OUR CUSTOMER IS THE

LOCAL INDEPENDENT AGENT.

VALUE FOR

SHAREHOLDERS AND POLICYHOLDERS

IS THE RESULT.

CINCINNATI FINANCIAL CORPORATION

THE CINCINNATI INSURANCE COMPANIES

1997 ANNUAL REPORT

OUR COMPANY

Cincinnati Financial Corporation, formed in 1968, has five subsidiaries:

- The lead property and casualty insurance subsidiary, **The Cincinnati Insurance Company**, was founded in 1950. It markets a broad range of business and personal policies in 27 states, operating with a strong customer focus on an elite corps of 973 local independent insurance agencies.
- **The Cincinnati Casualty Company** and **The Cincinnati Indemnity Company** round out the A++ rated property and casualty insurance group.
- **The Cincinnati Life Insurance Company** markets life, health and accident policies.
- **CFC Investment Company** complements the insurance subsidiaries with leasing, financing and real estate services.

OUR MISSION

To grow profitably and enhance the ability of local independent insurance agents to deliver quality financial protection to the people and businesses they serve by:

- Providing market stability through financial strength
- Producing competitive, up-to-date products and services
- Developing associates committed to superior service.

OUR RECORD

Over the past five years, the Company has experienced strong compound growth:

- Net written property and casualty premium grew 7.7 percent annually.
- Investment income, the primary source of Company profits, rose 9.8 percent annually.
- Book value grew 22.2 percent annually, reaching a record $85.06.
- Earnings per share advanced 11.5 percent annually.
- Cash dividends paid increased 12.2 percent annually, reaching an indicated annual total of $1.60 at December 31, 1997.
- Total return to shareholders, including share appreciation and dividends, grew 22.8 percent annually compared to 19.2 percent for the Standard & Poor's property casualty insurance group and 20.0 percent for the Standard & Poor's 500 Index.

OUR OUTLOOK

We have resources and opportunities to grow profitably, increasing effectiveness and shareholder value:

- Beginning to actively market in two new states in 1998 and evaluating five more states for future years.
- Expanding our distribution network for life insurance, financing and leasing products and services.
- Serving our agents better with a stronger local presence, work-saving technology initiatives and competitive products, rates and compensation.
- CINF shares trading for the first time as part of the Standard & Poor's 500 Index.

The $2 billion target for direct premium written during the year 2000 requires us to become a larger, more aggressive company, building financial strength that benefits agents, policyholders, shareholders, associates and community.

Programmer Joann Gillming submitted this special logo, designed to inspire individuals and teams to take ownership of this goal.

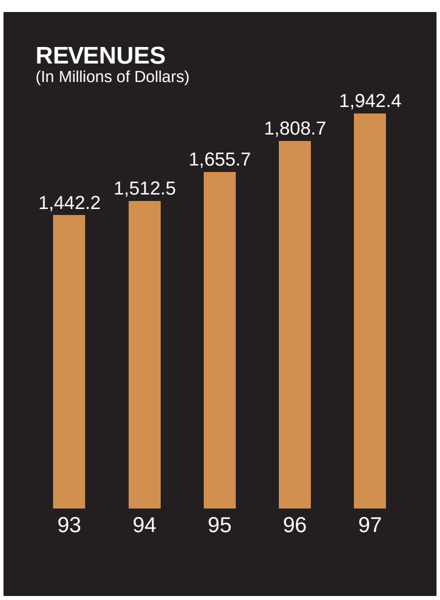
CONTENTS

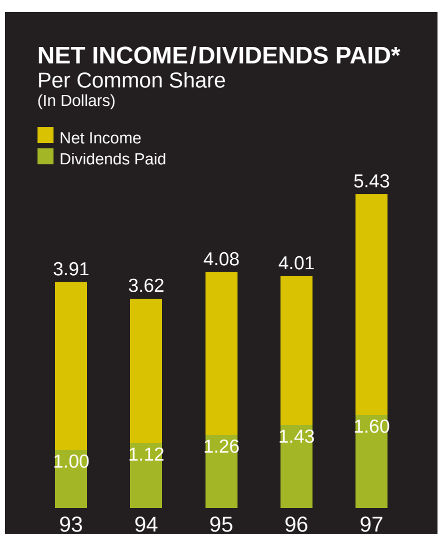
FINANCIAL HIGHLIGHTS

Cincinnati Financial Corporation and Subsidiaries

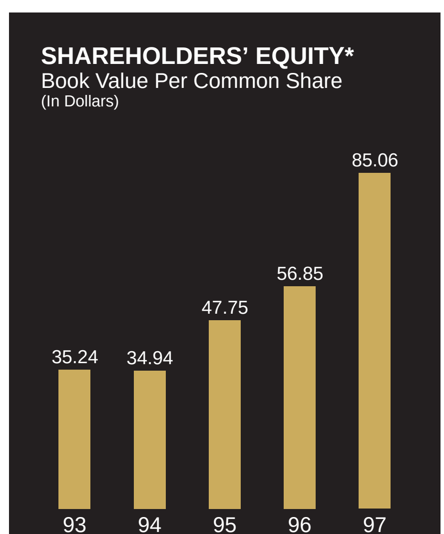
Comparative results 1997-1996
(000's omitted except per share data and ratios)

