . .	38,517,383	38,363,656
Finance Receivables . . . . .	14,240,963	13,010,774
Premiums Receivable . . . . .	138,739,850	134,360,968
Reinsurance Receivable . . . . .	54,844,216	59,060,502
Prepaid Reinsurance Premiums . . . . .	24,653,500	23,966,451
Investment Income Receivable . . . . .	54,095,477	50,120,280
Land, Buildings and Equipment for Company Use (at Cost Less Accumulated Depreciation) . . . . .	32,974,616	31,336,331
Deferred Acquisition Costs Pertaining to Unearned Premiums and to Life Policies in Force . . . . .	105,102,206	104,090,953
Other Assets . . . . .	25,983,534	21,406,477
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Total Assets	\$4,632,224,155	\$4,602,288,494
	=====	=====
<b>LIABILITIES</b>		
- - - - -		
Insurance Reserves:		
Unearned Premiums . . . . .	\$ 363,911,659	\$ 362,012,334
Life Policy Reserves . . . . .	359,794,518	345,977,142
Losses and Loss Expenses . . . . .	1,472,350,418	1,402,508,455
Notes Payable . . . . .	108,816,665	78,065,805
5-1/2% Convertible Senior Debentures Due 2002 . . . . .	80,000,000	80,000,000
Federal Income Taxes		
Current . . . . .	-0-	5,099,591
Deferred . . . . .	234,128,000	290,904,126
Other Liabilities . . . . .	73,792,697	90,383,444
	-----	-----
Total Liabilities	2,692,793,957	2,654,950,897
	-----	-----
<b>SHAREHOLDERS' EQUITY</b>		
- - - - -		
Common Stock, \$2 per Share; Authorized 80,000,000 Shares; Issued 1994--Amount 50,376,306; 199--Amount 50,313,161 Shares; Outstanding 1994--Amount50,363,728; 1993--Amount 50,306,301 Shares . . . . .	100,752,612	100,626,322
Paid-In Capital . . . . .	103,966,712	102,234,649
Retained Earnings . . . . .	1,071,715,190	996,358,793
Unrealized Gain on Investments, Less Taxes . . . . .	663,540,007	748,513,998
	-----	-----
	1,939,974,521	1,947,733,762
	-----	-----
Less Treasury Shares at Cost (1994--Amount 12,578 Shares; 1993--Amount 6,860 Shares) . . . . .	(544,323)	(396,165)
	-----	-----
Total Shareholders' Equity . . . . .	1,939,430,198	1,947,337,597
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Total Liabilities and Shareholders' Equity . . . . .	\$4,632,224,155	\$4,602,288,494
	=====	=====

Accompanying notes are an integral part of these financial statements.

