Cincinnati Financial Corporation

1998 Annual Report

voices of strategy

"Field personnel operate out of their homes and come around often to build personal relationships. They will tackle just about anything and it makes life easier."

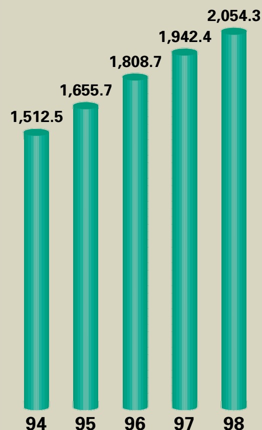
"Many companies tell us how much they value their relationships with agents…but it is an honor to represent a company that 'walks the talk.'"

voices of experience

"Your storm team worked for three weeks and closed over 80% of the hail claims. The 'advertising' we received from this service cannot be purchased."

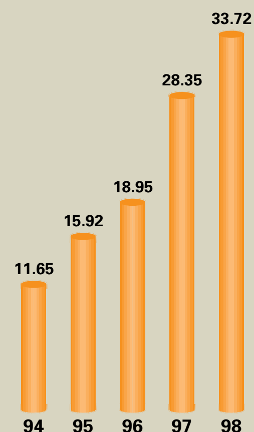
"Our insured would not change companies for the lower premium. The service has been excellent and that was the final deciding factor."

Revenues
(in millions of dollars)



Revenues advanced 5.8% in 1998 to an all-time high.

Book Value*
Per Common Share
(in dollars)



*Adjusted to reflect 5% stock dividends paid in April 1995 and 1996 and a 3-for-1 stock split paid in May 1998.

1998 book value rose 18.9%. Return on equity, including net unrealized gains, was 19.6%.

Cincinnati Financial Corporation

Our mission is 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; by producing competitive, up-to-date products and services; and by developing associates committed to superior service.

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

- **The Cincinnati Insurance Company, the lead property and casualty insurance subsidiary, was founded in 1950. It now markets a broad range of business and personal policies in 29 states, operating with a strong customer focus on an elite corps of 978 local independent agencies.**
- **The Cincinnati Casualty Company and The Cincinnati Indemnity Company round out the A++ rated property and casualty 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.**
- **CinFin Capital Management Company, which began operating in 1999, offers investment management services to corporations, institutions and high net worth individuals.**

The Company's investment portfolio, the primary source of profits, employs a total return strategy with an equity focus. The portfolio produces current earnings and long-term appreciation, leading in 1998 to record book value and the 38th consecutive year of increased cash dividends to shareholders.

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Financial Highlights

Cincinnati Financial Corporation and Subsidiaries

Comparative results 1998-1997
(000's omitted except per share data and ratios)

	1998	1997	% Change
OPERATING PERFORMANCE			
Revenues	**$ 2,054,289**	$ 1,942,384	5.8
Income Before Income Taxes	**307,107**	394,559	(22.2)
Net Operating Income	**199,116**	254,375	(21.7)
Net Capital Gains (After Tax)	**42,451**	45,000	(5.7)
Net Income	**241,567**	299,375	(19.3)
FINANCIAL POSITION			
Total Assets	**11,086,503**	9,493,425	16.8
Shareholders' Equity	**5,620,936**	4,716,965	19.2
PER SHARE DATA			
Net Operating Income	**1.19**	1.54	(22.7)
Net Capital Gains	**.26**	.27	(3.7)
Net Income	**1.45**	1.81	(19.9)
Net Income (Diluted)	**1.41**	1.77	(20.3)
Dividends Declared	**.61⅓**	.54⅔	12.2
Book Value	**33.72**	28.35	18.9
Average Shares Outstanding	**166,821**	165,538	.8
PERFORMANCE RATIOS			
Combined Ratio	**103.6**	97.7	6.0
Return on Equity	**4.7**	7.6	(38.2)
Return on Equity Including Net Unrealized Gain and Loss	**19.6**	42.6	(54.0)

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

This report contains forward-looking statements that involve potential risks and uncertainties. Please see the Management Discussion, page 16, for factors that could cause results to differ materially from those discussed.

To Our Shareholders

VOICES OF STRATEGY

A strong customer focus on the local independent agent drives the strategies that differentiate Cincinnati Financial Corporation and The Cincinnati Insurance Companies:

- A flat operating structure—a single headquarters and no branch offices—saves money and speeds response time to our customers.
- A strong local field presence gives us a field underwriting advantage and service superiority in claims and other areas.
- Exclusivity of our agency contract creates a valued franchise, fueling growth through increased penetration of agencies and easier entry into new territories.
- Agent access to executive management boosts our knowledge of markets and positions us to respond quickly to changes.
- Underwriting for a profit gives us a cushion to ride out market disruptions, preserving agent and customer relationships.
- A total return investment strategy enhances shareholder value by stabilizing earnings and increasing net worth.
- Exceptional financial strength means we can change and grow while maintaining the high ratings that help agents sell our products to preferred risks.

These strategies share two subtexts. First, their effective implementation depends on talented, can-do people willing to work above and beyond the call. It requires the executive to travel, the underwriter to stay on the phone and find a solution, the claims representative to provide around-the-clock service with genuine concern and care, the marketing representative to call on each agent regularly and ask for business, the investment manager to meet and monitor management of the companies selected for our portfolio.

Secondly, these strategies require those people to be exceptional listeners, ready to respond flexibly to individual agents and individual accounts. While other insurers make wholesale moves in and out of entire markets, territories and lines, Cincinnati people do the detail work that lets us stay the course. They listen and learn, then tailor decisions and programs in each case.

This report brings you the voices of a few of the people responsible for weaving these strategies into a synergistic system and translating them into action. These are Cincinnati's voices of strategy, voices that take their power from the experience of working hard and listening closely.

What is your assessment of Cincinnati Financial Corporation's 1998 results?

President and CEO Bob Morgan:

"After an outstanding 1997 and first quarter 1998, we had disappointing results for the remaining quarters and for the year. The variable in our results over the past 30 years has been the amount of major storm activity in the areas where we write insurance. 1998 was unusual. Seventeen catastrophe-level storms hit every state where we operate except North Dakota and Montana.

"Net income was $241.6 million, a tough comparison to almost $300 million for 1997. Net operating income for 1998 was $199.1 million, higher than any year except 1997 and not so bad considering our $93.5 million bill for this year's catastrophes. There are positive signs. Our expense ratio continues to trend down after a lot of technological investment, and we continue to grow at more than double the industry average."

> "Our expense ratio continues to trend down after a lot of technological investment, and we continue to grow at more than double the industry average."

Chairman and Chief Operating Officer Jack Schiff, Jr.:

"I agree with Bob. Our expenses are modest. We're in pretty good shape with investment income higher than ever, $368 million before taxes, and a healthy balance sheet. CFC's investment focus on equities made for a good year from the standpoint of overall appreciation and our book value rose about 19 percent to $33.72. Numbers don't tell the whole story—our agents are optimistic, our field claims staff is stronger and our geographic scope is wider."

How has the management transition announced last April worked?

Bob Morgan:

"CFC is at a turning point, ready for the next generation of leaders. 1998 marked the retirement of senior officers Bill Camp, President of CFC Investment Company, and Frank Love, Senior Vice President of Administrative Services. And in November, we appointed a new director, E. Anthony Woods, President and Chief Executive Officer of Deaconess Associations, Inc., a health care organization. He fills the seat formerly held by Jack Schiff, Sr., who died this past October. In 1991, I took over from Jack as Chief Executive Officer. Now I'm preparing to retire this April myself and turn over CEO responsibilities to Jack Schiff, Jr.

"He's had 30 years of the best possible training—running an independent agency plus serving as Chairman of CFC's board. Because he has traveled and seen agents and participated in sales meetings for 15 years, it's been a smooth transition. He has eased into control over all operational areas. People are secure with the change. Agents would tell you it's been business as usual—and the agent is our customer."

Jack Schiff, Jr.:

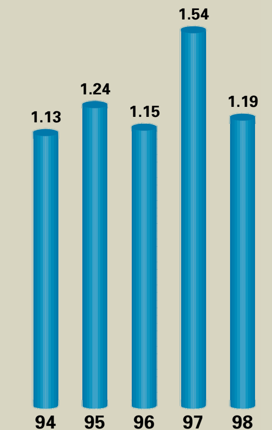
"The biggest challenge is to adjust to a faster pace than I ever imagined. I am blessed because

Net Income/ Dividends Paid*
Per Common Share
(in dollars)

*Adjusted to reflect 5% stock dividends paid in April 1995 and 1996 and a 3-for-1 stock split paid in May 1998.

Dividends paid rose for the 38th consecutive year.

Net Operating Income*
Per Common Share
(in Dollars)



*Adjusted to reflect 5% stock dividends paid in April 1995 and 1996 and a 3-for-1 stock split paid in May 1998.

1998 earnings included 36 cents for catastrophe losses.

Chris Smith Photography

Chairman and Chief Operating Officer John J. Schiff, Jr., CPCU and President and Chief Executive Officer Robert B. Morgan, in front of the Company's expanding headquarters site in Fairfield, Ohio.

"Jack Schiff, Jr., has eased into control over all operational areas. People are secure with the change."

Bob has put into place experienced managers with good judgment, dedication and job knowledge. They carry the day."

What will be the most significant sources of growth in the future?

Bob Morgan:

"We'll grow by identifying the specialty policies and products agents want most. We write as much of an agent's book of business as we can so they can meet the needs of their clients without the expense of working with additional specialty carriers. We'll develop broad coverages without a lot of exclusions because that's what our customers want. We'll offer one-stop service by increasing the profile of our life insurance and leasing arms over the coming years. And our newest subsidiary, CinFin Capital Management, gives us the potential to generate fee-based income by making our internal investment expertise available externally."

Jack Schiff, Jr.:

"Our best opportunity for revenue and earnings growth is going to be these same local agents. As they merge and become larger, we will increase our volume and penetration. Plus, we'll appoint a high caliber of agencies in new and existing states and territories to offset merged agencies, keeping our agency appointments under 1,000, which is an optimal number for maintaining personal relationships. We'll look at expanding into states contiguous to existing territories, states with favorable regulatory environments. We're working on Utah and Idaho for 1999."

What is CFC doing to increase shareholder value?

Jack Schiff, Jr.:

"Our fundamentals are sound and our performance over the long run should reward investors who stay with us through difficult periods like 1998. We are committed to consistent growth of shareholder value. 1998 was our 38th consecutive year of increased cash dividends. Dividends paid per share rose to 59⅔ cents in 1998 from 17 cents in 1988, adjusted for stock dividends and splits,

"We'll look at expanding into states contiguous to existing territories, states with favorable regulatory environments. We're working on Utah and Idaho for 1999."

> “Our fundamentals are sound and our performance over the long run should reward investors who stay with us through difficult periods like 1998.”

including a three-for-one in May. That’s a 13.4 percent compound growth rate for the ten years through 1998. We’ve declared a 10.9 percent increase in the cash dividend for 1999’s first quarter, raising the indicated annual dividend to 68 cents per share.”

Bob Morgan:

“We believe the Company’s common stock represents an attractive investment, with its price currently below year-end book value. Recently, the Board authorized repurchase of up to 17 million shares by year-end 2000. We plan to buy back about 10 percent of our outstanding shares, and we’ve increased our quarterly dividend 10.9 percent, to affirm our confidence in our people, our business strategy and outlook for the future.”

