

CINCINNATI FINANCIAL CORP  
Form 10-Q  
October 27, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2015.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-4604

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

|   |   |
|---|---|
| Ohio<br>(State or other jurisdiction of<br>incorporation or organization) | 31-0746871<br>(I.R.S. Employer Identification<br>No.) |
|---|---|

|   |                          |
|---|--------------------------|
| 6200 S. Gilmore Road, Fairfield, Ohio<br>(Address of principal executive offices) | 45014-5141<br>(Zip code) |
|---|--------------------------|

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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Nonaccelerated filer  Smaller reporting company  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes  No

As of October 23, 2015, there were 163,851,889 shares of common stock outstanding.

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CINCINNATI FINANCIAL CORPORATION  
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2015

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## Part I – Financial Information

## Item 1. Financial Statements (unaudited)

## Cincinnati Financial Corporation and Subsidiaries

## Condensed Consolidated Balance Sheets

(Dollars in millions except per share data)

|   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Investments   |                       |                      |
| Fixed maturities, at fair value (amortized cost: 2015—\$9,320; 2014—\$8,871)  | \$9,756               | \$9,460              |
| Equity securities, at fair value (cost: 2015—\$2,970; 2014—\$2,728)   | 4,526                 | 4,858                |
| Short-term investments, at fair value (amortized cost: 2015—\$75; 2014—\$0)   | 75                    | —                    |
| Other invested assets   | 69                    | 68                   |
| Total investments   | 14,426                | 14,386               |
| Cash and cash equivalents   | 419                   | 591                  |
| Investment income receivable  | 119                   | 123                  |
| Finance receivable  | 65                    | 75                   |
| Premiums receivable   | 1,494                 | 1,405                |
| Reinsurance recoverable   | 552                   | 545                  |
| Prepaid reinsurance premiums  | 29                    | 29                   |
| Deferred policy acquisition costs   | 609                   | 578                  |
| Land, building and equipment, net, for company use (accumulated depreciation: 2015—\$452; 2014—\$446)                             | 188                   | 194                  |
| Other assets  | 77                    | 75                   |
| Separate accounts   | 773                   | 752                  |
| Total assets  | \$18,751              | \$18,753             |
| Liabilities   |                       |                      |
| Insurance reserves  |                       |                      |
| Loss and loss expense reserves  | \$4,700               | \$4,485              |
| Life policy and investment contract reserves  | 2,564                 | 2,497                |
| Unearned premiums   | 2,215                 | 2,082                |
| Other liabilities   | 692                   | 648                  |
| Deferred income tax   | 596                   | 840                  |
| Note payable  | 35                    | 49                   |
| Long-term debt and capital lease obligations  | 826                   | 827                  |
| Separate accounts   | 773                   | 752                  |
| Total liabilities   | 12,401                | 12,180               |
| Commitments and contingent liabilities (Note 12)  | —                     | —                    |
| Shareholders' Equity  |                       |                      |
| Common stock, par value—\$2 per share; (authorized: 2015 and 2014—500 million shares; issued: 2015 and 2014—198.3 million shares) | 397                   | 397                  |
| Paid-in capital   | 1,223                 | 1,214                |
| Retained earnings   | 4,756                 | 4,505                |
| Accumulated other comprehensive income  | 1,280                 | 1,744                |
| Treasury stock at cost (2015— 34.5 million shares and 2014—34.6 million shares)   | (1,306                | ) (1,287             |
| Total shareholders' equity  | 6,350                 | 6,573                |

|  |          |          |
|--|----------|----------|
| Total liabilities and shareholders' equity | \$18,751 | \$18,753 |
|--|----------|----------|

Accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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Cincinnati Financial Corporation and Subsidiaries  
Condensed Consolidated Statements of Income

| (Dollars in millions except per share data)      | Three months ended September 30, |         | Nine months ended September 30, |         |
|--|----------------------------------|---------|---------------------------------|---------|
|  | 2015                             | 2014    | 2015                            | 2014    |
| Revenues   |                                  |         |                                 |         |
| Earned premiums                                  | \$1,127                          | \$1,071 | \$3,332                         | \$3,157 |
| Investment income, net of expenses               | 143                              | 138     | 422                             | 409     |
| Realized investment gains, net                   | 3                                | 65      | 110                             | 101     |
| Fee revenues                                     | 4                                | 3       | 10                              | 9       |
| Other revenues                                   | 1                                | 3       | 5                               | 7       |
| Total revenues                                   | 1,278                            | 1,280   | 3,879                           | 3,683   |
| Benefits and Expenses                            |                                  |         |                                 |         |
| Insurance losses and contract holders' benefits  | 670                              | 686     | 2,131                           | 2,181   |
| Underwriting, acquisition and insurance expenses | 348                              | 319     | 1,033                           | 967     |
| Interest expense                                 | 14                               | 13      | 40                              | 40      |
| Other operating expenses                         | 3                                | 3       | 10                              | 10      |
| Total benefits and expenses                      | 1,035                            | 1,021   | 3,214                           | 3,198   |
| Income Before Income Taxes                       | 243                              | 259     | 665                             | 485     |
| Provision for Income Taxes                       |                                  |         |                                 |         |
| Current  | 64                               | 68      | 180                             | 106     |
| Deferred   | 5                                | 8       | 7                               | 21      |
| Total provision for income taxes                 | 69                               | 76      | 187                             | 127     |
| Net Income                                       | \$174                            | \$183   | \$478                           | \$358   |
| Per Common Share                                 |                                  |         |                                 |         |
| Net income—basic                                 | \$1.06                           | \$1.12  | \$2.91                          | \$2.19  |
| Net income—diluted                               | 1.05                             | 1.11    | 2.89                            | 2.17    |

Accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

Cincinnati Financial Corporation and Subsidiaries  
Condensed Consolidated Statements of Comprehensive Income

| (Dollars in millions)  | Three months ended |          | Nine months ended |        |
|--|--------------------|----------|-------------------|--------|
|  | September 30,      |          | September 30,     |        |
|  | 2015               | 2014     | 2015              | 2014   |
| Net Income   | \$ 174             | \$ 183   | \$ 478            | \$ 358 |
| Other Comprehensive (Loss) Income  |                    |          |                   |        |
| Change in unrealized gains on investments, net of tax of \$(127), \$(42), \$(254) and \$81, respectively                     | (238               | ) (78    | ) (473            | ) 151  |
| Amortization of pension actuarial loss and prior service cost, net of tax of \$0, \$0, \$1 and \$0, respectively             | 1                  | 1        | 3                 | —      |
| Change in life deferred acquisition costs, life policy reserves and other, net of tax of \$1, \$2, \$2 and \$2, respectively | 3                  | 3        | 6                 | 3      |
| Other comprehensive (loss) income, net of tax  | (234               | ) (74    | ) (464            | ) 154  |
| Comprehensive (Loss) Income  | \$ (60             | ) \$ 109 | \$ 14             | \$ 512 |

Cincinnati Financial Corporation and Subsidiaries  
Condensed Consolidated Statements of Shareholders' Equity  
(In millions)