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	1994	1993	1994	1993
Revenues:				
Premiums Earned:				
Property and Casualty . . . . .	\$ 573,765,314	\$ 534,525,705	\$292,038,043	\$273,274,728
Life . . . . .	21,190,071	19,736,170	10,460,735	9,980,694
Accident and Health . . . . .	3,593,501	3,816,464	1,781,934	1,899,811
Net Premiums Earned . . . . .	598,548,886	558,078,339	304,280,712	285,155,233
Investment Income, Less Expenses . . . . .	129,648,340	119,942,700	65,873,768	61,186,062
Realized Gain on Investments . . . . .	24,824,622	41,574,209	5,900,547	22,137,391
Other Income . . . . .	5,501,223	5,136,630	2,765,524	2,592,755
Total Revenues . . . . .	758,523,071	724,731,878	378,820,551	371,071,441
Benefits & Expenses:				
Ins. Losses and Policyholder Ben. . . . .	440,493,384	403,240,130	205,951,288	205,683,728
Commissions . . . . .	115,248,954	111,281,952	61,785,628	58,113,358
Other Operating Expenses . . . . .	41,503,681	40,957,227	20,948,284	20,504,810
Taxes, Licenses & Fees . . . . .	20,812,382	17,111,758	12,184,832	8,391,786
Increase in Deferred Acquisition Costs Pertaining to Unearned Premiums and to Life Policies in Force . . . . .	(1,011,253)	(7,046,891)	(935,530)	(4,646,877)
Interest Expense . . . . .	4,245,866	3,719,680	2,307,300	2,076,919
Other Expenses . . . . .	1,369,807	1,496,770	609,870	650,626
Total Expenses . . . . .	622,662,821	570,760,626	302,851,672	290,774,350
Income Before Income Taxes and Cum. Effect of a Change in Acct. Prin. . . . .	135,860,250	153,971,252	75,968,879	80,297,091
Provision (Benefit) for Inc. Taxes:				
Current . . . . .	39,298,831	39,364,483	16,944,824	18,630,457
Deferred . . . . .	(11,020,929)	(4,729,375)	(58,823)	(431,694)
Total . . . . .	28,277,902	34,635,108	16,886,001	18,198,763
Income Before Cum. Effect of Change in Accounting for Income Taxes . . . . .	107,582,348	119,336,144	59,082,878	62,098,328
Cum. Effect of Change in Acct. for Income Taxes . . . . .	-0-	13,844,678	-0-	-0-
Net Income . . . . .	\$ 107,582,348	\$ 133,180,822	\$ 59,082,878	\$ 62,098,328
(Decrease) Increase in Unrealized Gains on Fixed Maturities and Equity Investments . . . . .	\$(130,729,187)	\$ 83,941,984	\$(22,071,947)	\$ 7,171,255
Less (Benefit) Provision for Federal Income Taxes . . . . .	(45,755,196)	28,540,275	(7,725,181)	2,438,227
(Decrease) Increase in Unrealized Gains on Fixed Maturities and Equity Investments Less Applicable Federal Income Taxes . . . . .	\$ (84,973,991)	\$ 55,401,709	\$(14,346,766)	\$ 4,733,028
Weighted Average Shares Outstanding . . . . .	52,223,339	52,040,297	52,227,480	52,074,868
Per Common Share:				
Net Income Before Cum. Effect of Change in Acct. for Income Taxes . . . . .	\$2.09	\$2.33	\$1.15	\$1.21
Cum. Effect of Change in Acct. for Income Taxes . . . . .	-0-	.26	-0-	-0-
Total Net Income . . . . .	\$2.09	\$2.59	\$1.15	\$1.21
Cash Dividends Declared . . . . .	\$.64	\$.56	\$.32	\$.28

Accompanying notes are an integral part of these financial statements.

## CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(UNAUDITED)SIX MONTHS ENDED JUNE 30, 1994  
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	Common Stock		Treasury Stock	Paid-In Capital	Retained Earnings	Unrealized Gains on Investments
	Shares	Amount				
	-----	-----	-----	-----	-----	-----
Balance December 31, 1993	50,313,161	\$100,626,322	\$(396,165)	\$102,234,649	\$ 996,358,793	\$748,513,998
Net Income					107,582,348	
Effect of Change in Accounting for Fixed Maturity Invest., Net of Income Taxes of \$42,721,703						79,340,305
Change in Unrealized Gains on Fixed Mat. and Equity Invest., Net of Income Taxes of \$88,476,900						(164,314,296)
Dividends Declared					(32,225,951)	
Purchase of Treasury Stock			(148,158)	(1,44)		
Stock Issued Upon Exercise of Stock Options	63,145	126,290		1,733,512		
	-----	-----	-----	-----	-----	-----
Balance June 30, 1994	50,376,306	\$100,752,612	\$(544,323)	\$103,966,712	\$1,071,715,190	\$663,540,007
	=====	=====	=====	=====	=====	=====

Accompanying notes are an integral part of these financial statements.