Robert B. Morgan
President and Chief Executive Officer

John J. Schiff, Jr., CPCU
Chairman and Chief Operating Officer

Remembering
JOHN J. SCHIFF, 1916-1998

Independent Insurance Agent

Courtesy of The Ohio State University

Jack Schiff and The Ohio State University Marching Band

Of all of the ways to describe Jack Schiff, the phrase that brought him the most honor was “independent insurance agent.” Jack became an independent agent in 1938, founding the John J. Schiff Agency. After serving in the U.S. Navy during World War II, he proposed an idea to three other Ohio agents—Harry M. Turner, Chester T. Field and Robert C. Schiff. Jack conceived of *“a company sponsored by excellent agents and one that would build the relationship of partnership with agents.”*

In 1950, they organized The Cincinnati Insurance Company. Success broadened the scope of the enterprise, creating Cincinnati Financial Corporation, now a Fortune 1000 corporation with six subsidiaries. Yet Jack never stopped being an agent, first and foremost. He remained a licensed and active agent for several years after retiring as Chief Executive Officer of Cincinnati Financial Corporation in 1991.

Jack worked with boundless energy to show that local independent agents are the best way to deliver the industry’s benefits to the public. While many insurers see independent agents as a distribution channel, Jack’s company saw them as founders, directors on the Board and executive officers. Today, seven agent directors have voices on the Cincinnati Financial Board; and senior officers, including Jack Schiff, Jr., Larry Plum, J.F. Scherer and Tom Joseph, speak from years of agency experience. Jack’s voice lives on in traditions born of the agency experience and nurtured in our Company:

“Take care of your pennies and the dollars will take care of themselves.” Well-managed agencies control postage and paper costs and get better results by doing business in person. Today, Cincinnati has low company expenses and a reputation for person-to-person relationships.

“Where the arts flourish, business also prospers.” Local agents forge strong connections to their communities, taking the lead in creating and protecting quality of life. Today, the Company supports the arts, schools and charities with volunteers and dollars.

“Insurance is the business of trust.” Agents build a network of clients by earning and rewarding loyal friends. Today, the Company Jack built merges a strong work ethic with the Golden Rule, offering policies and claim service that treat people the way we would want to be treated. That’s his legacy, the legacy of an *“excellent agent”*…and our pledge.

Operations Review

VOICES OF EXPERIENCE

The agent/customer-driven strategies described in the preceding pages form the foundation for CFC's action plans and achievements. In the next pages, you'll hear from executives with hands-on experience working out the details of our processes, products and services.

Many of CFC's managers and executives are homegrown and most have cross-trained for years in several operational areas, developing an integrated understanding of the agents' needs. All of them have learned to tune in the agent's voice and let it guide CFC to continuous improvements.

In this operations review, these "voices of experience" join Bob Morgan and Jack Schiff, Jr., to respond to issues of 1998 and beyond:

Theodore F. Elchynski is CFC's Chief Financial Officer, head of the Accounting and Shareholder Services Departments and President of CFC Investment Company. Ted has served CFC for 38 years.

Thomas A. Joseph, CPCU, leads the Commercial Lines Department. Tom's 21-year association with CFC includes agency, marketing, information systems and claims experience.

James G. Miller, CFC's Chief Investment Officer and President of the newly formed CinFin Capital Management Company, joined the Company in 1966.

Larry R. Plum, CPCU, was a local independent agent in Circleville, Ohio, for 15 years before joining CFC 11 years ago. He heads the Personal Lines Department and is President of The Cincinnati Casualty Company.

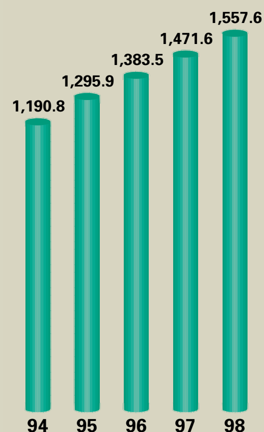
David H. Popplewell, FALU, LLIF, joined the Company in 1997, bringing 30 years of life insurance experience to his position as President and Chief Operating Officer of The Cincinnati Life Insurance Company.

J.F Scherer's 25 years of experience include ten in his family's Ironton, Ohio agency. As head of the Sales & Marketing Department, he directs field marketing representatives and agency relationships.

Timothy L. Timmel is Senior Vice President of Operations, with responsibility for staff departments including Claims, Field Claims, Legal, Government Relations, Personnel, Education and Publications. He has 28 years of CFC experience.

Net Written Premium

CFC Property Casualty Companies
(in millions of dollars)



New business more than offset soft pricing in 1998.

Premium Growth Rate

Estimated Industry Average
CFC

CFC premiums grew three times faster than the industry in 1998.

Is CFC's geographical expansion driving higher catastrophe losses?

Bob Morgan:

"No. Broader geographical scope is a positive. Roughly 75 percent of 1998 catastrophe losses occurred in core states—the dozen highest volume states where we've marketed for 15 years or longer. We had about $100 million in business from states entered since 1994—Maryland, Arkansas, Minnesota, North Dakota, Montana and New York. We're on a good pace but don't have the volume that creates catastrophe exposure."

J.F. Scherer:

"Generally, we launch new territories with commercial business, appointing agencies for personal lines as the relationship becomes established and they understand our field underwriting philosophy. While we're moving more quickly now to introduce personal lines, those newer states just don't have the concentration of personal policies often associated with catastrophe claims."

> "Field personnel operate out of their homes and come around often to build personal relationships. They will tackle just about anything and it makes life easier."
>
> John H. Root, The A.C. Root Agency, Inc., Clinton, IA

Tim Timmel:

"Hail in Kentucky and Hurricane Georges across several southern states led this year's storm claims activity. Only two of our 29 states escaped this year's severe weather, and those were North Dakota and Montana, two newer states."

Are you changing the way you work with agents?

J.F. Scherer:

"We don't take a cookie-cutter approach to who represents us and how we treat them. Our agencies come in all sizes and have different appetites. Our job is to be quick and flexible enough to stay attuned to larger, as well as smaller, agencies. Marketing representatives in the field have an enormous amount of authority and decision-making flexibility to work with each agency differently, as justified by the particular circumstance.

"We'll ask agents to consolidate the carriers in their offices and give us a larger portion of their business. Average agency volume is about $8.8 million and our part of that is about $1.6 million per agency, just shy of 20 percent penetration. There is opportunity."

> "Many companies tell us how much they value their relationships with agents…but it is an honor to represent a company that 'walks the talk.'"
>
> Terry L. Williams, CIC, Langford Insurance Agency, Vienna, VA

Jack Schiff, Jr.:

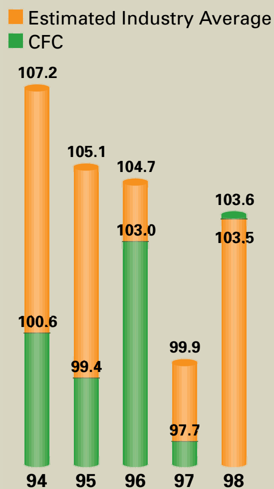
"We continue to help them build their own success in their communities. Agencies can differentiate themselves by having an exclusive Cincinnati contract and getting the benefits of our claim service for their policyholders. We give them a valuable franchise."

How will you increase agency penetration?

Tom Joseph:

"More and better insurance products extend our capabilities to meet changing needs. For example, this year we introduced Worldwide Commercial General Liability, Actual Loss Sustained Business Income and Contractors' Limited Pollution Liability. We updated our

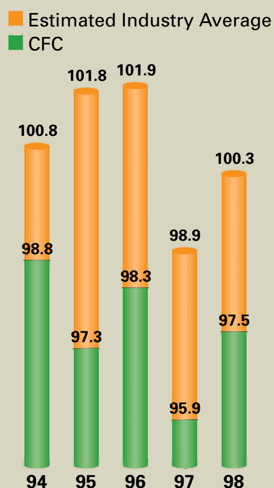
Combined Loss and Expense Ratio* on Property Casualty Business



*Before policyholder dividends

CFC's highest ever ratio matched the industry performance in 1998.

Excluding Catastrophe Losses
Combined Loss and Expense Ratio* on Property Casualty Business



*Before policyholder dividends

CFC's 1998 catastrophe losses masked consistently superior underwriting results.

Building and Personal Property coverage form and package policies for artisan contractors and religious institutions."

Larry Plum:

"We'll make doing business with Cincinnati easier. We'll offer agencies incentive loans, agency perpetuation planning, advice from management consultants and peer roundtables. In 1998, we started sending people into agents' offices to process the transfer of blocks of business from other carriers to Cincinnati. In 1999, we'll help agents develop best practices for personal lines marketing. In 2000, agents will have a new direct bill option."

"Cincinnati is by far the best in the commercial market. Their umbrella is as broad as I've seen and their rates are competitive."

Dick Lash, Hubbard-Insurance Agency, Farmville, VA

Bob Morgan:

"We'll ask for business. Marketing representatives, executives, underwriters…we'll all increase our presence in agencies."

What is CFC doing to overcome commercial marketplace challenges?

Jack Schiff, Jr.:

"We have the underwriting expertise and discipline to leave business on the table when there is no reasonable profit expectation. Years of industry price competition have created thin margins, so we look closely at risks with unsatisfactory loss records and sustain the relationship by correcting the rate. We nurture the agency relationship and encourage renewal business."

"It was my first experience working with the special risks unit. Thanks for your 'We can make this happen!' approach."

Michael S. Steiner, CPCU, CIC, Steiner Insurance Agency, Inc., Wooster, OH

J.F. Scherer:

"Carriers are standing in line to write policies at any price. Our greatest strength is informed and experienced underwriters sitting in the agent's office or the policyholder's business and discerning if we should accept the risk, if it needs an innovative form, what price should be charged. That's why agents gave Cincinnati $218 million of new business in 1998, enough to offset soft pricing and increase property and casualty net written premiums 5.8 percent. Commercial premiums grew 3.3 percent with a 61 percent loss ratio. We balance growth and profitability."

Tom Joseph:

"We compete on value more than price. That means rapid quoting ability, claim service superiority, loss control services for workers' compensation accounts, broad coverages backed by financial strength. We are positioning ourselves to handle larger, more sophisticated accounts. We have filings in all 50 states so we can handle multi-state risks.

"Our claims representative met me at an insured's on a holiday to assess a loss and made instant contacts with VIP clients at our request."

Steven L. Squires, CPCU, CIC
Norman E. Johnson, Inc., Madison, WI

Our special accounts unit helped remove barriers to writing 82 new jumbo accounts with premiums averaging over $100,000 each."

While firefighters still battled hot spots, the policyholder received a check to pay for restoration of a damaged building and demolition of two destroyed buildings in Winston-Salem, NC. This was CFC's largest fire loss ever. Left to right: W. David Shannon, President of Wolf Pond Development Corp, the policyholder; Agent Buddy L. McSwain, CPCU, CIC, President of The Phoenix Company; James F. Callahan, CPCU, AIC, Cincinnati's Field Claims Manager.

What is CFC doing to drive profitable growth in personal lines?

Bob Morgan:

"Profitable is the operative word. While personal insurance premiums grew

Winston-Salem Journal/Jessica Mann ©1998 Piedmont Publishing Company, Inc.

11 percent in 1998, the loss ratio was 73.8 percent. We're addressing this with homeowners rate increases in the three to five percent range in selected territories and with a 1999 re-underwriting program for about 200 agencies."

Larry Plum:

"Cincinnati maintains quality features other insurers have restricted, such as our guaranteed replacement cost, a three-year guarantee that rates won't increase, water damage coverage and an economic way to cover home businesses. In 1999, we'll have electronic transfer technology in our property casualty worksite marketing program. It will give us billing flexibility to be a player as the payroll deduction market takes off."

J.F. Scherer:

"More agents are recognizing the stability a solid personal lines book brings and how welcome that is. We allow the agent both the responsibility and privilege of deciding which policyholders get written. Cross-functional teams of marketing, underwriting, claims and information systems people continue to show agents the why and how of rolling over profitable business, moving it to Cincinnati from other carriers less committed to this marketplace and to agency distribution."