	1997	1996	% Change
OPERATING PERFORMANCE			
Revenues	**$ 1,942,384**	$ 1,808,749	7.4
Income Before Income Taxes	**394,559**	282,421	39.7
Net Operating Income	**254,375**	192,595	32.1
Net Capital Gains (after tax)	**45,000**	31,165	44.4
Net Income	**299,375**	223,760	33.8
FINANCIAL POSITION			
Total Assets	**9,493,425**	7,045,514	34.7
Shareholders' Equity	**4,716,965**	3,162,889	49.1
PER SHARE DATA			
Net Operating Income	**4.61**	3.45	33.6
Net Capital Gains	**.82**	.56	46.4
Net Income	**5.43**	4.01	35.4
Net Income (Diluted)	**5.31**	3.92	35.5
Dividends Declared	**1.64**	1.46	12.3
Book Value	**85.06**	56.85	49.6
Average Shares Outstanding	**55,179**	55,736	(1.0)
PERFORMANCE RATIOS			
Combined Ratio	**97.7**	103.0	(5.1)
Return on Equity	**7.6**	7.7	(1.3)
Return on Equity Including Net Unrealized Gain and Loss	**42.6**	20.3	109.9





*Adjusted to reflect 5% stock dividends paid in April, 1995 and 1996.



*Adjusted to reflect 5% stock dividends paid in April, 1995 and 1996.

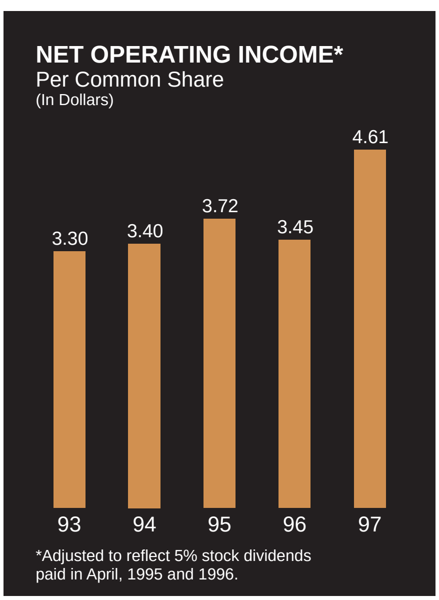
TO OUR SHAREHOLDERS:

PERFORMANCE OVERVIEW

Cincinnati Financial Corporation's performance got stronger and stronger over the course of 1997. While revenues advanced 7.4 percent to $1.942 billion, total net income grew 33.8 percent to $299.4 million and net operating income rose 32.1 percent to $254.4 million.

The weather and the stock market cooperated, reducing catastrophic storm losses and providing opportunities for higher investment income and capital gains. 1997 catastrophe losses were a more typical $25.5 million versus last year's unusually high $64.7 million.

Just as important, our customer focus on agents, consistent and disciplined underwriting practices and claims management proved their value. While growing premiums at twice the industry rate in 1997, we experienced lower overall claims loss trends. Profitability returned to property and casualty insurance underwriting with a $24.8 million net gain versus last year's $45.0 million net underwriting loss.



Net operating earnings rose to all-time highs for the year and for each of the last three quarters of 1997.

This year's lower claims payments joined with higher realized capital gains to increase cash flow, contributing to 6.5 percent growth of investment income to $348.6 million. Net realized after-tax capital gains were $45.0 million, up from $31.2 million last year. Higher equity values presented many opportunities to sell convertible securities, which accounted for approximately 70 percent of the net gains.

Assets, shareholders' equity and book value climbed to all-time highs. As of December 31, 1997, assets were up 34.7 percent over year-end 1996 at $9.493 billion. Shareholders' equity was up 49.1 percent to $4.717 billion. Book value rose to $85.06 from $56.85.

MOVING RESOURCES INTO PLACE

Our continued ability to grow is limited only by our ability to develop our staff and technology resources. During 1997 we made major progress:

- We expanded the leadership ranks of corporate officers, promoting Theodore F. Elchynski to Chief Financial Officer and appointing Vice Presidents Kenneth S. Miller, CLU, ChFC and Kenneth W. Stecher.
- The Cincinnati Life Insurance Company appointed President and Chief Operating Officer David H. Popplewell, FALU, LLIF and Senior Vice President Glenn D. Nicholson, LLIF, Senior Marketing Officer. They are rapidly implementing product and marketing initiatives to expand the independent life agent distribution network, accelerate revenue growth, lower unit costs and achieve unparalleled service.
- We partnered with leading technology consultants to begin developing an Intranet-based system that will be accessible from our headquarters and from our field representative and agent offices. This technology is planned to make us more efficient and more effective, with systems that enhance our trademark flexibility and personal relationships.

Early in 1998, we firmed up plans for another infrastructure item, construction of a second office tower on the CFC Headquarters property. We outgrew the current tower about a year ago and now have close to 300 associates in other buildings. With continued steady growth, the new building will fill up very quickly following the two-year construction timeframe.

REWARDING SHAREHOLDERS

Standard & Poor's added CINF to the S&P 500 Index at the close of trading on December 17, 1997. The S&P 500 is a key barometer of stock market activity and performance benchmarks for professional money managers. Selection to the index called attention to our strong market position and operating results. Following the announcement, trading increased and our share price soared. Two months down the road, the price seems stabilized at about one and a half times book value.

Left to right: John J. Schiff, Chairman of the Executive Committee; Robert B. Morgan, President and Chief Executive Officer; John J. Schiff, Jr., CPCU, Chairman of the Board.