|  | Common Stock       |        | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total Shareholders' Equity |
|--|--------------------|--------|-----------------|-------------------|--|----------------|----------------------------|
|  | Outstanding Shares | Amount |                 |                   |  |                |                            |
| Balance December 31, 2013                              | 163.1              | \$ 397 | \$ 1,191        | \$ 4,268          | \$ 1,504                               | \$ (1,290 )    | \$ 6,070                   |
| Net income   | —                  | —      | —               | 358               | —                                      | —              | 358                        |
| Other comprehensive income, net                        | —                  | —      | —               | —                 | 154                                    | —              | 154                        |
| Dividends declared                                     | —                  | —      | —               | (217 )            | —                                      | —              | (217 )                     |
| Treasury stock acquired—share repurchase authorization | (0.5 )             | —      | —               | —                 | —                                      | (21 )          | (21 )                      |
| Other  | 0.8                | —      | 14              | —                 | —                                      | 18             | 32                         |
| Balance September 30, 2014                             | 163.4              | \$ 397 | \$ 1,205        | \$ 4,409          | \$ 1,658                               | \$ (1,293 )    | \$ 6,376                   |
| Balance December 31, 2014                              | 163.7              | \$ 397 | \$ 1,214        | \$ 4,505          | \$ 1,744                               | \$ (1,287 )    | \$ 6,573                   |
| Net income   | —                  | —      | —               | 478               | —                                      | —              | 478                        |
| Other comprehensive loss, net                          | —                  | —      | —               | —                 | (464 )                                 | —              | (464 )                     |
| Dividends declared                                     | —                  | —      | —               | (227 )            | —                                      | —              | (227 )                     |
| Treasury stock acquired—share repurchase authorization | (0.8 )             | —      | —               | —                 | —                                      | (41 )          | (41 )                      |
| Other  | 0.9                | —      | 9               | —                 | —                                      | 22             | 31                         |
| Balance September 30, 2015                             | 163.8              | \$ 397 | \$ 1,223        | \$ 4,756          | \$ 1,280                               | \$ (1,306 )    | \$ 6,350                   |

Accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.



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Cincinnati Financial Corporation and Subsidiaries  
 Condensed Consolidated Statements of Cash Flows  
 (Dollars in millions)

|   | Nine months ended September 30, |       |
|---|---------------------------------|-------|
|   | 2015                            | 2014  |
| <b>Cash Flows From Operating Activities</b>                                       |                                 |       |
| Net income  | \$478                           | \$358 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |       |
| Depreciation and amortization   | 39                              | 38    |
| Realized investment gains, net  | (110)                           | (101) |
| Stock-based compensation  | 16                              | 15    |
| Interest credited to contract holders'  | 32                              | 35    |
| Deferred income tax expense   | 7                               | 21    |
| Changes in:   |                                 |       |
| Investment income receivable  | 4                               | 2     |
| Premiums and reinsurance receivable   | (96)                            | (105) |
| Deferred policy acquisition costs   | (20)                            | (32)  |
| Other assets  | —                               | —     |
| Loss and loss expense reserves  | 215                             | 124   |
| Life policy reserves  | 70                              | 104   |
| Unearned premiums   | 133                             | 152   |
| Other liabilities   | (11)                            | (30)  |
| Current income tax receivable/payable   | (2)                             | 52    |
| Net cash provided by operating activities   | 755                             | 633   |
| <b>Cash Flows From Investing Activities</b>                                       |                                 |       |
| Sale of fixed maturities  | 25                              | 26    |
| Call or maturity of fixed maturities  | 961                             | 675   |
| Sale of equity securities   | 241                             | 225   |
| Purchase of fixed maturities  | (1,397)                         | (974) |
| Purchase of equity securities   | (379)                           | (294) |
| Purchase of short-term investments  | (75)                            | —     |
| Investment in finance receivables   | (10)                            | (13)  |
| Collection of finance receivables   | 22                              | 23    |
| Investment in buildings and equipment, net  | (7)                             | (6)   |
| Change in other invested assets, net  | (1)                             | 7     |
| Net cash used in investing activities   | (620)                           | (331) |
| <b>Cash Flows From Financing Activities</b>                                       |                                 |       |
| Payment of cash dividends to shareholders   | (218)                           | (208) |
| Purchase of treasury shares   | (41)                            | (21)  |
| Payments of note payable  | (14)                            | (55)  |
| Proceeds from stock options exercised   | 14                              | 14    |
| Contract holders' funds deposited   | 62                              | 66    |
| Contract holders' funds withdrawn   | (101)                           | (108) |
| Excess tax benefits on stock-based compensation                                   | 4                               | 2     |
| Other   | (13)                            | (13)  |
| Net cash used in financing activities   | (307)                           | (323) |
| Net change in cash and cash equivalents   | (172)                           | (21)  |
| Cash and cash equivalents at beginning of year                                    | 591                             | 433   |
| Cash and cash equivalents at end of period  | \$419                           | \$412 |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                         |                                 |       |