Are changes initiated by Cincinnati Life's new leaders having an impact?

Ted Elchynski:

"Cincinnati Life's net income decreased to $21.5 million this year from $29.2 million last

> "Thank you. Cincinnati has once again proven why our agency's trust in placing two-thirds of our volume with you is not misplaced."
>
> Chuck Mason, Mason Insurance Agency, Inc., Orange, VA

year. The difference came from a $6.5 million swing in net realized capital gains and higher expenses to revamp the product line and expand distribution."

Dave Popplewell:

"Activity is already picking up with introduction of our first wave of LifeHorizons brand products. In the second half of 1998, we introduced a new non-smoker worksite marketing product agents like, plus competitive term insurance products and a Roth IRA. Net written premiums rose

"Our agency exceeded our 1998 life production goal. We couldn't have done it without your brilliant underwriting."

Bob Redel, CLU, ChFC, LUTCF, AEP,
Naught-Naught Agency, Jefferson City, MO

20 percent. We project that premiums could grow at a 15-20 percent compound rate over the next five years.

"1999 roll-outs will include more products where we have a core competency, like Long-Term Guarantee Universal Life and Last Survivor Universal Life. We're working on giving agents a complete line, supplying non-core products through private label agreements with a third party—long-term care, disability income and equity products, including variable life. Cincinnati Life should be ready to meet the needs of 80-85 percent of an agent's clients. Agents will have a full range of choices to fund retirements and estate plans, preserve assets, provide pure life protection for some folks and appeal to others who want interest-sensitive products."

What steps are planned to increase the contribution from this business area?

Dave Popplewell:

"We'll increase penetration in property casualty agencies with this new generation of policies, and we'll develop an increased role for regional directors in finding business life solutions for commercial lines customers. To lower unit costs and accelerate revenues, we've started to appoint independent life agents and worksite marketers in Texas, California and other locations where Cincinnati has chosen not to have a property casualty presence. We can leverage our worksite marketing expertise and that's a booming market."

Bob Morgan:

"Our professionalism and knowledge of the market surpasses our competitors. We have a better persistency ratio than our competitors. Our goal, over the next five years, is to more than double this year's $110 million of written premium. People are going to be excited about the results."

How does your leasing company complement the insurance operations?

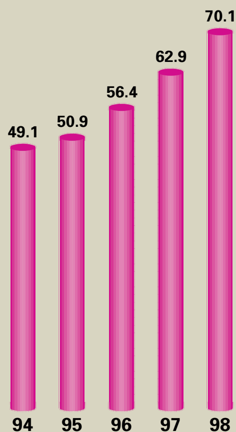
Ted Elchynski:

"CFC Investment Company increased revenues 16.7 percent and net income

"It is phenomenal how quickly your department responds when it really counts—at the time the promise of the policy is completed."

Dannie R. Fouts, CLU, Hummel & Plum
Life Insurance Agency, Circleville, OH

Net Premium Income
The Cincinnati Life Insurance Company
(in millions of dollars)



Total life, health, accident and annuity premiums earned rose 11.5% in 1998.

36.5 percent in 1998, to just over $3 million. That's mainly from vehicle and equipment leasing and financing services we make available to agents and their business insurance customers. This year we initiated a real estate mortgage program for owner-occupied buildings and wrote a lot of incentive leases for agents who agreed to meet premium production goals. We wrote a $1 million lease this year for a Maryland agent and see some golden opportunities to write more of these larger leases. Our growing field staff is calling on agents and their business policyholders in more areas."

What progress is CFC making toward your $2 billion premium goal?

J.F. Scherer:

"Two years ago, our planning committee looked ahead at all of the milestones we'll reach in the year 2000. It will be our 50th anniversary and our new $65 million headquarters building will be completed. Our new CEO will be in place and major technology initiatives will cause dramatic changes as agents, field associates and headquarters share policy information via an intranet. We suggested an ambitious goal for total property casualty and life premiums, $2 billion in direct written premium for the year 2000, to get our associates and agents on board for these changes and geared up to make the most of the opportunities they bring."

Jack Schiff, Jr.:

"This year's total direct written premiums exceeded $1.7 billion. The year 2000 goal may yet be attainable with great effort and help from the marketplace, in the form of firmer prices for some commercial lines. We'll balance growth with profitability. But the goal was never about just reaching some magical premium level. It's about improving our processes, taking our service and technology to the next level, inviting associates at all levels to step forward with ideas and take ownership of the Company's success in the next millennium. That's where we see clear progress."

"Our insured would not change companies for the lower premium. The service has been excellent and that was the final deciding factor."

John D. Smith, CIC, Clark/Colton Insurance Agency, Inc., Hinsdale, NH

Tim Timmel:

"Operationally, we're continuing to be innovative and productive. By educating associates, adopting the team approach and targeting process improvement, the commercial lines area handled 14 percent more files with no additional work hours and 27 percent fewer processing errors in 1998 versus 1997. They are now sending out cross-sell information about leasing services with their policies, dissolving department boundaries to meet corporate goals. The Claims Department reduced glass replacement costs while preserving customer choice, potentially saving about $2 million per year. And they've offered claimants the settlement option of Cincinnati Life annuities, doubling the structured settlement annuities written in 1998 to $16.7 million."

"Cincinnati's loss control recommendations are based on sound risk management principles and are well received by our clients."

Ken Kratovil, ARM, AAI
Wagner Agency, Inc., Pittsburgh, PA

Ted Elchynski:

"Associates have increased their knowledge and skills to prepare for challenges of the next few years. Technology training for systems like the one implemented this year for accounting is

extensive. Over the years leading up to 2000, we're investing $9.5 million to upgrade or replace systems. Ninety percent of that work is done now. Costs are now leveling off, but we'll continue to see benefits of increased efficiency in areas from claims to underwriting and from personnel to life insurance."

"I was impressed with the corporate culture and accessibility of the executives. Your people and their collective experience is your greatest asset."

John Daloisio, CPCU, CLU, Echnoz, Scalzott & Schutzman Insurance Group, Kittanning, PA

How did CFC's investment portfolio perform in 1998?

Jim Miller:

"Our 5.6 percent growth rate for investment income was very good by industry standards. Income of $368 million was a record, yet short of the double-digit growth we target internally for two reasons. One, we had less cash to invest due to catastrophe claims payments. Two, low interest rates led to a high rate of bond calls and proceeds couldn't be reinvested at comparable yields. That's why we invested in shorter-term bonds, keeping those funds liquid, and in tax-exempt municipal bonds, where higher after-tax yields flow to net income. Plus, we repurchased 736,240 shares of CFC stock during 1998, paying $33.86 per share on average. "

Jack Schiff, Jr.:

"On the bright side, dividends from our equity portfolio rose. We're concentrated in 57 stocks and 43 of them announced dividend increases in 1998, adding $16.4 million to annualized dividend income. We have an equity focus and a total return philosophy, so we look to equities for both income and appreciation. At the end of 1998, equity values rose, increasing net worth. The balance sheet shows shareholders' equity up 19.2 percent to $5.621 billion and assets up 16.8 percent to $11.087 billion. Those are all-time highs."

Bob Morgan

"Our investment team really has an expertise in high-yield bonds, municipal bonds, convertibles and common stock. We formed CinFin Capital Management this year and will begin during 1999 to offer asset management services externally, to other companies and insurance agencies. We'll start slowly in Ohio then expand to other states where we market insurance, over the coming years."

Are Cincinnati Financial's strengths documented by objective, external evaluation?

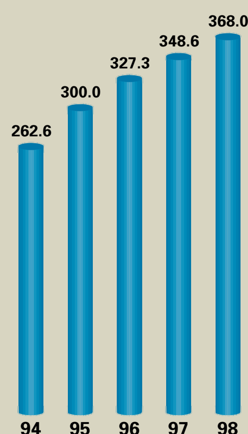
Jim Miller:

"This was Cincinnati Financial's first full year in the S&P 500 Index, and we think that's a comment on our consistency and strength. Standard & Poor's evaluated our financial strength as AA- and Moody's gave us an A2 for our 30-year senior debenture offering in May. They assigned an Aa3 insurance rating to the property casualty group, looking at our strong franchise as a regional agency underwriter, sound balance sheet with modest leverage and above-average underwriting profitability."

J.F. Scherer:

"Having the highest Best's rating, A++ Superior, shows the financial strength of our insurance companies. Independent surveys confirm our

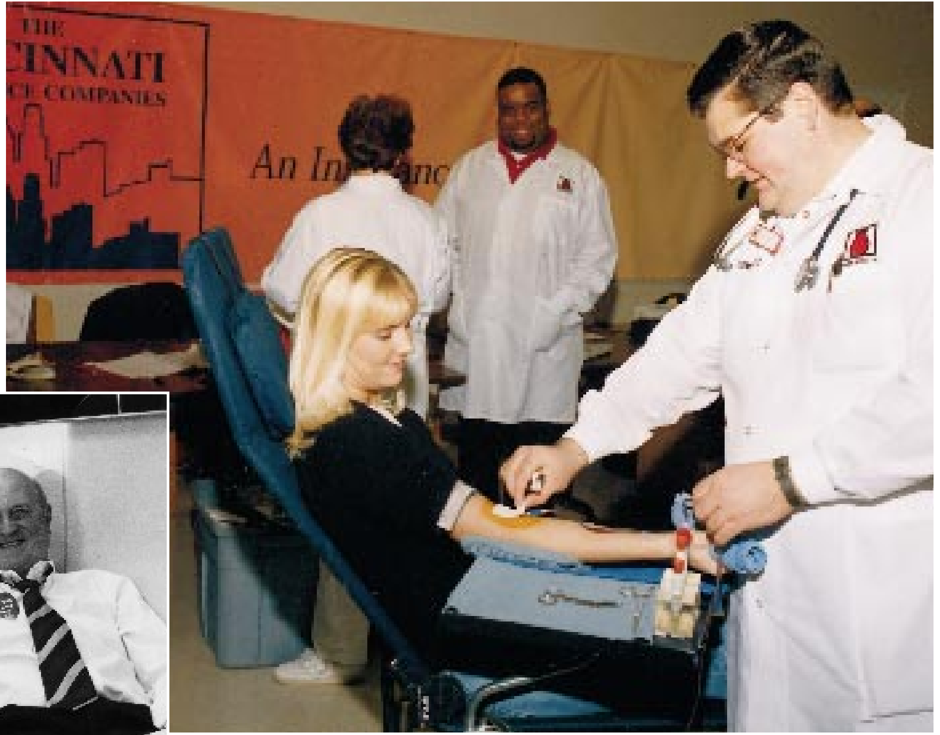
Investment Income
Less Expenses
(in millions of dollars)



Increased dividends from the common stock portfolio were the primary source of 1998 growth.

product and service strengths, too. *Crittenden's™ Property/Casualty Ratings* newsletter surveys thousands of agents across the country. They selected Cincinnati as the leading writer of commercial lines, with the best Business-owners Policy in the Mid-west and the best umbrella liability, inland marine and commercial auto coverages nationwide. A consumer magazine ranked Cincinnati among the top personal auto insurers. These ratings really help our agents at the point of sale."

Courtesy of Hoxworth Blood Center



McKenrick-Lee Photography

Bob Morgan chaired the 1997-98 Hoxworth Blood Center's Business Campaign. CFC associates turned out for the largest single-day blood drive in the center's history. Right: Kerri A. Vanlandingham, Personnel Department; below, Bob Morgan.