During each of the past 37 years, your Company has raised cash dividends paid to shareholders. Adjusted for stock dividends and splits, dividends paid per share rose to $1.60 in 1997 from $0.43 in 1987, a 14.0 percent ten-year compound growth rate. At their meeting in February of 1998, the Board of Directors declared a $0.05 per share increase in the regular quarterly cash dividend, raising the indicated annual dividend to $1.84 per share.

The Board also announced plans to declare a three-for-one split to be distributed in May, pending shareholder approval on April 4 of an authorized share increase to 200 million from 80 million. This would be the 27th stock dividend or split over the past 41 years. Shareholders who purchased one share prior to the first dividend in 1957, and who held all shares accrued from stock dividends and splits, would own 1,947 shares after the proposed distribution in May. The planned split would improve liquidity of CINF shares, bringing convenience for investors and supporting increased trading from mutual funds that invest to track the S&P 500 Index.

For the year ended December 31, 1997, CINF's 121 percent total return to shareholders, including share appreciation and dividends, was the fifth highest among all S&P 500 Index companies. Cincinnati Financial's convertible debenture was the top performing debenture in the country for 1997. The events of 1997 and the outlook for 1998 would appear to make this a great time to own CFC shares. We thank you for your confidence and for the opportunity to reward you, our loyal shareholders.

OUR AGENT, OUR CUSTOMER, OUR ADVANTAGE

While other companies may distribute through local independent agents and/or other channels, Cincinnati is a company whose very mission places agents at the center of our identity. We follow through, making sure every move enhances our agents' ability to add value to the insurance transaction for people and businesses in their communities. Giving our agent customers what they need to compete continuously raises the bar, requiring us to set and exceed ever higher standards for products, profitability, service and financial strength.

We are a specialty company. Our specialty is not a product niche; we prefer to offer a broad range of products so agents can rely on us to be their first-choice carrier for all of their good business. Our specialty is a distribution strategy—the local independent agent strategy—and it offers abundant rewards for those who do it extremely well. We pledge to support our strong, dynamic independent agent customers as they find and serve that large percentage of the population that wants more than commodity insurance products and services. That is what differentiates us from other companies, creating superior value for our agents, shareholders, policyholders, associates and community.

/s/ Robert B. Morgan
Robert B. Morgan
President and Chief Executive Officer

/s/ John J. Schiff, Jr.
John J. Schiff, Jr., CPCU
Chairman of the Board

/s/ John J. Schiff, Jr.
John J. Schiff
Chairman of the Executive Committee

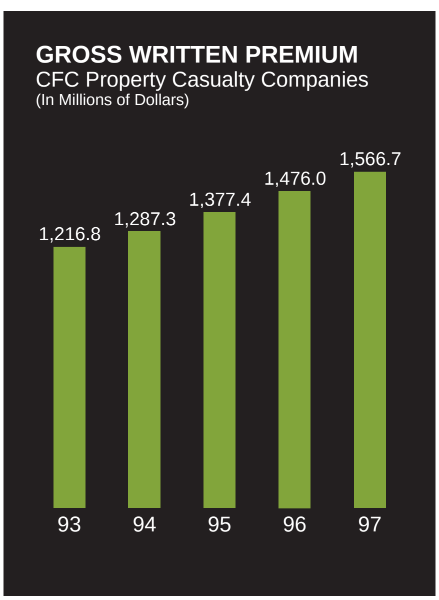
SEEING THROUGH LOCAL

David G. Winegarden, CPCU, President of Welt, Ambrisco, Winegarden Insurance, Inc., in Iowa City, Iowa, with Field Claims Manager Brent H. Burton, AIC.

Where we have established top positions in agencies, **a dedicated local field staff makes it easier for agents to serve their communities. With more than 620 local resident field claims representatives, we can often assign one or more to work full-time with a single agency, its policyholders and claimants. Paying claims is our business. Through these local adjusters, the agent provides key accounts with consistency and personal service when they need it most—when they have claims. Established agencies in developed states have regular, personal contact with various field marketing representatives for property and casualty or life insurance, bonds or leasing. Additional field representatives work with agency clients, providing premium audit, engineering and loss control services. By giving all of our field staff full authority and placing them at the local level alongside agents, we strengthen the agents' ability to deliver added value.**

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.



In 1997 commercial insurance premiums were 67.8% and personal insurance premiums 32.2% of the total.