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

	Six Months Ended June 30,	
	1994	1993
Cash flows from operating activities:		
Net income . . . . .	\$107,582,348	\$ 133,180,822
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization . . . . .	4,287,216	4,986,489
Increase in net unearned premiums . . . . .	1,212,276	15,850,666
Increase in net life policy reserves . . . . .	13,817,376	14,388,462
Increase in net loss and loss expense reserves . . . . .	74,058,249	85,699,988
Increase in net premiums receivable . . . . .	(4,378,882)	(10,007,361)
Increase in deferred acquisition costs . . . . .	(1,011,253)	(7,046,891)
(Decrease) increase in other liabilities . . . . .	(18,621,376)	14,316,918
Increase in investment income receivable . . . . .	(3,975,197)	(3,613,310)
Increase (Decrease) in policy loans and accounts receivable . . . . .	2,231,123	(9,434,014)
Decrease in deferred income taxes . . . . .	(11,020,929)	(31,037,256)
(Decrease) Increase in current income taxes . . . . .	(10,529,114)	2,757,838
Realized gain on investments . . . . .	(24,824,622)	(41,574,209)
Other . . . . .	(534,368)	(1,114,392)
Net cash provided by operating activities . . . . .	128,292,847	167,353,750
Cash flows from investing activities:		
Sale of fixed maturities investments . . . . .	49,031,602	68,070,045
Maturity of fixed maturities investments . . . . .	159,854,590	170,205,719
Sale of equity securities investments . . . . .	61,980,975	94,674,317
Collection of mortgage loans . . . . .	484,654	779,269
Collection of finance receivables . . . . .	3,216,825	3,223,847
Purchase of fixed maturities investments . . . . .	(260,144,559)	(282,295,165)
Purchase of equity securities investments . . . . .	(160,482,124)	(201,560,132)
Investment in mortgage loans . . . . .	(1,007,740)	(353,699)
Investment in land, buildings and equipment . . . . .	(5,922,911)	(4,027,122)
Investment in finance receivables . . . . .	(4,447,014)	(3,695,663)
Investment in real estate and other . . . . .	(827,190)	(360,818)
Net cash used in investing activities . . . . .	(158,262,892)	(155,339,402)
Cash flows from financing activities:		
Proceeds from stock options exercised . . . . .	1,859,802	5,468,512
(Purchase) Issuance of treasury shares . . . . .	(149,607)	19,300
Increase in notes payable . . . . .	30,750,860	255,687
Payment of cash dividends to shareholders . . . . .	(30,195,376)	(27,012,102)
Net cash provided by (used in) financing activities . . . . .	2,265,679	(21,268,603)
Net decrease in cash . . . . .	(27,704,366)	(9,254,255)
Cash at beginning of period . . . . .	48,113,639	49,982,702
Cash at end of period . . . . .	\$ 20,409,273	\$ 40,728,447
Supplemental disclosures of cash flow information		
Interest paid . . . . .	\$ 3,839,554	\$ 3,883,039
Income taxes paid . . . . .	\$ 50,000,000	\$ 40,000,000

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, 1993 consolidated balance sheet amounts are derived from the audited financial statements but do not include all disclosures required by generally accepted accounting principles.

INVESTMENTS--The Company adopted Statement of Financial Accounting Standards (SFAS) 115 "Accounting for Certain Investments in Debt and Equity Securities" effective January 1, 1994. With the adoption of SFAS 115, fixed maturities have been classified as available for sale and are stated at fair values at June 30, 1994, while fixed maturities were primarily carried at amortized costs at December 31, 1993. Equity securities are carried at fair values at June 30, 1994 and December 31, 1993.

UNREALIZED GAINS AND LOSSES--As indicated in the accompanying consolidated statement of shareholders' equity for the six-month period ended June 30, 1994, the Company had an unrealized loss of \$164,314,296. For the three-month period ended June 30, 1994, the Company had an unrealized loss of \$14,346,766. For the six-month period ended June 30, 1994, fixed maturity and equity securities' investments reflected decreases in unrealized gains (net of income tax effects) of \$56,690,056 and \$107,624,240, respectively. For the three-month period ended June 30, 1994, fixed maturity and equity securities' investments reflected a decrease and increase in unrealized gains (net of income tax effects) of \$28,253,967 and \$13,907,201, respectively. For the six-month and three-month periods ended June 30, 1993, equity securities' investments reflected increases in unrealized gains (net of income tax effects) of \$55,401,709 and \$4,733,028, respectively. Such amounts are included as additions to and deductions from shareholders' equity. For the six-month and three-month periods ended June 30, 1993, fixed maturity investments had increases and decreases in unrecognized unrealized gains (net of income tax effects) of \$2,626,505 and \$5,709,304, respectively.