Dave Popplewell:

"Cincinnati's new AA+ rating from Standard & Poor's will help attract independent life agencies we plan to appoint in areas where Cincinnati isn't already a known name. Cincinnati Life, as well as the Cincinnati property casualty group, qualified again for Ward Financial Group's Benchmark 50. That's a list of insurers that give the best value to shareholders and policyholders, as measured by five years of quantitative data."

"Your storm team worked for three weeks and closed over 80 percent of the hail claims. The 'advertising' we received from this service cannot be purchased."

John D. Van Groll, Insurance Management, Inc., Little Chute, WI

What does CFC do to benefit the general public, as well as agents, policyholders and shareholders?

Bob Morgan:

"Cincinnati Financial is an active corporate citizen. We work with the community, especially in the arts and education areas. Key executives lend their leadership, associates volunteer their service, and we support well-managed nonprofits with modest financial contributions. It's also our duty to proactively study regulatory and legislative issues that could impact the Company's ability to do our best for shareholders and policyholders. In 1999, we'll work to support a proposal allowing insurers to set up policyholder safety reserves for future catastrophe losses. We'll monitor the financial services modernization debate and urge Congress to pass legislation that preserves state regulation of insurance."

"I commend your support and thank you for your interest and dedication to our young people. It is refreshing to have the support of the community behind us."

Karen Norton, Business Education, Midview High School, Grafton, OH

Selected Financial Information

(000's omitted except per share data and ratios)

Cincinnati Financial Corporation and Subsidiaries

	Years Ended December 31,			
	1998	1997	1996	1995
TOTAL ASSETS	**$11,086,503**	$9,493,425	$7,045,514	$6,109,298
LONG-TERM OBLIGATIONS	**$ 471,520**	$ 58,430	$ 79,847	$ 80,000
REVENUES				
Premium Income	**$ 1,612,735**	$1,516,378	$1,422,897	$1,314,126
Investment Income (Less Expense)	**367,993**	348,597	327,307	300,015
Realized Gains on Investments	**65,309**	69,230	47,946	30,781
Other Income	**8,252**	8,179	10,599	10,729
NET INCOME BEFORE REALIZED GAINS ON INVESTMENTS				
In Total	**$ 199,116**	$ 254,375	$ 192,595	$ 207,342
Per Common Share	**1.19**	1.54	1.15	1.24
NET INCOME				
In Total	**$ 241,567**	$ 299,375	$ 223,760	$ 227,350
Per Common Share	**1.45**	1.81	1.34	1.36
Per Common Share (Diluted)	**1.41**	1.77	1.31	1.33
CASH DIVIDENDS DECLARED				
Per Common Share	**$ .61⅓**	$ .54⅔	$ .48⅔	$ .42⅔
CASH DIVIDENDS PAID				
Per Common Share	**$ .59⅔**	$ .53⅓	$ .47⅔	$ .42
PROPERTY AND CASUALTY OPERATIONS				
Gross Premiums Written	**$ 1,656,476**	$1,566,688	$1,476,011	$1,377,426
Net Premiums Written	**1,557,581**	1,471,603	1,383,525	1,295,852
Premiums Earned	**1,542,639**	1,453,526	1,366,544	1,263,257
Loss Ratio	**65.4%**	58.3%	61.6%	57.6%
Loss Expense Ratio	**9.3**	10.1	13.8	14.7
Underwriting Expense Ratio	**28.9**	29.3	27.6	27.1
Combined Ratio	**103.6%**	97.7%	103.0%	99.4%
Investment Income Before Taxes	**$ 203,919**	$ 199,427	$ 190,318	$ 180,074
Property and Casualty Reserves				
Unearned Premiums	**$ 432,436**	$ 418,465	$ 401,562	$ 385,418
Losses	**1,432,212**	1,373,950	1,319,286	1,274,180
Loss Adjustment Expense	**408,113**	402,698	383,135	306,570
Statutory Policyholders' Surplus	**$ 3,019,828**	$2,472,532	$1,608,084	$1,268,597

*1993 earnings include a credit for $13,845 ($.08 per share) cumulative effect of a change in the method of accounting for income taxes to conform with SFAS No. 109 and a net charge of $8,641 ($.05 per share) related to the effect of the 1993 increase in income tax rates on deferred taxes recorded for various prior year items.

1994	1993	1992	1991	1990	1989	1988
$4,734,279	$4,602,288	$4,098,713	$3,513,749	$2,626,156	$2,602,990	$2,163,341
$ 80,000	$ 80,000	$ 80,000	$ 182	$ 202	$ 753	$ 890
$1,219,033	$1,140,791	$1,038,772	$ 947,576	$ 871,196	$ 813,313	$ 754,335
262,649	239,436	218,942	193,220	167,425	149,285	130,885
19,557	51,529	35,885	7,641	1,488	4,678	6,423
11,267	10,396	10,552	12,698	8,822	7,134	10,281
$ 188,538	$ 182,530*	$ 147,669	$ 141,273	$ 128,052	$ 111,477	$ 124,618
1.13	1.10*	.90	.86	.79	.69	.78
$ 201,230	$ 216,024*	$ 171,325	$ 146,280	$ 128,962	$ 114,490	$ 128,748
1.21	1.30*	1.04	.90	.79	.71	.81
1.18	1.27*	1.03	.89	.79	.70	.80
$ .38⅔	$ .34	$ .31	$ .27⅔	$ .24⅓	$ .22	$ .17⅓
$ .37⅓	$ .33⅓	$ .30	$ .27	$ .23⅔	$ .21	$ .17
$1,287,280	$1,216,766	$1,089,901	$ 996,807	$ 896,204	$ 845,346	$ 782,143
1,190,824	1,123,780	1,014,971	930,296	838,554	790,971	718,853
1,169,940	1,092,135	992,335	903,465	828,046	771,205	712,771
63.3%	63.5%	63.8%	61.6%	61.6%	61.6%	55.1%
9.8	8.7	9.0	9.2	9.0	9.0	10.1
27.5	27.9	29.0	28.9	29.0	29.1	30.7
100.6%	100.1%	101.8%	99.7%	99.6%	99.7%	95.9%
$ 162,260	$ 153,190	$ 141,958	$ 126,332	$ 110,827	$ 97,661	$ 84,379
$ 353,697	$ 333,550	$ 302,473	$ 280,404	$ 254,000	$ 244,011	$ 224,545
1,213,383	1,100,051	960,571	825,952	692,081	616,730	522,162
218,642	193,305	177,262	160,260	140,501	124,993	109,323
$ 998,595	$1,011,609	$ 933,529	$ 735,557	$ 477,355	$ 494,460	$ 422,521

Per share data adjusted for three-for-one stock splits in 1998 and 1992 and stock dividends of 5 percent in 1996 and 1995.

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) had six subsidiaries at year-end 1998. The lead property and casualty insurance subsidiary, The Cincinnati Insurance Company, markets a broad range of business and personal policies in 29 states through an elite corps of 978 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. During 1998, the Company incorporated a sixth subsidiary, CinFin Capital Management Company. The new subsidiary was established to provide investment management services to institutions, corporations and individuals with $500,000 minimum accounts. In January 1999, CinFin started to conduct business with approximately $150 million in assets under management.

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 agencies 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 7.3%, reaching $2.054 billion in 1998, with property/casualty net written premiums growing at a 6.7% rate to $1.558 billion over the past five years. In the same five-year period, total net income, including realized capital gains, grew at a 2.3% rate to $241.6 million, or $1.45 per share, from $201.2 million, or $1.21. Net operating income increased at a 1.8% rate to $199.1 million, or $1.19 per share, from $188.5 million, or $1.13, in 1994. Excluding catastrophe losses and an adjustment for SFAS No. 109 in 1993, total net income over the five-year period grew at a compound rate of 6.9%, while net operating income increased at a 7.2% rate. Book value grew at a 23.5% compound rate over the same period to $33.72 per share from $11.65.

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 an ambitious $2 billion in total direct written premiums for the year 2000, up from $1.732 billion in 1998. At the same time, the Company seeks to generate an underwriting profit and maximize annual growth in investment income.

The following table and discussion analyze results for the three-year period ending December 31, 1998 and provide insight into management's strategic direction.

(000,000 omitted except per share data and ratios)	**1998**	**Change $**	**Change %**	1997	Change $	Change %	1996	Change $	Change %
Revenue	**$2,054.3**	**$111.9**	**6**	$1,942.4	$133.7	7	$1,808.7	$153.0	9
Net Operating Income	**199.1**	**(55.3)**	**(22)**	254.4	61.8	32	192.6	(14.7)	(7)
Net Capital Gains (after tax)	**42.5**	**(2.5)**	**(6)**	45.0	13.8	44	31.2	11.2	56
Net Income	**241.6**	**(57.8)**	**(19)**	299.4	75.6	34	223.8	(3.5)	(2)
Net Operating Income Per Share	**$ 1.19**	**$ (.35)**	**(23)**	$ 1.54	$ .39	34	$ 1.15	$ (.09)	(7)
Net Capital Gains Per Share	**.26**	**(.01)**	**(4)**	.27	.08	42	.19	.07	58
Net Income Per Share	**$ 1.45**	**$ (.36)**	**(20)**	$ 1.81	$ .47	35	$ 1.34	$ (.02)	(2)
Catastrophe Losses (before tax)	**$ 93.5**	**$ 68.0**	**267**	$ 25.5	$ (39.2)	(60)	$ 64.7	$ 37.6	138
Catastrophe Losses Per Share (after tax)	**.36**	**.26**	**260**	.10	(.15)	(60)	.25	.15	150

The Company's financial results for the three years ending December 31, 1998 reflect growth in new insurance business and retention of renewal customers through the Company's independent insurance agents, offset by highly competitive property and casualty pricing. However, frequent and severe storms pushed catastrophe losses to an all-time high in 1998 of $93.5 million. The previous high had been $64.7 million in 1996. Results for 1998 do reflect the Company's consistent underwriting philosophy and strategy of maintaining high underwriting standards by carefully evaluating individual risks, reviewing agency performance and controlling overall expenses.

While the Company generated 5.6% growth in pre-tax investment income, net operating income for 1998 declined from the prior-year level due to catastrophe losses and large property losses. In 1997, net operating income rose 32% and pre-tax investment income rose 6.5%. The contribution from net realized capital gains declined slightly in 1998 but rose in 1997, primarily due to the sale of equity securities.

PROPERTY AND CASUALTY INSURANCE OPERATIONS

(000,000 omitted except per share data and ratios)	**1998**	**Change $**	**Change %**	1997	Change $	Change %	1996	Change $	Change %
Gross Written Premiums	**$1,656.5**	**$ 89.8**	**5.7**	$1,566.7	$ 90.7	6.1	$1,476.0	$ 98.6	7.2
Net Written Premiums	**1,557.6**	**86.0**	**5.8**	1,471.6	88.1	6.4	1,383.5	87.6	6.8
Net Earned Premiums	**1,542.6**	**90.1**	**6.2**	1,453.5	87.0	6.4	1,366.5	103.2	8.2
Loss and LAE Ratio	**74.7%**	**n/a**	**9.2**	68.4%	n/a	(9.3)	75.4%	n/a	4.3
Expense Ratio	**28.9%**	**n/a**	**(1.4)**	29.3%	n/a	6.2	27.6%	n/a	1.8
Combined Ratio	**103.6%**	**n/a**	**6.0**	97.7%	n/a	(5.1)	103.0%	n/a	3.6

Premiums

While premium growth rates declined in 1998 and 1997, the Company's property and casualty group continued to increase net written premiums at rates well above the industry average. In 1998 and 1997, the primary source of growth was personal lines insurance, for which net written premiums advanced 11.0% in 1998 (12.4% in 1997), while commercial lines insurance growth was 3.3% (3.6% in 1997).