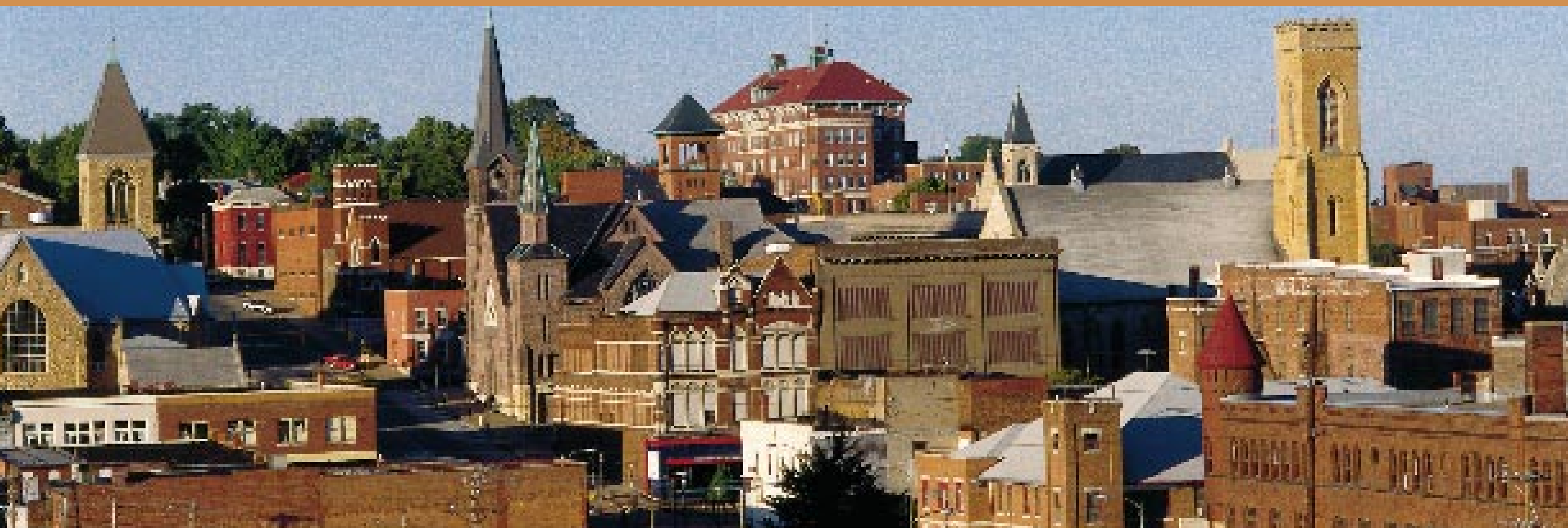
PROPERTY AND CASUALTY INSURANCE

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



Iowa—Active marketing began in 1982.

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

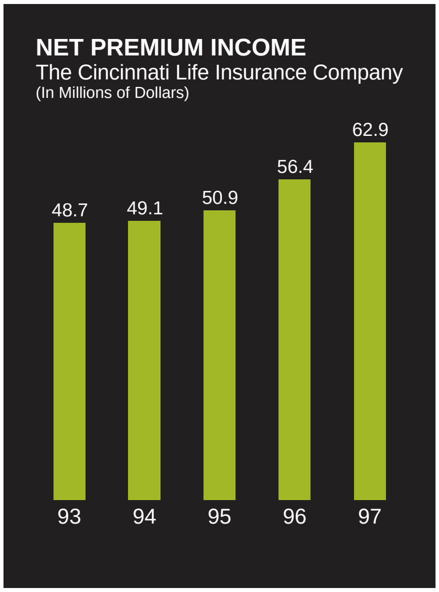
On the personal insurance side, net written premiums grew 12.4 percent to $484.3 million with a 68.9 percent pure loss ratio. Profitability is improving due to homeowner and automobile rate increases approved in many states. While some premium growth came from these increases, much of it comes from new 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.

Upstate New York—Active marketing begins in 1998.

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.



Total life, health, accident and annuity premiums earned rose 11.5 percent in 1997.

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

Where we are considering entry into a market, **research includes visits with state regulators, independent agents and leaders of insurance and agent groups. We decide to actively market in a new state when we determine that agents and their customers will benefit from Cincinnati products and services. The process includes a thorough review of the competitive climate, geographical risks, laws and regulations. First, we identify states compatible with risk-based underwriting, healthy competition and profit potential; then we prioritize and gear up by filing products for state insurance department approval and programming our systems. Next, we prospect for agencies, selecting those that share our commitments to customers—to carefully underwrite risks and tailor coverages, to deliver superior claims service, to use technology to enhance effectiveness and to operate financially strong, sales and growth-oriented organizations.**

Vice Presidents Jody L. Wainscott and Thomas A. Joseph, CPCU, researched market conditions in upstate New York, now selected for activation of two territories.

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.

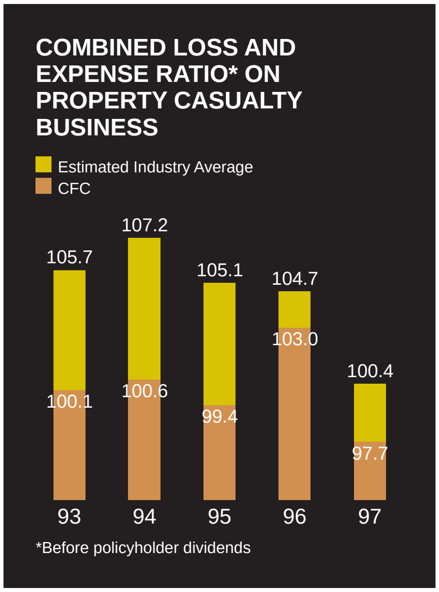
We have begun to deploy a leasing field sales force, improving support for agencies and their clients while providing direct availability of our financial services to businesses. During the first part of 1998, our fourth field sales territory should open and our representative will begin calling on lease/finance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

Assistant Vice President Duane I. Swanson, CIC, with Thomas C. Dawson, CPCU, CIC, who is CEO of Dawson Insurance Agency in Fargo, North Dakota. The agency was appointed in May 1997.