REINSURANCE--Premiums earned are net of \$61,277,857 and \$42,856,274 of premium on ceded business; and insurance losses and policyholder benefits are net of \$7,563,025 and \$17,902,097 of reinsurance recoveries for the six-month periods ended June 30, 1994 and 1993, respectively. Premiums earned are net of \$36,692,244 and \$23,060,736 of premium on ceded business; and insurance losses and policyholder benefits are net of \$4,133,641 and \$10,545,194 of reinsurance recoveries for the three-month periods ended June 30, 1994 and 1993, 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 a five-year period, or over a ten-year period if granted on or after

July 25, 1990. On June 30, 1994, outstanding options for Stock Option Plan No. III totalled 98,984 shares with purchase prices ranging from a low of \$13.08 to a high of \$26.17 and outstanding options for Stock Option Plan No. IV totalled 736,102 shares with purchase prices ranging from a low of \$24.67 to a high of \$62.25.

#### 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 interim periods are not necessarily indications of results to be expected for this year.

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

Premiums earned for the six months ended June 30, 1994 have increased \$40,470,547 (7%) over the six months ended June 30, 1993. Also, premiums earned have increased \$19,125,479 (7%) for the three months ended June 30, 1994 over the three months ended June 30, 1993. The premium growth is attributable to new business and rate increases on direct business. The growth rate of our property and casualty subsidiaries is less than last year on both a gross written and earned premium basis for both the six-month and three-month periods because of the continued softness of the commercial lines market. The premium volume of our life and health subsidiary has increased 5% for the six months ended June 30, 1994 and 3% for the three months ended June 30, 1994 compared to the comparable periods of 1993. The premium growth in our life subsidiary is the result of increased life insurance business which was offset by the reduction in accident and health insurance. For the six-month and three-month periods ended June 30, 1994, investment income, net of expenses, has increased \$9,705,640 (8%) and \$4,687,706 (8%) when compared with the first six months and second three months of 1993, respectively. This increase is the result of the growth of the investment portfolio because of investing cash flows from increased premiums written. The growth rate is less than last year because of lower yields on new investments and less cash flow because of increased catastrophe claim payments.

Realized gains on investments for the six months ended June 30, 1994 amounted to \$24,824,622 compared to \$41,574,209 for the six-month period ended June 30, 1993, and \$5,900,547 for the three-month period ended June 30, 1994 compared to \$22,137,391 for the three-month period ended June 30, 1993. 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 \$37,253,254 (9%) for the first six months of 1994 over the same period in 1993 and increased \$267,560 (0%) for the second quarter when compared to the second quarter of 1993. The losses and benefits of the property and casualty companies have increased \$38,294,057 for the six-month period and decreased \$908,115 for the second quarter of 1994 compared to the comparable periods of 1993. The losses for the first six months have increased because of the growth of new business and a higher incidence of claims. Losses decreased in the second quarter because of the lower incidence and severity of weather related losses. Catastrophe losses were \$18.2 million and \$21.3 million, respectively, for the first six months of 1994 and 1993 and were \$(.6) million and \$10.1 million, respectively, for the second quarter of 1994 and 1993. These losses were substantially higher in the first quarter of 1994 compared to the first quarter of 1993 because of a higher incidence and severity of these weather related claims. The losses for the second quarter of 1994 compared to the same quarter of 1993 were lower because of a lower incidence and severity of claims and favorable claim development on first quarter catastrophe claims.

Policyholder benefits of the life insurance subsidiary decreased \$1,040,803 for the first six months of 1994 over the same period in 1993 and increased \$1,175,675 for the second quarter when compared to the second quarter of 1993. The majority of the six-month decrease was due to a lower incidence of accident and health claims while the second quarter increase was the result of a higher incidence of death claims and related life benefits.



Taxes, licenses and fees increased \$3,700,624 for the first six months of 1994 over the same period in 1993 and increased \$3,793,046 for the second quarter when compared to the second quarter of 1993. The increase in taxes is the result of higher state franchise taxes, state corporate income taxes, city taxes on premium collections, and guaranty fund assessments for Hurricane Andrew.