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|  |      |      |
|--|------|------|
| Interest paid                                      | \$26 | \$27 |
| Income taxes paid                                  | 179  | 52   |
| Noncash Activities:                                |      |      |
| Conversion of securities                           | \$—  | \$7  |
| Equipment acquired under capital lease obligations | 16   | 10   |
| Cashless exercise of stock options                 | 11   | 11   |

Accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 — Accounting Policies

The condensed consolidated financial statements include the accounts of Cincinnati Financial Corporation and its consolidated subsidiaries, each of which is wholly owned. These statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP). All intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Our actual results could differ from those estimates. Our December 31, 2014, condensed consolidated balance sheet amounts are derived from the audited financial statements but do not include all disclosures required by GAAP.

Our September 30, 2015, condensed consolidated financial statements are unaudited. Certain financial information that is included in annual financial statements prepared in accordance with GAAP is not required for interim reporting and has been condensed or omitted. We believe that we have made all adjustments, consisting only of normal recurring accruals, that are necessary for fair presentation. These condensed consolidated financial statements should be read in conjunction with our consolidated financial statements included in our 2014 Annual Report on Form 10-K. The results of operations for interim periods do not necessarily indicate results to be expected for the full year.

Pending Accounting Updates

ASU 2014-09 Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Insurance contracts do not fall within the scope of this ASU. The effective date of ASU 2014-09 is for annual reporting periods beginning after December 15, 2017. In July 2015, the FASB decided to defer by one year the effective date of this ASU. The ASU has not yet been adopted and will not have a material impact on our company's financial position, cash flows or results of operations.

ASU 2014-12, Compensation-Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 requires that performance targets that affect vesting and that could be achieved after the requisite service period be treated as performance conditions. The effective date of ASU 2014-12 is for interim and annual reporting periods beginning after December 15, 2015. The ASU has not yet been adopted and will not have a material impact on our company's financial position, cash flows or results of operations.

ASU 2015-02, Consolidation-Amendments to the Consolidation Analysis

In February 2015, the FASB issued ASU 2015-02, Consolidation-Amendments to the Consolidation Analysis. ASU 2015-02 makes amendments to the current consolidation guidance, focusing mainly on the investment management industry; however, entities across all industries may be impacted. The effective date of ASU 2015-02 is for interim and annual reporting periods beginning after December 15, 2015. The ASU has not yet been adopted and will not have a material impact on our company's financial position, cash flows or results of operations.

ASU 2015-03, Interest-Imputation of Interest

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In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest. ASU 2015-03 reduces the complexity of disclosing debt issuance costs and debt discount and premium on the balance sheet by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The effective date of ASU 2015-03 is for interim and annual reporting periods beginning after December 15, 2015. The ASU has not yet been adopted and will not have a material impact on our company's financial position, cash flows or results of operations.

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ASU 2015-09, Financial Services-Insurance: Disclosures about Short-Duration Contracts

In May 2015, the FASB issued ASU 2015-09, Financial Services-Insurance: Disclosures About Short-Duration Contracts. ASU 2015-09 requires entities to provide additional disclosures about the liability for unpaid claims and claim adjustment expenses to increase the transparency of significant estimates. ASU 2015-09 also requires entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. ASU 2015-09 also requires entities to disclose a rollforward of the liability of unpaid claims and claim adjustment expense for annual and interim reporting periods. The effective date of ASU 2015-09 is for annual reporting periods beginning after December 15, 2015, and interim reporting periods within annual period beginning after December 15, 2016. The ASU has not yet been adopted and will not have a material impact on our company's financial position, cash flows or results of operations, but the ASU will require additional disclosures to our annual and interim reporting periods.

ASU 2015-15, Interest-Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.

In August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-15 allows entities to defer and present debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The effective date of ASU 2015-15 is for interim and annual reporting periods beginning after December 15, 2015. The ASU has not yet been adopted and will not have a material impact on our company's financial position, cash flows or results of operations.