Where we have appointed new agents to represent us, **the relationship officially begins with a Cincinnati tradition, the agent's visit to our Cincinnati headquarters. The agent meets personally with executives, sales and accounting officers, underwriting and supply associates. The purpose is to work out logistics and learn about policies and procedures—but more importantly, it is to launch friendships and open doors so agents know they have personal access to all of us, all of the time. This pledge of unprecedented personal access is reaffirmed by regular executive travel to agencies, annual sales meetings in 27 field locations, territory visits by underwriters, invitations to sales classes and agent roundtables at CFC Headquarters and many more opportunities to listen to our agent customers, the most effective voices for the businesses and families we insure.**

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:



1997 ratios represent the highest profitability since 1979 for the industry and the highest since 1988 for Cincinnati.

Process Improvement—Every department is examining internal and interdepartmental processes. By discovering and recognizing internal customers, we have been able to restructure workflows and streamline 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

CFC Headquarters, Cincinnati, OH—Our first North Dakota agents made pre-appointment visits during 1997.

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.

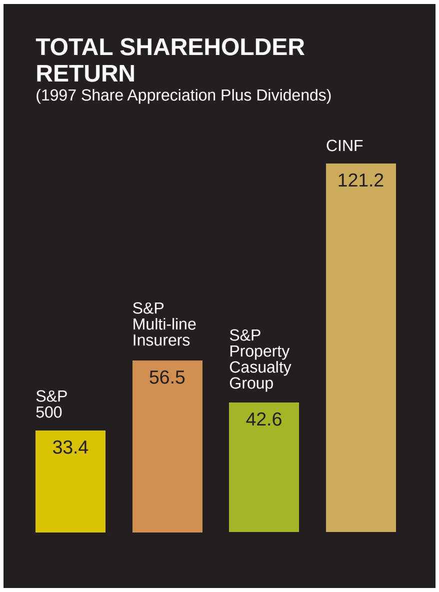
Maryland—Active marketing began in December 1994.

TARGETING THE YEAR 2000 AND BEYOND
BUILDING FINANCIAL STRENGTH

INDEPENDENT RATINGS AND RANKINGS

A.M. Best Company A++ (Superior)

The A.M. Best Company, the leading provider of insurer ratings, annually conducts an extensive quantitative and qualitative evaluation. Best assigns the A++ rating to The Cincinnati Insurance Companies' property and casualty group and to each subsidiary. This is their highest rating, awarded to only 7 percent of companies and 3 percent of rating units in 1997. Best asserts, "Despite the highly competitive market conditions…Cincinnati is well positioned to continue its superior operating performance, with its increasing market presence, disciplined underwriting approach and highly successful distribution strategy."



The CINF share price, already trending up over the course of 1997, rose sharply in December.

Standard & Poor's AA+ (Excellent)

Standard & Poor's bases the property casualty group's AA+ claims-paying ability rating on superior capitalization and financial flexibility, as well as an excellent operating performance characterized by above-average premium growth and very strong margins. "Standard & Poor's believes that a low-cost infrastructure and agency focus will continue to be an unmatched competitive advantage for The Cincinnati Insurance Companies. Therefore, Standard & Poor's expects margins to be sustained with anticipated premium growth of seven to nine percent over the next three to five years."

Forbes (April 21, 1997): The Cincinnati Insurance Companies' profits per employee surpass those earned by our peers. Per capita productivity of $93,300 more than doubles the industry median of $44,600.

Fortune (April 28, 1997): Ranked by revenues, Cincinnati Financial Corporation is the 21st largest U. S. publicly traded property and casualty insurer or reinsurer. Within the Fortune 1000 across all industries, we are number 652.

National Underwriter (July 21, 1997): Based on 1996 net written premiums, Cincinnati moved up two spots to place 30th among stock, mutual, reciprocal and Lloyds insurance companies and 21st among stock insurers.

Business Insurance (August 25, 1997): Ward Financial Group analyzes

Where new agencies are building their Cincinnati business, **the field marketing representative heads up an intensive effort to move Cincinnati into one of the top two positions among the agency's carriers within five years. The field marketing representative teaches agents to be front-line Cincinnati underwriters, to know our appetite for business and to customize our flexible policies appropriately for their clients. This involves doing whatever the agent needs, from visiting accounts with agents to removing production barriers by marshaling resources from Cincinnati's claims, information systems, underwriting and other areas. Cincinnati's unique, no-branch-office structure and assignment of full decision-making authority set these field marketing representatives apart as one of the agency's most valuable assets.**

William P. Griffin, Jr., President of Bartlett, Vermilye & Griffin, Inc., in Easton, Maryland and Regional Director Sean M. Connolly, CIC, AIM.

five-year statutory data to find the best insurers for their top 50 benchmark group. Ward's 50 insurers set themselves apart by meeting two sets of high standards—return for shareholders balanced by solvency for policyholders. Cincinnati is one of just nine insurer groups named to both Ward's lists in 1997, our seventh consecutive year qualifying for the property/casualty list and fifth year on the life/health list.

Forbes (January 12, 1998): Cincinnati Financial Corporation's 15.1 percent profit margin (12-month net income divided by sales) is the highest among *Forbes'* top 28 publicly traded U. S. property and casualty insurers.

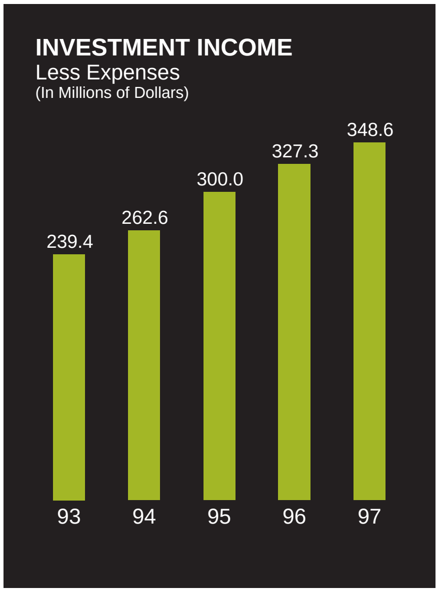
Best's Review (January 1998): Best's ranks Cincinnati Financial in the first tier of "market leaders—those that maintain a competitive distribution advantage…and carry A.M. Best's highest ratings."