During 1998, the commercial insurance market continued to experience the intense price competition that began prior to 1996. The impact was seen 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. Although the Company is committed to prudent underwriting standards and emphasizing account profitability, the lower pricing combined with large property losses to produce a 61.1% pure loss ratio for the commercial lines area, higher than the 53.2% reported in 1997.

As a result of the market factors, direct written premiums from account renewals for the commercial insurance lines declined in 1998. New business premiums offset this decline and generated modest overall premium growth. Total new business in direct written premiums in the property and casualty area rose 7.6%, reaching an all-time high of $218 million on a new business policy count of more than 148,500. Management cannot predict when the pricing pressures in the commercial insurance area will be alleviated. To help offset these pressures, the Company is working harder to underwrite accounts even more closely by:

- systematically re-underwriting the personal lines book of business,
- 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 their proven, profitable business to the Company. 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 distinguish itself through key competitive advantages of the insurance products, for example three- and five-year policies for many types of insurance coverage.

For the year 1998, approximately 97% 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 five years, the Company added seven marketing representatives in 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. This program was essentially completed in 1998, with only one marketing territory division anticipated in 1999.

Entry into new states also has been a source of premium growth. The states the Company entered between 1994 and 1998 contributed more than $102.4 million of property and casualty premium volume over the five-year period. A very successful example of a new market entry is Minnesota, where premium volume reached $18.2 million in 1998, up from $800,000 in 1994. From 1996 through 1998, the Company began marketing commercial lines in North Dakota, Montana and upstate New York and added personal lines in Arkansas, Maryland, Minnesota, North Dakota, Pennsylvania and Vermont. Idaho and Utah have been selected to seek approval to market the Company's products in 1999. Three additional states currently are being researched. The Company's criteria for entry into new states include a favorable regulatory climate and no residual market.

Expenses

The Company recorded a $64.5 million statutory underwriting loss in 1998 compared with a $24.8 million underwriting profit in 1997 and a $45.0 million underwriting loss in 1996. The 1998 underwriting loss, reflecting a combined ratio of 103.6%, was primarily the result of catastrophe losses, which added 6.1 points to the loss and loss adjustment expense ratio, as well as large fire losses. That compared with a 1.8 point impact of catastrophe losses on a combined ratio of 97.7% in 1997. The underwriting loss in 1996, reflecting a combined ratio of 103.0%, was the result of higher catastrophe losses, as well as a half of one percentage point increase in the expense ratio over 1995. 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 for 95% of losses from $25 million up to $200 million.

After rising in 1997 and 1996, the expense ratio in 1998 declined slightly because the Company reached a sustainable level of investment in staff and costs associated with upgrading technology and facilities. These investments will help the Company accommodate anticipated growth in premium volume while making computer systems Year 2000 compliant. (See Year 2000 discussion on page 19.)

As discussed in the Notes to the Consolidated Financial Statements, the Company's liabilities for insurance reserves are estimated by management based upon Company experience. 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, at this time, these 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 coverages that afford clean-up costs and Superfund responses.

Life and Accident and Health

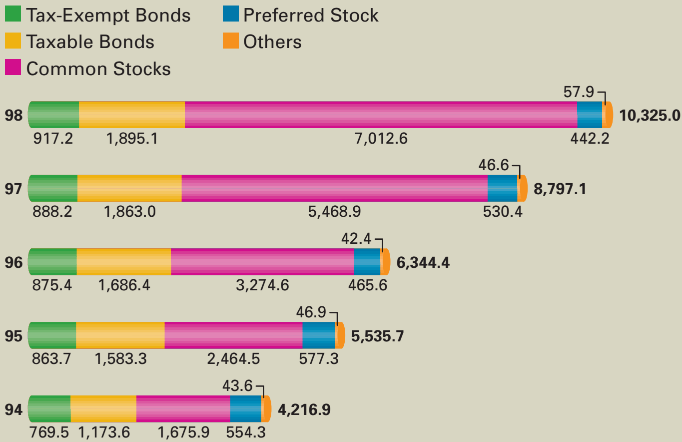
CFC's life insurance subsidiary had total net premium income for 1998 of $70.1 million, up from $62.9 million in 1997 and $56.4 million in 1996. Life insurance premiums were $61.7 million, $54.7 million and $48.7 million, respectively. The life insurance subsidiary contributed 12% of CFC's operating income in 1998 and 10% of CFC operating income in 1997 and 1996.

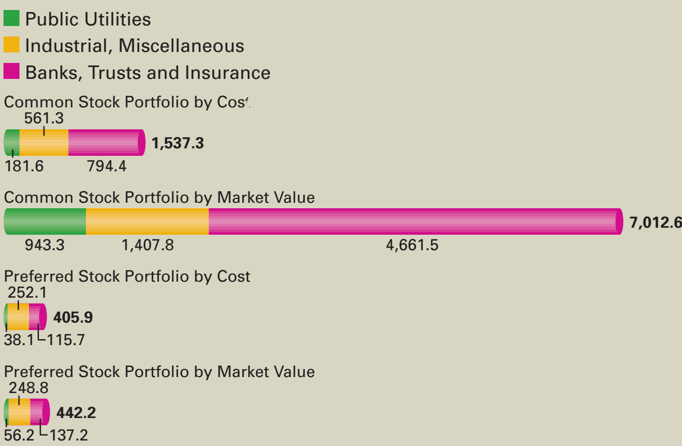
During 1997, the Company hired a new president for the life insurance subsidiary. Under his direction, the life insurance subsidiary is expanding worksite marketing activities, introducing a competitive new life insurance product series and researching opportunities to sell life insurance in areas where the Company does not have property and casualty agency representation. The initiatives, which began in the second half of 1997, appeared to have a measurable impact on 1998 results. Management believes that opportunities exist to further increase the life insurance subsidiary's contribution to total operating income through expanded life insurance sales.

Investment Income and Investments

Investment income rose 5.6% to $368.0 million in 1998 and increased 6.5% to $348.6 million in 1997 primarily as a result of investing the cash flows from operating activities and collection of dividend increases from equity securities in the investment portfolio. The slower growth rate in 1998 again reflected the volume of fixed maturities investments being called early and the generally lower interest rate environment. In 1998, 43 of the 57 common stocks in the Company's investment portfolio increased dividends during the year, adding more than $16.0 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 regulatory 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 8.0% at December 31, 1998. 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 $65.5 million, $95.2 million and $58.7 million for 1998, 1997 and 1996, respectively, while the effective tax rate was 21.34%, 24.12% and 20.77% for the same periods. The lower rates in 1998 and 1996 were partially the result of a higher percentage of net income earned from tax-exempt interest on state, municipal and political subdivision fixed maturities and from dividends received on equity investments. The higher tax rate in 1997 primarily was due to the strong underwriting profit recorded for the year and higher capital gains. The Company incurred no additional alternative minimum tax expenses for the three years.

YEAR 2000 COMPLIANCE

Because the Company issues three- and five- year policies, it has been working on the Year 2000 project for several years to address potential problems within the Company's operations that could result from the century change. The Information Systems Department is primarily responsible for this endeavor and has a designated team of Company associates assigned to this effort. This team has access to key associates in all areas of the Company's operations as well as to outside consultants and resources on an as-needed basis.

The Information Systems Department provides a comprehensive report on a quarterly basis for management and the Audit Committee of the Board of Directors. This report identifies progress against the plan as well as projections on specific issues.

Percent of Hardware/Software Applications Year 2000 Compliant

	Actual as of December 31, 1998	Planned as of December 31, 1998	Planned as of June 30, 1999
Mission critical systems	**90%**	90%	100%
All other systems	**90%**	90%	100%

The Company has identified computer systems (both hardware and software), including equipment with embedded computer chips, that were not Year 2000 compliant; determined what revisions or replacements would be needed to achieve compliance; prioritized and proceeded to implement those

revisions or replacements; instituted testing procedures to ensure that the revisions and fixes are operational; and moved the compliant systems into production. As of December 31, 1998, approximately 90% of the applications had either been modified to be compliant or had been replaced by purchased compliant systems. Additional in-depth testing, both internal and third-party related, is planned into 1999. Management believes that all critical systems will be Year 2000 compliant by June 30, 1999.

As part of the overall review of Year 2000, the Company is verifying with certain key outside vendors, and with others where a significant business relationship exists, to determine their Year 2000 compliance status and plans. Because the Company markets products through independent agencies, it is of paramount importance that those approximately 1,000 agencies (1,300 offices) successfully migrate to a Year 2000 compliant processing system. The Company is actively working with those agencies. As of December 1998, nearly all of the agencies' processing systems had either been made compliant or the agencies had plans to be compliant by June 30, 1999. Phone and personal interviews are being used to verify the progress of the agencies.

Contingency planning for the Year 2000 includes standard backup and recovery procedures to be followed in the event of a critical system failure. While management does not expect any unusual failures as a result of specific Year 2000-related changes, by June 30, 1999, the Company plans to develop specific backup procedures for the Year 2000 to minimize the effect of any potential problems.

Should the Company or a third party with whom the Company transacts business have a system failure due to the century change, it is believed it will not result in more than a delay in processing or reporting, with no material financial impact.

The Company has budgeted $9.5 million pretax to resolve the Year 2000 issues. This would encompass the costs of modifications, the salaries of the associates primarily assigned to this effort and the fees of outside consultants. As of December 31, 1998, the Company had incurred approximately $7.9 million of these costs, with the expenses incurred during 1998 at approximately $4.2 million.

Although the Company expects its systems to be Year 2000 compliant on or before December 31, 1999, it cannot predict the outcome or the success of its Year 2000 project; or that third-party systems are or will be Year 2000 compliant; or that the costs required to address the Year 2000 issue or the impact of a failure to achieve substantial Year 2000 compliance will not have a material adverse effect on the Company's business, financial condition or results of operations.

CASH FLOW AND LIQUIDITY

(000,000 omitted)	**1998**	1997	1996
Net cash provided by operating activities	**$ 273.6**	$ 427.0	$ 308.3
Net cash used in investing activities	**(320.7)**	(282.5)	(224.8)
Net cash provided (used) in financing activities	**25.5**	(124.2)	(43.7)
Net (decrease) increase in cash	**(21.6)**	20.2	39.9
Cash at beginning of year	**80.2**	59.9	20.0
Cash at end of year	**58.6**	80.2	59.9
Supplemental			
Interest paid	**36.4**	21.8	20.9
Income taxes paid	**91.2**	95.5	65.0

Cash Flow

In 1998, operating cash flows were 36% lower than 1997 because of the frequency and severity of catastrophe losses. Over the three-year period, however, operating cash flows were 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 the continuing trend over the three years of fixed maturity investments being called by the issuer, offset in 1998 by increased purchases of equity securities and 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 $107.8 million and $153.2 million in 1998, $122.6 million and $134.1 million in 1997, and $98.0 million and $95.4 million in 1996.

In 1998, net cash was provided in financing activities because of the issuance of a senior debenture in the amount of $419.6 million. Those funds were used to repay short-term notes, to pay cash dividends and to purchase treasury shares. For the years 1997 and 1996, 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 $41.1 million in 1996 to $18.5 million in 1997. Management used short-term debt for cash management and other purposes. In 1998, the Company issued $420 million of 30-year senior debentures. The proceeds

were used to repay all of the short-term notes payable. The balance will be used in the construction of an additional Cincinnati headquarters building and for other purposes.

Dividends

CFC has increased cash dividends to shareholders for 38 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 of Directors 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 of Directors 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, which was authorized on April 4, 1998, based on shareholder approval of a proposal to increase authorized shares to 200 million from 80 million. On February 6, 1999, the Board of Directors authorized a 10.9% cash dividend increase, raising the quarterly dividend by one and two-thirds cents to an indicated annual rate of $0.68.