## NOTE 2 – Investments

The following table provides cost or amortized cost, gross unrealized gains, gross unrealized losses and fair value for our investment portfolio:

| (Dollars in millions)                             | Cost or<br>amortized<br>cost | Gross unrealized<br>gains      losses |       | Fair value |
|---|------------------------------|---------------------------------------|-------|------------|
| At September 30, 2015                             |                              |                                       |       |            |
| Fixed maturity securities:                        |                              |                                       |       |            |
| Corporate   | \$5,333                      | \$325                                 | \$49  | \$5,609    |
| States, municipalities and political subdivisions | 3,401                        | 159                                   | 3     | 3,557      |
| Commercial mortgage-backed                        | 284                          | 9                                     | 1     | 292        |
| Government-sponsored enterprises                  | 280                          | —                                     | 4     | 276        |
| Foreign government                                | 10                           | —                                     | —     | 10         |
| Convertibles and bonds with warrants attached     | 8                            | —                                     | —     | 8          |
| United States government                          | 4                            | —                                     | —     | 4          |
| Subtotal  | 9,320                        | 493                                   | 57    | 9,756      |
| Equity securities:                                |                              |                                       |       |            |
| Common equities                                   | 2,784                        | 1,585                                 | 56    | 4,313      |
| Nonredeemable preferred equities                  | 186                          | 28                                    | 1     | 213        |
| Subtotal  | 2,970                        | 1,613                                 | 57    | 4,526      |
| Short-term investments                            | 75                           | —                                     | —     | 75         |
| Total   | \$12,365                     | \$2,106                               | \$114 | \$14,357   |
| At December 31, 2014                              |                              |                                       |       |            |
| Fixed maturity securities:                        |                              |                                       |       |            |
| Corporate   | \$5,117                      | \$420                                 | \$11  | \$5,526    |
| States, municipalities and political subdivisions | 3,267                        | 178                                   | 2     | 3,443      |
| Commercial mortgage-backed                        | 250                          | 9                                     | —     | 259        |
| Government-sponsored enterprises                  | 213                          | —                                     | 5     | 208        |
| Foreign government                                | 10                           | —                                     | —     | 10         |
| Convertibles and bonds with warrants attached     | 7                            | —                                     | —     | 7          |
| United States government                          | 7                            | —                                     | —     | 7          |
| Subtotal  | 8,871                        | 607                                   | 18    | 9,460      |
| Equity securities:                                |                              |                                       |       |            |
| Common equities                                   | 2,583                        | 2,099                                 | 3     | 4,679      |
| Nonredeemable preferred equities                  | 145                          | 35                                    | 1     | 179        |
| Subtotal  | 2,728                        | 2,134                                 | 4     | 4,858      |
| Total   | \$11,599                     | \$2,741                               | \$22  | \$14,318   |

The net unrealized investment gains in our fixed-maturity portfolio are primarily the result of the continued low interest rate environment that increased the fair value of our fixed-maturity portfolio. Our commercial mortgage-backed securities had an average rating of Aa1/AA at September 30, 2015, and December 31, 2014. At December 31, 2014, we held no short-term investments. The seven largest unrealized investment gains in our common stock portfolio are from Exxon Mobil Corporation (NYSE:XOM), Honeywell International Incorporated (NYSE:HON), The Procter & Gamble Company (NYSE:PG), Apple Inc. (Nasdaq:AAPL), Hasbro Incorporated (Nasdaq:HAS), BlackRock Inc. (NYSE:BLK), and JPMorgan Chase & Co. (NYSE:JPM), which had a combined gross unrealized gain of \$494 million. At September 30, 2015, Apple was our largest single common stock holding with a fair value of 3.6 percent of our publicly traded common stock portfolio and 1.1 percent of the total investment portfolio.