Conning Commentary (February 1998): Conning named Cincinnati to their Steller Performer category based on operating ratios for all insurance lines combined from 1985-1996. They analyzed 158 insurance carriers, concluding that a clear focus paired with effective execution leads to success for companies of all sizes and distribution models.

USING STRENGTH TO INVEST STRATEGICALLY

Exceptional financial strength is what allows Cincinnati Financial to balance safety and return while pursuing an aggressive, equity-centered investment strategy. Our surplus, more than ample for our insurance operations, supports a highly effective total return strategy that is atypical for our industry.

Historically, we have achieved steadily increasing income and appreciation by managing companies in the portfolio the same way we manage insurance agency relationships—select a few very good ones poised to continue profitable growth, take a large stake and pay close personal attention. With strong surplus, we can continue to increase income and assets by accepting reasonable risks associated with concentrated equity investments and with our preference for bonds that hold potential for upgrades. This philosophy led to unusual profitability and a surge in book value during 1997. The market recognized the growing net worth of your Company when CINF became an S&P 500 Index stock on December 17.



34 of the 62 stocks in the equity portfolio announced dividend increases in 1997, boosting future annualized income by $8.1 million.

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.

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.

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.

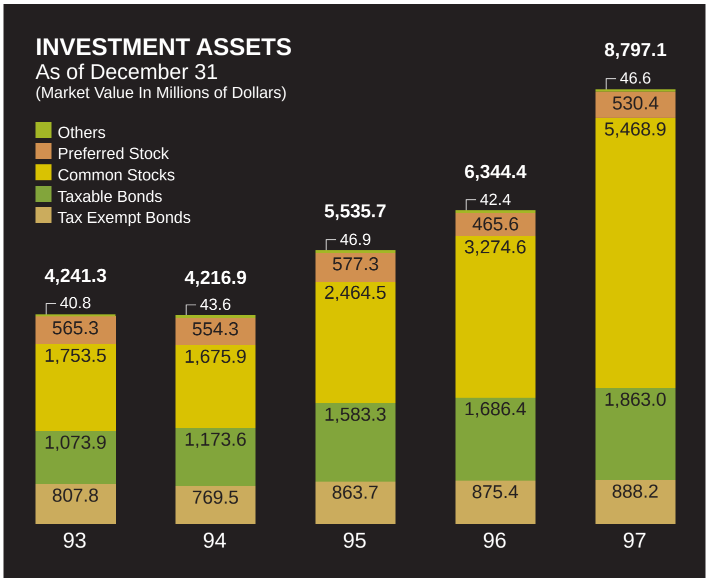
Life and Accident and Health—CFC's life insurance subsidiary had total net premium income for 1997 of $62.9 million, up from $56.4 million in 1996 and $50.9 million in 1995. Life insurance premiums were $54.7 million, $48.7 million and $43.6 million, respectively. The life insurance subsidiary contributed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

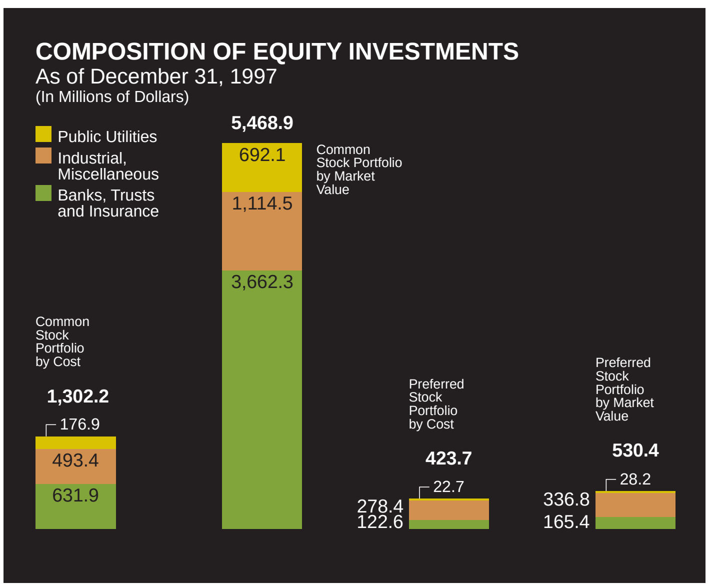
During 1997, the Company hired a new president for the life insurance subsidiary. Under his direction, the life insurance subsidiary is expanding worksite marketing activities, introducing a competitive new life insurance product series and researching opportunities to sell life insurance in states in 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.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Cincinnati Financial Corporation and subsidiaries for the year ended December 31, 1997 were prepared by management in conformity with generally accepted accounting principles.

The management of the Company is responsible for the integrity and objectivity of the financial statements, which are presented on an accrual basis of accounting and include amounts based upon management's best estimates and judgment. Other financial information in the Annual Report is consistent with that in the financial statements. The accounting plan and related system of internal controls are designed to assure that the books and records reflect the transactions of the Company in accordance with established policies and procedures as implemented by qualified personnel.