Since 1987, the Company's Board has authorized three additional stock splits or stock dividends: a 5% stock dividend in 1996; a 5% stock dividend in 1995 and a three-for-one stock split in 1992. After the stock split in 1998, a shareholder who purchased one Cincinnati Insurance share before 1957 would own 1,946 Cincinnati Financial 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 $10.326 billion make up 93.1% of the Company's $11.087 billion assets; this compares with 93.0% in 1997 and 90.3% in 1996. The Company has only minor investments in real estate and mortgages, which are typically illiquid. At December 31, 1998, the Company's portfolio of fixed maturity securities had an average yield-to-cost of 8.2% and an average maturity of ten 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 1998 and 1997, investments totaling approximately $873 million and $836 million ($883 million and $797 million at cost) of the Company's $10.325 billion and $8.797 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 9% of invested assets as of December 31, 1998, compared with 10% at year-end 1997 and 14% at year-end 1996. 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 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 this 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, 1998, long- and short-term debt were 4%, insurance reserves were 23% and total shareholders' equity was 51% 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 1998 and 1997. At December 31, 1998 and 1997, long-term debt consisted of $471.5 million and $58.4 million, respectively, of convertible and senior debentures. Short-term debt is used to provide working capital as discussed above. In the second quarter of 1998, the Company issued $419.6 million of 30-year, non-callable senior debentures. Proceeds were used to pay off $280.6 million of short-term debt as it matured and for future general corporate purposes, including expansion of the Company's headquarters.

Equity

Shareholders' equity has continued to grow as a percentage of total assets, reaching 51% for 1998 from 50% for 1997 and 45% for 1996, due to retained earnings and accumulated comprehensive income. 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)	**1998**	1997	1996
Shareholders' equity excluding retained earnings and accumulated comprehensive income	**$ 462.0**	$ 469.5	$ 502.3
Retained earnings	**1,480.9**	1,341.7	1,132.9
Accumulated comprehensive income	**3,678.0**	2,905.8	1,527.7
Total shareholders' equity	**$5,620.9**	$4,717.0	$3,162.9

As a long-term investor, the Company has followed a buy-and-hold strategy for more than 39 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 $5.512 billion as of December 31, 1998 and constituted 54% of the total investment portfolio; 74% of the equities investment portfolio; and, after deferred income taxes, 64% of total shareholders' equity. Such unrealized appreciation, before deferred income taxes, amounted to $4.273 billion and $2.203 billion at year-end 1997 and 1996, 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. On August 21, 1998, the Board of Directors authorized repurchase of an additional six million shares, to reflect the three-for-one split, which resulted in a total of nine million shares authorized to be repurchased. As of December 31, 1998, the Company had repurchased 3.5 million shares at an accumulated cost of $93.1 million.

On February 6, 1999, the CFC Board authorized management to repurchase up to 17 million shares of the Company's 166.7 million shares outstanding. They specified their intention to complete the repurchase by December 31, 2000. This authorization superceded the previous authorization of nine million shares, 3.9 million of which were purchased by February 5, 1999.

Selected Quarterly Financial Data

(000's omitted except per share data)

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

1998					
Quarter	**1st**	**2nd**	**3rd**	**4th**	**Full Year**
Revenues	**$ 512,554**	**$ 518,578**	**$ 514,766**	**$ 508,392**	**$2,054,289**
Income before income taxes	**116,333**	**72,913**	**64,019**	**53,841**	**307,107**
Net income	**84,178**	**58,850**	**52,915**	**45,623**	**241,567**
Net income per common share	**.51**	**.35**	**.31**	**.27**	**1.45**
Net income per common share (diluted)	**.49**	**.35**	**.30**	**.27**	**1.41**

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	.44	.46	.47	.44	1.81
Net income per common share (diluted)	.43	.44	.46	.43	1.77

Per share amounts reflect the effects of a three-for-one stock split effective to shareholders of record on April 24, 1998.
Note: The sum of the quarterly reported amounts may not equal the full year as each is computed independently.

Responsibility for Financial Statements

The accompanying financial statements of Cincinnati Financial Corporation and subsidiaries for the year ended December 31, 1998 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, 1998 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, 1998 and 1997 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Cincinnati, Ohio
February 4, 1999

Consolidated Balance Sheets

(000's omitted)

Cincinnati Financial Corporation and Subsidiaries

	December 31, 1998	1997
ASSETS		
Investments		
Fixed maturities, at fair value (cost: 1998–$2,682,659; 1997–$2,571,549)	**$ 2,812,231**	$ 2,751,219
Equity securities, at fair value (cost: 1998–$1,943,206; 1997–$1,725,855)	**7,454,817**	5,999,271
Other invested assets	**57,902**	46,560
Cash	**58,611**	80,168
Investment income receivable	**76,773**	74,520
Finance receivables	**32,107**	31,715
Premiums receivable	**164,412**	158,539
Reinsurance receivable	**135,991**	109,110
Prepaid reinsurance premiums	**26,435**	23,612
Deferred acquisition costs pertaining to unearned premiums and to life policies in force	**142,896**	135,313
Land, buildings and equipment for Company use (at cost, less accumulated depreciation: 1998–$108,449; 1997–$97,248	**53,639**	52,559
Other assets	**70,689**	30,839
Total assets	**$11,086,503**	$ 9,493,425
LIABILITIES		
Insurance reserves		
Losses and loss expenses	**$ 2,054,725**	$ 1,936,534
Life policy reserves	**533,730**	482,447
Unearned premiums	**459,695**	443,054
Other liabilities	**136,894**	168,959
Deferred income taxes	**1,809,003**	1,406,478
Notes payable	**– 0 –**	280,558
6.9% senior debentures due 2028	**419,601**	– 0 –
5.5% convertible senior debentures due 2002	**51,919**	58,430
Total liabilities	**5,465,567**	4,776,460
SHAREHOLDERS' EQUITY		
Common stock, par value–$2 per share; authorized 200,000 shares; issued: 1998–170,435; 1997–169,391	**340,871**	338,782
Paid-in capital	**218,328**	203,282
Retained earnings	**1,480,914**	1,341,730
Accumulated comprehensive income	**3,678,019**	2,905,756
	5,718,132	4,789,550
Less treasury shares at cost (1998–3,754 shares; 1997–3,035 shares)	**(97,196)**	(72,585)
Total shareholders' equity	**5,620,936**	4,716,965
Total liabilities and shareholders' equity	**$11,086,503**	$ 9,493,425

Common stock, paid-in capital and share figures reflect the effects of a three-for-one stock split effective to shareholders of record on April 24, 1998. 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,		
	1998	1997	1996
REVENUE			
Premium income			
Property and casualty	**$ 1,542,639**	$ 1,453,526	$ 1,366,544
Life	**61,704**	54,742	48,694
Accident and health	**8,392**	8,110	7,659
Net premiums earned	**1,612,735**	1,516,378	1,422,897
Investment income	**367,993**	348,597	327,307
Realized gains on investments	**65,309**	69,230	47,946
Other income	**8,252**	8,179	10,599
Total revenues	**2,054,289**	1,942,384	1,808,749
BENEFITS AND EXPENSES			
Insurance losses and policyholder benefits	**1,221,118**	1,054,924	1,087,105
Commissions	**290,832**	282,690	259,291
Other operating expenses	**144,849**	139,030	117,034
Taxes, licenses and fees	**60,798**	48,573	43,392
Increase in deferred acquisition costs pertaining to unearned premiums and to life policies in force	**(7,583)**	(7,725)	(7,999)
Interest expense	**28,012**	20,821	20,102
Other expenses	**9,156**	9,512	7,403
Total benefits and expenses	**1,747,182**	1,547,825	1,526,328
INCOME BEFORE INCOME TAXES	**307,107**	394,559	282,421
PROVISION FOR INCOME TAXES			
Current	**78,847**	107,046	67,827
Deferred	**(13,307)**	(11,862)	(9,166)
Total provision for income taxes	**65,540**	95,184	58,661
NET INCOME	**$ 241,567**	$ 299,375	$ 223,760
PER COMMON SHARE			
Net Income	**$ 1.45**	$ 1.81	$ 1.34
Net Income (diluted)	**$ 1.41**	$ 1.77	$ 1.31
Cash dividends (declared)	**$ .61⅓**	$ .54⅔	$ .48⅔

Per share amounts reflect the effects of a three-for-one stock split effective to shareholders of record on April 24, 1998.
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	Accumulated Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 1995	$ 318,504	$ (1,384)	$ 24,836	$ 1,156,627	$ 1,159,388	$ 2,657,971
Net income				223,760		223,760
Change in unrealized gains on investments					566,644	566,644
Income taxes on unrealized gains					(198,325)	(198,325)
Comprehensive income						592,079
Dividends declared				(81,498)		(81,498)
5% stock dividend at market	15,913		149,844	(166,009)*		(252)
Purchase/issuance of treasury shares		(9,833)	870			(8,963)
Stock options exercised	534		2,865			3,399
Conversion of debentures	21		132			153
Balance, December 31, 1996	334,972	(11,217)	178,547	1,132,880	1,527,707	3,162,889
Net income				299,375		299,375
Change in unrealized gains on investments					2,120,075	2,120,075
Income taxes on unrealized gains					(742,026)	(742,026)
Comprehensive income						1,677,424
Dividends declared				(90,525)		(90,525)
Purchase/issuance of treasury shares		(61,368)	654			(60,714)
Stock options exercised	931		5,543			6,474
Conversion of debentures	2,879		18,538			21,417
Balance, December 31, 1997	338,782	(72,585)	203,282	1,341,730	2,905,756	4,716,965
Net income				**241,567**		**241,567**
Change in unrealized gains on investments					**1,188,097**	**1,188,097**
Income taxes on unrealized gains					**(415,834)**	**(415,834)**
Comprehensive income						**1,013,830**
Dividends declared				**(102,383)**		**(102,383)**
Purchase/issuance of treasury shares		**(24,611)**	**310**			**(24,301)**
Stock options exercised	**1,214**		**9,100**			**10,314**
Conversion of debentures	**875**		**5,636**			**6,511**
Balance, December 31, 1998	**$ 340,871**	**$ (97,196)**	**$ 218,328**	**$ 1,480,914**	**$ 3,678,019**	**$ 5,620,936**

*Includes $252 for fractional shares paid in April 1996.

Common stock and paid-in capital figures reflect the effects of a three-for-one stock split effective to shareholders of record on April 24, 1998.