The table below provides fair values and gross unrealized losses by investment category and by the duration of the securities' continuous unrealized loss positions:

| (Dollars in millions)                             | Less than 12 months |                   | 12 months or more |                   | Total      |                   |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|   | Fair value          | Unrealized losses | Fair value        | Unrealized losses | Fair value | Unrealized losses |
| At September 30, 2015                             |                     |                   |                   |                   |            |                   |
| Fixed maturity securities:                        |                     |                   |                   |                   |            |                   |
| Corporate   | \$729               | \$42              | \$85              | \$7               | \$814      | \$49              |
| States, municipalities and political subdivisions | 227                 | 3                 | 51                | —                 | 278        | 3                 |
| Commercial mortgage-backed                        | 57                  | 1                 | 2                 | —                 | 59         | 1                 |
| Government-sponsored enterprises                  | 74                  | 1                 | 139               | 3                 | 213        | 4                 |
| Foreign government                                | 10                  | —                 | —                 | —                 | 10         | —                 |
| Subtotal  | 1,097               | 47                | 277               | 10                | 1,374      | 57                |
| Equity securities:                                |                     |                   |                   |                   |            |                   |
| Common equities                                   | 511                 | 56                | —                 | —                 | 511        | 56                |
| Nonredeemable preferred equities                  | 43                  | 1                 | —                 | —                 | 43         | 1                 |
| Subtotal  | 554                 | 57                | —                 | —                 | 554        | 57                |
| Total   | \$1,651             | \$104             | \$277             | \$10              | \$1,928    | \$114             |
| At December 31, 2014                              |                     |                   |                   |                   |            |                   |
| Fixed maturity securities:                        |                     |                   |                   |                   |            |                   |
| Corporate   | \$261               | \$8               | \$90              | \$3               | \$351      | \$11              |
| States, municipalities and political subdivisions | 17                  | —                 | 135               | 2                 | 152        | 2                 |
| Commercial mortgage-backed                        | 3                   | —                 | 23                | —                 | 26         | —                 |
| Government-sponsored enterprises                  | 11                  | —                 | 181               | 5                 | 192        | 5                 |
| Subtotal  | 292                 | 8                 | 429               | 10                | 721        | 18                |
| Equity securities:                                |                     |                   |                   |                   |            |                   |
| Common equities                                   | 85                  | 3                 | —                 | —                 | 85         | 3                 |
| Nonredeemable preferred equities                  | 16                  | —                 | 17                | 1                 | 33         | 1                 |
| Subtotal  | 101                 | 3                 | 17                | 1                 | 118        | 4                 |
| Total   | \$393               | \$11              | \$446             | \$11              | \$839      | \$22              |

The following table provides investment income, realized investment gains and losses, the change in unrealized investment gains and losses, and other items:

| (Dollars in millions)                             | Three months ended September 30, |        | Nine months ended September 30, |       |
|---|----------------------------------|--------|---------------------------------|-------|
|   | 2015                             | 2014   | 2015                            | 2014  |
| Investment income:                                |                                  |        |                                 |       |
| Interest  | \$108                            | \$105  | \$319                           | \$312 |
| Dividends   | 37                               | 35     | 108                             | 101   |
| Other   | 1                                | —      | 2                               | 2     |
| Total   | 146                              | 140    | 429                             | 415   |
| Less investment expenses                          | 3                                | 2      | 7                               | 6     |
| Total   | \$143                            | \$138  | \$422                           | \$409 |
| Realized investment gains and losses summary:     |                                  |        |                                 |       |
| Fixed maturities:                                 |                                  |        |                                 |       |
| Gross realized gains                              | \$4                              | \$6    | \$14                            | \$12  |
| Gross realized losses                             | —                                | —      | —                               | (4)   |
| Other-than-temporary impairments                  | (8)                              | —      | (11)                            | —     |
| Equity securities:                                |                                  |        |                                 |       |
| Gross realized gains                              | 6                                | 59     | 106                             | 93    |
| Gross realized losses                             | —                                | —      | (1)                             | —     |
| Other-than-temporary impairments                  | —                                | —      | (1)                             | (1)   |
| Other   | 1                                | —      | 3                               | 1     |
| Total   | \$3                              | \$65   | \$110                           | \$101 |
| Change in unrealized investment gains and losses: |                                  |        |                                 |       |
| Fixed maturities                                  | \$(15)                           | \$(66) | \$(153)                         | \$115 |
| Equity securities                                 | (350)                            | (54)   | (574)                           | 117   |
| Less income taxes                                 | 127                              | 42     | 254                             | (81)  |
| Total   | \$(238)                          | \$(78) | \$(473)                         | \$151 |