The Board of Directors has established an Audit Committee composed of outside Directors who are believed to be free from any relationships that could interfere with the exercise of independent judgment as Audit Committee members. The Audit Committee meets periodically with management, the independent auditors and the internal auditor to make inquiries as to the manner in which the responsibilities of each are being discharged and reports thereon to the Board of Directors. In addition, the Audit Committee recommends to the Board of Directors the annual appointment of the independent auditors with whom the Audit Committee reviews the scope of the audit assignment, adequacy of internal controls and internal audit procedures.

Deloitte & Touche LLP, independent auditors, have audited the financial statements of Cincinnati Financial Corporation and subsidiaries for the year ended December 31, 1997 and their report is included herein. The auditors meet with members of the Audit Committee of the Board of Directors to discuss the results of their examination and are afforded the opportunity to present their opinions in the absence of management personnel with respect to the adequacy of internal controls and the quality of financial reporting of the Company.

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche LLP

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	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.

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 10½%. 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)	Years 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

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	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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)

	Income (Numerator)	Shares (Denominator)	Per Share Amount
1997			
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
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).

(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**

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

SUBSIDIARY OFFICERS AND DIRECTORS

AS OF DECEMBER 31, 1997, LISTED ALPHABETICALLY

The Cincinnati Insurance Company (CIC)
The Cincinnati Casualty Company (CCC)
The Cincinnati Indemnity Company (CID)
The Cincinnati Life Insurance Company (CLIC)
CFC Investment Company (CFC-I)

EXECUTIVE OFFICERS

William T. Camp
CFC-I President and Director

Theodore F. Elchynski
CIC, CID, CCC, CLIC, CFC-I Senior Vice President—Accounting, Secretary and Director
CIC, CID, CCC Treasurer

James G. Miller
CIC, CID, CCC, CLIC, CFC-I Senior Vice President — Investments
CFC-I Treasurer and Director
CIC, CID Director

Robert B. Morgan
CIC, CID, CCC, CLIC Chief Executive Officer and Director
CIC, CID President
CFC-I Director

Larry R. Plum, CPCU
CCC President and Director
CIC, CID Senior Vice President—Personal Lines and Director
CLIC Director

David H. Popplewell, FALU, LLIF
CLIC President, Chief Operating Officer and Director

J. F. Scherer
CIC, CID, CCC, CLIC Senior Vice President—Sales & Marketing and Director

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CLIC, CFC-I Director

John J. Schiff, Jr., CPCU
CIC, CID, CCC Chairman of the Board and Director
CLIC, CFC-I Director

Timothy L. Timmel
CIC, CID, CCC, CLIC, CFC-I Senior Vice President—Operations and Director

OFFICERS AND DIRECTORS

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CIC, CID, CCC Secretary—Claims

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CCC Director

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CIC, CID, CCC Assistant Vice President—Accounting

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CLIC Director

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CCC Director

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CCC Director

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CIC, CID, CCC Assistant Secretary—Information Systems

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CCC Director

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CIC, CID, CCC Secretary—Field Claims

Ronald L. Robinson
CIC, CID, CCC Assistant Secretary—Field Claims

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CIC, CID, CCC, CLIC Director

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CIC, CID Director

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Dennis D. Shamp
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CIC, CID, CCC Secretary—Publications

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CLIC Treasurer and Director

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CLIC Assistant Secretary—Sales & Marketing

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CIC, CID, CCC Secretary—Claims

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CLIC Vice President—Sales & Marketing

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CIC, CID Director

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CIC, CID Director

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CIC, CID, CCC, CLIC, CFC-I Vice President—Personnel

Edward P. Brueggeman
CIC, CID, CCC, CLIC Associate Counsel

John F. Gannon
CIC, CID, CCC, CLIC Associate Counsel

Eugene M. Gelfand
CIC, CID, CCC, CLIC Counsel

Mark J. Huller
CIC, CID, CCC, CLIC Senior Counsel

G. Gregory Lewis
CIC, CID, CCC, CLIC Counsel

Lisa A. Love
CIC, CID, CCC, CLIC Associate Counsel

Barry A. Meyer
CIC, CID, CCC, CLIC Associate Counsel

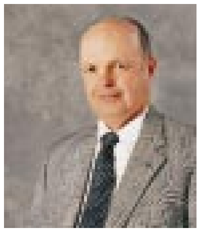
Stephen C. Roach
CIC, CID, CCC, CLIC Associate Counsel

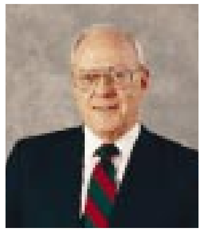
CIC DIRECTORS EMERITI

Vincent H. Beckman
Hayden D. Davis
Robert J. Driehaus
Richard L. Hildbold, CPCU
Harry M. Turner, Chairman Emeritus
Robert B. Woods
William H. Zimmer

CINCINNATI FINANCIAL CORPORATION OFFICERS AND DIRECTORS


William F. Bahl


Michael Brown

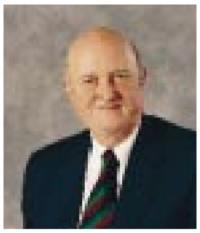

Richard M. Burridge


John E. Field


William R. Johnson


Kenneth C. Lichtendahl


James G. Miller


Robert B. Morgan


Jackson H. Randolph


John J. Schiff


John J. Schiff, Jr.