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,		
	1998	1997	1996
Cash flows from operating activities:			
Net income	**$ 241,567**	$ 299,375	$ 223,760
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization	**11,793**	11,327	7,100
Increase in investment income receivable	**(2,253)**	(4,074)	(5,401)
(Increase) decrease in premiums receivable	**(5,873)**	3,506	(928)
(Increase) decrease in reinsurance receivable	**(26,881)**	6,796	(12,223)
Increase in prepaid reinsurance premiums	**(2,823)**	(688)	(1,089)
Increase in deferred acquisition costs	**(7,583)**	(7,725)	(7,999)
Increase in accounts receivable	**(7,369)**	(7,230)	(2,080)
Decrease (increase) in other assets	**649**	42,084	(31,538)
Increase in loss and loss expense reserves	**118,191**	55,367	137,633
Increase in life policy reserves	**51,283**	42,166	37,017
Increase in unearned premiums	**16,641**	17,304	17,126
(Decrease) increase in other liabilities	**(34,925)**	49,672	6,984
Decrease in deferred income taxes	**(13,307)**	(11,862)	(9,272)
Realized gains on investments	**(65,309)**	(69,230)	(47,946)
Other	**(224)**	169	(2,805)
Net cash provided by operating activities	**273,577**	426,957	308,339
Cash flows from investing activities:			
Sale of fixed maturities investments	**47,486**	138,741	219,131
Call or maturity of fixed maturities investments	**320,510**	376,496	247,205
Sale of equity securities investments	**321,003**	266,296	257,981
Collection of finance receivables	**14,738**	8,588	10,449
Purchase of fixed maturities investments	**(475,751)**	(637,858)	(564,317)
Purchase of equity securities investments	**(474,176)**	(400,405)	(353,340)
Investment in land, buildings and equipment	**(47,750)**	(16,485)	(17,798)
Investment in finance receivables	**(15,131)**	(13,439)	(17,032)
Increase in other invested assets	**(11,589)**	(4,471)	(7,030)
Net cash used in investing activities	**(320,660)**	(282,537)	(224,751)
Cash flows from financing activities:			
Proceeds from issue of 6.9% senior debentures	**419,593**	– 0 –	– 0 –
Proceeds from stock options exercised	**10,314**	6,474	3,399
Purchase/issuance of treasury shares	**(24,301)**	(60,714)	(8,963)
Payoff/increase in notes payable	**(280,558)**	18,460	41,093
Payment of cash dividends to shareholders	**(99,522)**	(88,405)	(79,203)
Net cash provided (used) in financing activities	**25,526**	(124,185)	(43,674)
Net (decrease) increase in cash	**(21,557)**	20,235	39,914
Cash at beginning of year	**80,168**	59,933	20,019
Cash at end of year	**$ 58,611**	$ 80,168	$ 59,933
Supplemental disclosures of cash flow information:			
Interest paid	**$ 36,419**	$ 21,823	$ 20,922
Income taxes paid	**$ 91,241**	$ 95,488	$ 65,000

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 10 1/2%. Interest rates on approximately $356,000,000 and $324,000,000 of such reserves at December 31, 1998 and 1997, 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 debentures are based on the quoted market prices for such debentures.

STOCK SPLIT – On April 4, 1998, the Company's authorized capital was increased to 200,000,000 shares of common stock and a three-for-one stock split was declared that was effective for shareholders of record as of April 24, 1998. The financial statements, notes and other references to share and per share data have been retroactively restated to reflect the stock split for all periods presented.

ACCOUNTING CHANGES – In 1998, the Company adopted several Statements of Financial Accounting Standards (SFAS). SFAS No. 130, "Reporting Comprehensive Income," 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," requires certain information to be reported about operating segments on a basis consistent with the Company's internal organizational structure. SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," revises the disclosures for pensions and other postretirement benefits and standardizes them into a combined format. The Company has made all required disclosures and prior years' information has been reclassified for the impact of SFAS Nos. 130, 131 and 132. SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" was issued in 1998 and establishes accounting and reporting standards for derivative instruments. The effects of the statement to the Company are not yet known.

2. INVESTMENTS

(000's omitted)

	Years Ended December 31,		
	1998	1997	1996
Investment income summarized by investment category:			
Interest on fixed maturities	**$ 217,675**	$ 218,065	$ 208,907
Dividends on equity securities	**145,885**	128,403	118,932
Other investment income	**9,545**	6,865	5,744
Total	**373,105**	353,333	333,583
Less investment expenses	**5,112**	4,736	6,276
Net investment income	**$ 367,993**	$ 348,597	$ 327,307
Realized gains on investments summarized by investment category:			
Fixed maturities:			
Gross realized gains	**$ 11,591**	$ 22,075	$ 20,823
Gross realized losses	**(10,354)**	(6,732)	(10,207)
Equity securities:			
Gross realized gains	**104,079**	62,337	47,310
Gross realized losses	**(40,007)**	(8,450)	(9,980)
Realized gains on investments	**$ 65,309**	$ 69,230	$ 47,946
Change in unrealized gains on investments summarized by investment category:			
Fixed maturities	**$ (50,098)**	$ 49,650	$ (18,257)
Equity securities	**1,238,195**	2,070,425	584,901
Change in unrealized gains on investments	**$1,188,097**	$2,120,075	$ 566,644

Analysis of cost, gross unrealized gains, gross unrealized losses and fair value as of December 31, 1998 and 1997 (000's omitted):

1998	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities:				
States, municipalities and political subdivisions	$ 865,600	$ 51,944	$ 341	$ 917,203
Convertibles and bonds with warrants attached	100,360	6,208	4,914	101,654
Public utilities	55,709	4,713	0	60,422
United States government and government agencies and authorities	9,043	480	0	9,523
All other corporate bonds	1,651,947	104,849	33,367	1,723,429
Total	$2,682,659	$ 168,194	$ 38,622	$2,812,231
Equity securities	$1,943,206	$5,553,489	$ 41,878	$7,454,817

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

Contractual maturity dates for investments in fixed maturity securities as of December 31, 1998 (000's omitted):

	Cost	Fair Value	% of Fair Value
Maturity dates occurring:			
One year or less	$ 134,300	$ 135,906	4.8
After one year through five years	614,545	640,865	22.8
After five years through ten years	938,364	957,728	34.1
After ten years	995,450	1,077,732	38.3
Total	$2,682,659	$2,812,231	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, 1998, investments with a cost of $49,425,000 and fair value of $53,029,000 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):

	1998		1997	
	Cost	**Fair Value**	Cost	Fair Value
Fifth Third Bancorp common stock	**$ 276,799**	**$3,445,118**	$ 255,089	$2,612,607
Alltel Corporation common stock	**$ 100,467**	**$ 767,105**	$ 95,810	$ 522,527

3. DEFERRED ACQUISITION COSTS

Acquisition costs incurred and capitalized during 1998, 1997 and 1996 amounted to $384,231,000, $322,117,000 and $303,111,000, respectively. Amortization of deferred acquisition costs was $376,648,000, $314,392,000 and $295,112,000 for 1998, 1997 and 1996, 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,		
	1998	1997	1996
Balance at January 1	**$1,888,883**	$1,824,296	$1,690,461
Less reinsurance receivable	**112,235**	121,881	109,719
Net balance at January 1	**1,776,648**	1,702,415	1,580,742
Incurred related to:			
Current year	**1,306,194**	1,115,140	1,183,251
Prior years	**(153,311)**	(119,654)	(151,996)
Total incurred	**1,152,883**	995,486	1,031,255
Paid related to:			
Current year	**590,366**	467,843	514,186
Prior years	**498,842**	453,410	395,396
Total paid	**1,089,208**	921,253	909,582
Net balance at December 31	**1,840,323**	1,776,648	1,702,415
Plus reinsurance receivable	**138,138**	112,235	121,881
Balance at December 31	**$1,978,461**	$1,888,883	$1,824,296

As a result of changes in estimates of insured events in prior years, the provision for losses and loss expenses decreased by $153,311,000, $119,654,000 and $151,996,000 in 1998, 1997 and 1996. 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 $76,264,000 and $47,651,000 at December 31, 1998 and 1997, 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):

	1998	1997
Ordinary/traditional life	**$156,887**	$137,734
Universal life	**221,197**	202,696
Annuities	**135,176**	121,284
Industrial	**15,986**	16,470
Other	**4,484**	4,263
Total	**$533,730**	$482,447

At December 31, 1998 and 1997, the fair value associated with the annuities shown above approximated $144,000,000 and $123,000,000, respectively.

6. NOTES PAYABLE

The Company and subsidiaries had no compensating balance requirement on debt for either 1998 or 1997. Notes payable in the accompanying balance sheets are short term, and interest rates charged on such borrowings ranged from 5.03% to 8.50% during 1998, which resulted in an average interest rate of 6.07%. At December 31, 1997, the fair value of the notes payable approximated the carrying value and the weighted average interest rate approximated 6.44%.

7. SENIOR DEBENTURES

The Company issued $420,000,000 of senior debentures due in 2028 in 1998. The convertible senior debentures due in 2002 are convertible by the debenture holders into shares of common stock at a conversion price of $14.88 (67.23 shares for each $1,000 principal). At December 31, 1998 and 1997, the fair value of the debentures approximated $533,000,000 and $175,000,000, respectively.

8. SHAREHOLDERS' EQUITY AND RESTRICTION

The insurance subsidiaries paid cash dividends to the Company of approximately $105,000,000, $95,500,000 and $77,027,000 in 1998, 1997 and 1996, 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 1999, the total dividends that can be paid to the Company without regulatory approval are approximately $299,805,000.

4,318,000 shares of common stock were available for future stock option grants, as of December 31, 1998.

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. On August 21, 1998, the Board authorized the repurchase of an additional six million shares, to reflect the three-for-one split, which results in a total of nine million shares authorized to be repurchased. As of December 31, 1998, the Company had repurchased 3,538,000 shares.

9. REINSURANCE

Property and casualty premium income in the accompanying statements of income includes approximately $38,790,000, $41,694,000 and $41,139,0000 of earned premiums on assumed business and is net of approximately $96,073,000, $94,397,000 and $91,396,000 of earned premiums on ceded business for 1998, 1997 and 1996, respectively.

Written premiums for 1998, 1997 and 1996 consist of the following (000's omitted):

	1998	1997	1996
Direct business	**$1,618,357**	$1,523,915	$1,433,340
Assumed business	**38,119**	42,773	42,671
Ceded business	**(98,895)**	(95,085)	(92,486)
Net	**$1,557,581**	$1,471,603	$1,383,525

Insurance losses and policyholder benefits in the accompanying statements of income are net of approximately $59,741,000, $34,744,000 and $44,770,000 of reinsurance recoveries for 1998, 1997 and 1996, respectively.

10. FEDERAL INCOME TAXES

Significant components of the Company's net deferred tax liability as of December 31, 1998 and 1997 are as follows (000's omitted):

	1998	1997
Deferred tax liabilities:		
Unrealized gains on investments	**$1,974,414**	$1,558,580
Deferred acquisition costs	**45,205**	42,936
Other	**8,046**	10,514
Total	**2,027,665**	1,612,030
Deferred tax assets:		
Losses and loss expense reserves	**132,298**	127,994
Unearned premiums	**30,270**	29,293
Life policy reserves	**18,637**	19,460
Other	**37,457**	28,805
Total	**218,662**	205,552
Net deferred tax liability	**$1,809,003**	$1,406,478

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:

	1998 Percent	1997 Percent	1996 Percent
Tax at statutory rate	**35.00**	35.00	35.00
Increase (decrease) resulting from:			
Tax-exempt municipal bonds	**(5.39)**	(4.44)	(6.41)
Dividend exclusion	**(9.29)**	(6.54)	(8.50)
Other	**1.02**	.10	.68
Effective rate	**21.34**	24.12	20.77

No provision has been made (at December 31, 1998, 1997 and 1996) 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.

11. NET INCOME PER COMMON SHARE

(000's omitted except per share data)

1998	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income per common share	**$241,567**	**166,821**	**$1.45**
Effect of dilutive securities:			
5.5% convertible senior debentures	**1,918**	**3,490**	
Stock options		**1,767**	
Net income per common share (diluted)	**$243,485**	**172,078**	**$1.41**
1997			
Net income per common share	$ 299,375	165,538	$ 1.81
Effect of dilutive securities:			
5.5% convertible senior debentures	2,712	3,928	
Stock options		1,329	
Net income per common share (diluted)	$ 302,087	170,795	$ 1.77
1996			
Net income per common share	$ 223,760	167,209	$ 1.34
Effect of dilutive securities:			
5.5% convertible senior debentures	2,859	5,368	
Stock options		769	
Net income per common share (diluted)	$ 226,619	173,346	$ 1.31

Options to purchase 667,000, 76,000 and 1,458,000 shares of common stock were outstanding during 1998, 1997 and 1996, 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.