During the three months ended September 30, 2015, one new equity security was other-than-temporarily impaired along with two other-than-temporarily impaired fixed-maturity securities. During the nine months ended September 30, 2015, there were three equity securities and three fixed-maturity securities other-than-temporarily impaired. There were no credit losses on fixed-maturity securities for which a portion of other-than-temporary impairment (OTTI) has been recognized in other comprehensive income for the three and nine months ended September 30, 2015 and 2014. At September 30, 2015, 73 fixed-maturity investments with a total unrealized loss of \$10 million had been in an unrealized loss position for 12 months or more. Of that total, one fixed-maturity investment had a fair value below 70 percent of amortized cost. There were no equity investments in an unrealized loss position for 12 months or more as of September 30, 2015.

During 2014, we other-than-temporarily impaired six fixed-maturity securities. At December 31, 2014, 144 fixed-maturity investments with a total unrealized loss of \$10 million had been in an unrealized loss position for 12 months or more. Of that total, no fixed-maturity investments had fair values below 70 percent of amortized cost. There were three equity security investments in an unrealized loss position for 12 months or more with a total unrealized loss of \$1 million as of December 31, 2014. Of that total, no equity security investments had fair values below 70 percent of cost.

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## NOTE 3 – Fair Value Measurements

## Fair Value Hierarchy

In accordance with accounting guidance for fair value measurements and disclosures, we categorized our financial instruments, based on the priority of the observable and market-based data for the valuation technique used, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices with readily available independent data in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable market inputs (Level 3). When various inputs for measurement fall within different levels of the fair value hierarchy, the lowest observable input that has a significant impact on fair value measurement is used.

Our valuation techniques have not changed from those used at December 31, 2014, and ultimately management determines fair value. See our 2014 Annual Report on Form 10-K, Item 8, Note 3, Fair Value Measurements, Page 137, for information on characteristics and valuation techniques used in determining fair value.

## Fair Value Disclosures for Assets

The following tables illustrate the fair value hierarchy for those assets measured at fair value on a recurring basis at September 30, 2015, and December 31, 2014. We do not have any material liabilities carried at fair value.

There were no transfers between Level 1 and Level 2.

(Dollars in millions)

|  | Quoted prices in<br>active markets for<br>identical assets<br>(Level 1) | Significant other<br>observable inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Total    |
|--|---|---|--|----------|
| At September 30, 2015  |   |   |  |          |
| Fixed maturities, available for sale:  |   |   |  |          |
| Corporate  | \$—   | \$5,568   | \$41   | \$5,609  |
| States, municipalities and political subdivisions                              | —   | 3,557   | —  | 3,557    |
| Commercial mortgage-backed   | —   | 292   | —  | 292      |
| Government-sponsored enterprises   | —   | 276   | —  | 276      |
| Foreign government   | —   | 10  | —  | 10       |
| Convertibles and bonds with warrants attached                                  | —   | 8   | —  | 8        |
| United States government   | 4   | —   | —  | 4        |
| Subtotal   | 4   | 9,711   | 41   | 9,756    |
| Common equities, available for sale  | 4,313   | —   | —  | 4,313    |
| Nonredeemable preferred equities, available for sale                           | —   | 211   | 2  | 213      |
| Short-term investments   | —   | 75  | —  | 75       |
| Separate accounts taxable fixed maturities                                     | —   | 754   | —  | 754      |
| Top Hat savings plan mutual funds and common equity (included in Other assets) | 20  | —   | —  | 20       |
| Total  | \$4,337   | \$10,751  | \$43   | \$15,131 |
| At December 31, 2014   |   |   |  |          |
| Fixed maturities, available for sale:  |   |   |  |          |
| Corporate  | \$—   | \$5,508   | \$18   | \$5,526  |
| States, municipalities and political subdivisions                              | —   | 3,443   | —  | 3,443    |
| Commercial mortgage-backed   | —   | 259   | —  | 259      |
| Government-sponsored enterprises   | —   | 208   | —  |          |