Robert C. Schiff


Thomas R. Schiff


Frank J. Schultheis


Larry R. Webb


Alan R. Weiler

DIRECTORS EMERITI

Vincent H. Beckman
Robert J. Driehaus
David R. Huhn
Lawrence H. Rogers, II(3)
John Sawyer
David B. Sharrock
Thomas J. Smart
Harry M. Turner
Charles I. Westheimer
William H. Zimmer

OFFICERS AS OF DECEMBER 31, 1997

Robert B. Morgan
President and Chief Executive Officer

John J. Schiff, Jr., CPCU
Chairman of the Board

John J. Schiff
Chairman of the Executive Committee

Theodore F. Elchynski
Senior Vice President, Chief Financial Officer, Secretary and Treasurer

James G. Miller
Senior Vice President, Chief Investment Officer, Assistant Secretary and Assistant Treasurer

Kenneth S. Miller, CLU, ChFC
Vice President, Assistant Secretary and Assistant Treasurer

Kenneth W. Stecher
Vice President, Assistant Secretary and Assistant Treasurer

DIRECTORS AS OF DECEMBER 31, 1997

William F. Bahl, CFA(2)(5)
President—Bahl & Gaynor, Inc.
(investment advisors)
Director since 1995

Michael Brown(2)(6)
President and General Manager—
Cincinnati Bengals, Inc.
Director since 1980

Richard M. Burridge, CFA(1)(5)
Chairman—The Burridge Group, Inc.
(investment advisors)
Director since 1987

John E. Field, CPCU(4)
Vice Chairman—Wallace & Turner, Inc.
(insurance agency)
Director since 1995

William R. Johnson
President and Chief Operating Officer—
H. J. Heinz Company
Director since 1996

Kenneth C. Lichtendahl(1)(2)
President and Chief Executive Officer—
Hudepohl-Schoenling Brewing Company
Director since 1988

James G. Miller
Senior Vice President and Chief Investment Officer—Cincinnati Financial Corporation
Director since 1996

Robert B. Morgan(4)(5)
President and Chief Executive Officer—
Cincinnati Financial Corporation
Director since 1978

Jackson H. Randolph(1)(5)(6)
Chairman—CINergy Corporation
Director since 1986

John J. Schiff(4)(5)
Chairman of the Executive Committee—
Cincinnati Financial Corporation
Director since 1968

John J. Schiff, Jr., CPCU(4)(5)(6)
Chairman—Cincinnati Financial Corporation
Director since 1968

Robert C. Schiff
Chairman and Chief Executive Officer—
Schiff, Kreidler-Shell, Inc. (insurance agency)
Director since 1968

Thomas R. Schiff(5)
Chairman and Chief Executive Officer—
John J. & Thomas R. Schiff & Co., Inc.
(insurance agency)
Director since 1975

Frank J. Schultheis(4)
President—Schultheis Insurance Agency, Inc.
Director since 1995

Larry R. Webb, CPCU
President—Webb Insurance Agency, Inc.
Director since 1979

Alan R. Weiler, CPCU(4)
President and Chief Executive Officer—
Archer-Meek-Weiler Agency, Inc.
(insurance agency)
Director since 1992

(1) Audit Committee
(2) Compensation Committee
(3) Advisor to Compensation Committee
(4) Executive Committee
(5) Investment Committee
(6) Nominating Committee

SHAREHOLDER INFORMATION

Cincinnati Financial Corporation had approximately 10,320 shareholders of record as of December 31, 1997. Most of CFC's 2,670 associates and many of our independent agent representatives own stock in their Company. 49 percent of CFC's outstanding shares are held by registered owners.

ANNUAL MEETING

The Annual Meeting of Shareholders of Cincinnati Financial Corporation will take place at 9:30 a.m. on Saturday, April 4, 1998, at the Cincinnati Art Museum in Eden Park, Cincinnati, Ohio.

SHAREHOLDER SERVICES

Please direct inquiries about stock transfer, dividend reinvestment, dividend direct deposit, lost certificates, change of address and elimination of duplicate mailings to T. F. Elchynski, Chief Financial Officer, Cincinnati Financial Corporation, P.O. Box 145496, Cincinnati, Ohio 45250-5496, (513)870-2639 or e-mail to investor_inquiries@cinfin.com.

FORM 10-K

Shareholders may request a copy of Form 10-K for 1997. Cincinnati Financial Corporation files the Annual Report on Form 10-K with the Securities and Exchange Commission. You may access this document through a link to the SEC's EDGAR database from our Web site, www.cinfin.com.

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 ¼**	**$ 82 ½**	**$ 83 ¾**	**$ 140 ¾**	$ 64 ¼	$ 63 ½	$ 58 13/16	$ 65 3/16
Low	**62**	**67 ⅜**	**78 ½**	**83 ⅞**	57 ⅝	57 ⅜	54	54 ¼
Dividend Paid	**.37**	**.41**	**.41**	**.41**	.32	.37	.37	.37

SELECTED QUARTERLY FINANCIAL DATA

(000's omitted except per share data)

Financial data for each quarter in the two years ended December 31,

	1997				
Quarter	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**

	1996				
Quarter	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.

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The Cincinnati Insurance Company
The Cincinnati Casualty Company
The Cincinnati Indemnity Company
The Cincinnati Life Insurance Company
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P.O. Box 145496
Cincinnati, Ohio 45250-5496
(513) 870-2000

www.cinfin.com