12. 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 summarized information on the Company's defined benefit pension plan (000's omitted):

	Years Ended December 31, **1998**	1997
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 62,934**	$ 53,849
Service cost	**4,150**	3,449
Interest cost	**4,474**	3,938
Actuarial gain	**7,383**	4,719
Benefits paid	**(2,627)**	(3,021)
Benefit obligation at end of year	**$ 76,314**	$ 62,934
Change in plan assets:		
Fair value of plan assets at beginning of year	**$133,470**	$ 92,740
Actual return on plan assets	**21,036**	43,751
Benefits paid	**(2,627)**	(3,021)
Fair value of plan assets at end of year	**$151,879**	$133,470
Funded status:		
Funded status at end of year	**$ 75,565**	$ 70,536
Unrecognized net actuarial gain	**(72,235)**	(67,081)
Unrecognized net transitional asset	**(3,331)**	(3,702)
Unrecognized prior service cost	**(357)**	(397)
Prepaid accrued pension cost	**$ (358)**	$ (644)

The fair value of the Company's stock comprised $21,331,023 and $27,325,064 of the plan's assets at December 31, 1998 and 1997, respectively.

The following summarizes the assumptions for the plan:

	Years Ended December 31, **1998 Percent**	1997 Percent
Discount rate	**6.25**	6.75
Expected return on plan assets	**8.00**	8.00
Rate of compensation increase	**5 to 7**	5 to 7

The components of the net periodic benefit cost for 1998, 1997 and 1996 include the following (000's omitted):

	Years Ended December 31, **1998**	1997	1996
Service cost	**$ 4,150**	$ 3,449	$ 3,306
Interest cost	**4,474**	3,938	3,572
Expected return on plan assets	**(7,451)**	(6,250)	(5,557)
Amortization of:			
Transition obligation (asset)	**(370)**	(370)	(370)
Prior service cost	**(40)**	(40)	(40)
Actuarial (gain) loss	**(1,049)**	(790)	(475)
Net pension expense	**$ (286)**	$ (63)	$ 436

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,		
	1998	1997	1996
Net income:			
Property/casualty insurance subsidiaries	**$148,235**	$200,830	$136,041
Life/health insurance subsidiary	**$ 7,248**	$ 6,261	$ (1,812)

	December 31,	
	1998	1997
Shareholders' equity:		
Property/casualty insurance subsidiaries	**$2,650,503**	$2,152,334
Life/health insurance subsidiary	**$ 369,325**	$ 320,198

14. TRANSACTION WITH AFFILIATED PARTIES

The Company paid certain officers and directors, or insurance agencies of which they are shareholders, commissions of approximately $11,654,000, $11,780,000 and $10,874,000 on premium volume of approximately $82,839,000, $78,727,000 and $70,418,000 for 1998, 1997 and 1996, 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 (000's omitted except per share data):

		1998	1997	1996
Net income	As reported	**$241,567**	$299,375	$223,760
	Pro forma	**235,420**	296,078	221,665
Net income per common share	As reported	**$ 1.45**	$ 1.81	$ 1.34
	Pro forma	**1.41**	1.79	1.33
Net income per common share (diluted)	As reported	**$ 1.41**	$ 1.77	$ 1.31
	Pro forma	**1.38**	1.75	1.30

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 1998, 1997 and 1996, respectively: dividend yield of 1.79%, 1.22% and 2.26%; expected volatility of 21.79%, 19.67% and 20.50%; risk-free interest rates of 5.02%, 5.89% and 6.56%; and expected lives of ten years for all years. Compensation expense in the pro forma disclosures is not indicative of future amounts as options vest over several years and additional grants are generally made each year.

A summary of options information for the years ended December 31, 1998, 1997 and 1996 follows (000's omitted except per share data):

	1998		1997		1996	
	Shares	**Weighted-Average Exercise Price**	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	**3,932,271**	**$17.88**	3,774,492	$15.98	2,685,747	$13.41
Granted	**1,664,200**	**38.00**	655,437	20.97	1,537,809	20.25
Exercised	**(615,884)**	**15.27**	(465,429)	11.31	(272,778)	12.46
Forfeited/revoked	**(39,996)**	**25.48**	(32,229)	17.96	(176,286)	19.56
Outstanding at end of year	**4,940,591**	**25.11**	3,932,271	17.88	3,774,492	15.98
Options exercisable at end of year	**2,243,982**		2,108,790		1,956,030	
Weighted-average fair value of options granted during the year		**$13.39**		$ 7.66		$ 6.85

Options outstanding at December 31, 1998 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
$ 7.34 to 12.34	590,335	2.77 yrs	$11.50	490,335	$11.33
13.45 to 17.00	531,153	5.52 yrs	15.81	531,153	15.81
17.38 to 20.00	500,409	6.36 yrs	19.28	378,550	19.18
20.47 to 21.33	1,060,865	7.37 yrs	20.51	646,215	20.50
22.46 to 26.62	533,556	8.30 yrs	23.08	174,356	23.07
33.00 to 33.88	953,373	9.60 yrs	33.81	23,373	33.00
36.63 to 45.37	770,900	9.20 yrs	42.70	0	n/a
	4,940,591	7.34 yrs	25.11	2,243,982	17.49

16. SEGMENT INFORMATION

The Company is organized and operates principally in two industries and has four reportable segments – commercial lines property and casualty insurance, personal lines property and casualty insurance, life insurance and investment operations. The accounting policies of the segments are the same as those described in the basis of presentation. Revenue is primarily from unaffiliated customers. Identifiable assets by segment are those assets, including investment securities, used in the Company's operations in each industry. Corporate and other identifiable assets are principally cash and marketable securities. Segment information, for which results are regularly reviewed by Company management in making decisions about resources to be allocated to the segments and assess their performance, is summarized as follows (000's omitted):

	Years Ended December 31,		
	1998	1997	1996
Revenues			
Commercial lines insurance	**$ 1,019,463**	$ 983,605	$ 946,923
Personal lines insurance	**523,176**	469,921	419,621
Life insurance	**70,096**	62,852	56,353
Investment operations	**433,302**	417,827	375,253
Corporate and other	**8,252**	8,179	10,599
Total revenues	**$ 2,054,289**	$1,942,384	$1,808,749
Income before income taxes			
Property and casualty insurance	**$ (59,438)**	$ 28,955	$ (44,449)
Life insurance	**(1,776)**	2,763	(2,906)
Investment operations	**403,925**	390,850	353,157
Corporate and other	**(35,604)**	(28,009)	(23,381)
Total income before income taxes	**$ 307,107**	$ 394,559	$ 282,421
Identifiable assets			
Property and casualty insurance	**$ 5,483,137**	$4,953,259	$3,986,658
Life insurance	**1,203,908**	1,094,445	902,354
Corporate and other	**4,399,458**	3,445,721	2,156,502
Total identifiable assets	**$11,086,503**	$9,493,425	$7,045,514

Subsidiary Officers and Directors

AS OF DECEMBER 31, 1998, 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

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

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

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

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

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

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

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

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

OFFICERS AND DIRECTORS

Michael R. Abrams
CIC, CID, CCC, CLIC Assistant Treasurer–Investments

Donald R. Adick, FLMI
CLIC Senior Vice President–Administration

Dawn M. Alcorn
CIC, CID, CCC Assistant Vice President–Administrative Services

R. Larry Arlen, CPCU, CLU, ARP, AIAF, AIM
CLIC Assistant Secretary–Life Claims

Charles M. Armentrout, AIC
CIC, CID, CCC Secretary–Claims

William R. Backs
CFC-I Vice President–Sales

Ricky G. Baker
CIC, CID, CCC, CLIC Assistant Secretary–Information Systems

Patricia L. Barnhart, AIM
CIC, CID, CCC Assistant Treasurer–Accounting

Brad E. Behringer
CLIC Vice President–Life Underwriting

James E. Benoski
CIC, CID, CCC, CLIC Senior Vice President–Claims
CCC Director

Douglas A. Bogenreif, CLU
CLIC Assistant Secretary–Life Development

David L. Burbrink
CLIC Assistant Vice President–Life Field Services

Thomas D. Candella
CIC, CID, CCC Assistant Secretary–Personal Lines

Daniel C. Cappel
CIC, CID, CCC Assistant Vice President–Accounting

Richard W. Cumming, FSA, ChFC
CIC, CID, CCC, CLIC Senior Vice President–Chief Actuary
CLIC Director

Joel W. Davenport, AAI, CPCU
CIC, CID, CCC Secretary–Commercial Lines

James H. Deal, CPCU, CLU
CIC, CID, CCC, CLIC Vice President–Education & Training

J. Michael Dempsey, CLU
CLIC Vice President–Marketing

Mark R. DesJardins, CPCU, AIC, AIM
CIC, CID, CCC Assistant Vice President–Education & Training

Dean W. Dicke
CIC, CID, CCC Senior Vice President–Field Claims
CCC Director

W. Dane Donham
CIC, CID, CCC Assistant Secretary–Commercial Lines

Donald J. Doyle, Jr., AIM
CIC, CID, CCC, CLIC Secretary–Information Systems

John C. DuBois
CIC, CID, CCC Assistant Secretary–Personal Lines

Frederick A. Ferris
CIC, CID, CCC Assistant Vice President–Commercial Lines

John E. Field, CPCU
CIC, CID Director

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CIC, CID, CCC Vice President–Claims

Craig W. Forrester, CLU
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Michael J. Gagnon
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Scott A. Gilliam
CIC, CID, CCC Assistant Secretary–Government Relations

Gary B. Givler
CIC, CID, CCC Secretary–Claims

David T. Groff, ACAS
CIC, CID, CCC Assistant Secretary–Staff Underwriting

Kevin E. Guilfoyle
CFC-I Assistant Vice President–Real Estate

David L. Helmers, CPCU, AIM, ARE
CIC, CID, CCC Vice President–Personal Lines

Theresa A. Hoffer
CIC, CID, CCC Secretary–Accounting

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

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

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

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

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

Daniel G. Taylor
CIC, CID, CCC, CLIC Associate Counsel

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

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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, Jr.

Robert C. Schiff

Thomas R. Schiff

Frank J. Schultheis

Larry R. Webb

Alan R. Weiler

E. Anthony Woods

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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, 1998

Robert B. Morgan
President and Chief Executive Officer

John J. Schiff, Jr., CPCU
Chairman and Chief Operating Officer

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

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

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

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

DIRECTORS AS OF DECEMBER 31, 1998

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

Michael Brown(2)(4)(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 Executive 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, Jr., CPCU(4)(5)(6)
Chairman and Chief Operating Officer—
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

E. Anthony Woods
President and Chief Executive Officer—
Deaconess Associations, Inc. (health care)
Director since 1998

(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 11,395 shareholders of record as of December 31, 1998. Most of our 2,770 associates and many of our independent agent representatives own stock in their Company. Forty-seven 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 3, 1999, at the Cincinnati Art Museum in Eden Park, Cincinnati, Ohio.

Shareholder Service

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 1998. 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.

	1998				1997			
Quarter	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High	**$ 45 3/8**	**$ 45 21/64**	**$ 39 1/8**	**$ 40**	$ 24 27/64	$ 27 1/2	$ 27 29/32	$ 46 29/32
Low	**41 21/64**	**36 5/8**	**30 3/4**	**31 5/8**	20 21/32	22 29/64	26 11/64	27 31/32
Dividend paid	**.13 2/3**	**.15 1/3**	**.15 1/3**	**.15 1/3**	.12 1/3	.13 2/3	.13 2/3	.13 2/3

Price ranges reflect the effects of a three-for-one stock split effective to shareholders of record on April 24, 1998.

Cincinnati Financial Corporation
The Cincinnati Insurance Company
The Cincinnati Casualty Company
The Cincinnati Indemnity Company
The Cincinnati Life Insurance Company
CFC Investment Company
CinFin Capital Management Company

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