Provision for income taxes, current and deferred, have decreased by \$6,357,206 for the first six months of 1994 compared to the first six months of 1993 and have decreased \$1,312,762 for the second quarter of 1994 compared to the second quarter of 1993. The decrease in taxes for the first six months is attributable to lower taxable income in our property and casualty companies because of a higher incidence and severity of losses and lower capital gains for the corporation. These decreases more than offset increases in taxable income in the life insurance company, noninsurance companies, and taxable investment income. The decrease in taxes for the second quarter of 1994 compared to 1993 is the result of lower capital gains for the corporation that more than offset increases in taxable income in our property and casualty companies, noninsurance companies, and taxable investment income. The Company did not incur an alternative minimum tax in the first six months nor second quarter of 1994 or 1993.

Notes payable increased \$30,750,860 for the first six months and increased \$20,238,406 for the second quarter of 1994. The Company borrowed the additional funds to pay for the increased losses in the property and casualty companies instead of paying the losses from cash flow because the Company decided to take advantage of the investment opportunities that were available at that time.

Unrealized appreciation will fluctuate with changes in the overall fixed maturities and equity securities market. Unrealized appreciation related to the Company's equity investment portfolio decreased in the first six months of 1994 by \$165,575,724 (\$107,624,240 decrease in shareholders' equity, net of deferred income taxes) while, for the first six months of 1993, it increased by \$83,941,984 (\$55,401,709 increase in shareholders' equity, net of deferred income taxes). Unrealized appreciation related to the Company's equity investment portfolio increased in the second three months of 1994 by \$21,395,694 (\$13,907,200 increase of shareholders' equity, net of deferred income taxes) while the second three months of 1993, it increased by \$7,171,255 (\$4,733,028 increase in shareholders' equity, net of deferred taxes). The Company's equity investment portfolio continues to be primarily investments in common stocks of public utility companies and financial institutions.

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 second quarter.

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 second quarter.

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)    Exhibit included:  
  
        Exhibit 11--Statement re Computation of Per Share Earnings.
- (b)    The Company was not required to file any reports on Form 8-K during the quarter ended June 30, 1994.

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        August 11, 1994  
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By /s/   Robert J. Driehaus  
-----  
Robert J. Driehaus  
Financial Vice President & Treasurer  
(Principal Financial Officer)

## EXHIBIT 11

CINCINNATI FINANCIAL CORPORATION  
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS  
(in thousands except for per share amounts)

	Six Months Ended June 30,		Three Months Ended June 30	
	1994	1993	1994	1993
Weighted average shares outstanding	50,334	50,056	50,350	50,102
Equivalent shares assumed to be outstanding for:				
Stock options	264	358	252	347
Convertible debentures	1,626	1,626	1,626	1,626
Number of shares for primary computation	52,224	52,040	52,228	52,075
Other dilutive equivalent shares--stock options	0	0	0	2
Number of shares assuming full dilution	52,224	52,040	52,228	52,077
	=====	=====	=====	=====
Net income before cumulative effect of change in accounting for income taxes	\$107,582	\$119,336	\$59,083	\$62,098
Interest on convertible debentures-- net of tax	1,430	1,452	715	736
	109,012	120,788	59,798	62,834
Cumulative effect of change in accounting for income taxes	-0-	13,845	-0-	-0-
Net income for per share computation	\$109,012	\$134,633	\$ 59,798	\$ 62,834
	=====	=====	=====	=====
Earnings per share:				
Primary before cumulative effect of change in accounting for income taxes	\$ 2.09	\$ 2.33	\$ 1.15	\$ 1.21
Cumulative effect of change in accounting for income taxes	-0-	.26	-0-	-0-
Total Primary	\$ 2.09	\$ 2.59	\$ 1.15	\$ 1.21
	=====	=====	=====	=====
Fully Diluted	\$ 2.09	\$ 2.59	\$ 1.15	\$ 1.21
	=====	=====	=====	=====