

CINCINNATI FINANCIAL CORP

Form 10-Q

October 25, 2016

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, 2016.

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

6200 S. Gilmore Road, Fairfield, Ohio 45014-5141
(Address of principal executive offices) (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 21, 2016, there were 164,748,584 shares of common stock outstanding.

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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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, 2016	December 31, 2015
Assets		
Investments		
Fixed maturities, at fair value (amortized cost: 2016—\$9,657; 2015—\$9,324)	\$ 10,257	\$ 9,650
Equity securities, at fair value (cost: 2016—\$3,169; 2015—\$2,938)	5,304	4,706
Other invested assets	81	67
Total investments	15,642	14,423
Cash and cash equivalents	700	544
Investment income receivable	121	129
Finance receivable	53	62
Premiums receivable	1,518	1,431
Reinsurance recoverable	552	542
Prepaid reinsurance premiums	68	54
Deferred policy acquisition costs	627	616
Land, building and equipment, net, for company use (accumulated depreciation: 2016—\$234; 2015—\$459)	184	185
Other assets	200	154
Separate accounts	790	748
Total assets	\$ 20,455	\$ 18,888
Liabilities		
Insurance reserves		
Loss and loss expense reserves	\$ 4,991	\$ 4,718
Life policy and investment contract reserves	2,641	2,583
Unearned premiums	2,388	2,201
Other liabilities	798	717
Deferred income tax	879	638
Note payable	20	35
Long-term debt and capital lease obligations	827	821
Separate accounts	790	748
Total liabilities	13,334	12,461
Commitments and contingent liabilities (Note 12)	—	—
Shareholders' Equity		
Common stock, par value—\$2 per share; (authorized: 2016 and 2015—500 million shares; issued: 2016 and 2015—198.3 million shares)	397	397
Paid-in capital	1,244	1,232
Retained earnings	5,016	4,762
Accumulated other comprehensive income	1,752	1,344
Treasury stock at cost (2016—33.6 million shares and 2015—34.4 million shares)	(1,288)	(1,308)
Total shareholders' equity	7,121	6,427

Total liabilities and shareholders' equity	\$ 20,455	\$ 18,888
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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		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenues				
Earned premiums	\$1,191	\$1,127	\$3,518	\$3,332
Investment income, net of expenses	148	143	442	422
Realized investment gains, net	56	3	161	110
Fee revenues	5	4	11	10
Other revenues	2	1	5	5
Total revenues	1,402	1,278	4,137	3,879
Benefits and Expenses				
Insurance losses and contract holders' benefits	753	670	2,298	2,131
Underwriting, acquisition and insurance expenses	380	348	1,106	1,033
Interest expense	13	14	39	40
Other operating expenses	3	3	10	10
Total benefits and expenses	1,149	1,035	3,453	3,214
Income Before Income Taxes	253	243	684	665
Provision for Income Taxes				
Current	60	64	173	180
Deferred	13	5	20	7
Total provision for income taxes	73	69	193	187
Net Income	\$180	\$174	\$491	\$478
Per Common Share				
Net income—basic	\$1.09	\$1.06	\$2.98	\$2.91
Net income—diluted	1.08	1.05	2.95	2.89

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, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net Income	\$180	\$174	\$491	\$478
Other Comprehensive (Loss) Income				
Change in unrealized gains on investments, net of tax of \$21, \$(127), \$224 and \$(254), respectively	41	(238)	417	(473)
Amortization of pension actuarial loss and prior service cost, net of tax of \$0, \$0, \$1 and \$1, respectively	—	1	1	3
Change in life deferred acquisition costs, life policy reserves and other, net of tax of \$0, \$1, \$(4) and \$2, respectively	(3)	3	(10)	6
Other comprehensive income (loss), net of tax	38	(234)	408	(464)
Comprehensive Income (Loss)	\$218	\$(60)	\$899	\$14

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 Shareholders' Equity

(Dollars in millions)	Nine months ended September 30,	
	2016	2015
Common Stock		
Beginning of year	\$397	\$397
Share-based awards	—	—
End of period	397	397
Paid-In Capital		
Beginning of year	1,232	1,214
Share-based awards	(9)	(9)
Share-based compensation	18	16
Other	3	2
End of period	1,244	1,223
Retained Earnings		
Beginning of year	4,762	4,505
Net income	491	478
Dividends declared	(237)	(227)
End of period	5,016	4,756
Accumulated Other Comprehensive Income		
Beginning of year	1,344	1,744
Other comprehensive income, net	408	(464)
End of period	1,752	1,280
Treasury Stock		
Beginning of year	(1,308)	(1,287)
Share-based awards	29	29
Shares acquired - share repurchase authorization	(2)	(41)
Shares acquired - share-based compensation plans	(10)	(11)
Other	3	4
End of period	(1,288)	(1,306)
Total Shareholders' Equity	\$7,121	\$6,350

(In millions)

Common Stock - Shares Outstanding

Beginning of year	163.9	163.7
Share-based awards	0.8	1.0
Shares acquired - share repurchase authorization	—	(0.8)
Shares acquired - share-based compensation plans	(0.1)	(0.2)
Other	0.1	0.1
End of period	164.7	163.8

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, 2016 2015	
Cash Flows From Operating Activities		
Net income	\$491	\$478
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34	39
Realized investment gains, net	(161)	(110)
Stock-based compensation	18	16
Interest credited to contract holders'	36	32
Deferred income tax expense	20	7
Changes in:		
Investment income receivable	8	4
Premiums and reinsurance receivable	(111)	(96)
Deferred policy acquisition costs	(31)	(20)
Other assets	(32)	—
Loss and loss expense reserves	273	215
Life policy reserves	75	70
Unearned premiums	187	133
Other liabilities	—	(11)
Current income tax receivable/payable	17	(2)
Net cash provided by operating activities	824	755
Cash Flows From Investing Activities		
Sale of fixed maturities	15	25
Call or maturity of fixed maturities	1,160	961
Sale of equity securities	311	241
Purchase of fixed maturities	(1,465)	(1,397)
Purchase of equity securities	(396)	(379)
Purchase of short-term investments	—	(75)
Investment in finance receivables	(13)	(10)
Collection of finance receivables	24	22
Investment in buildings and equipment, net	(9)	(7)
Change in other invested assets, net	(13)	(1)
Net cash used in investing activities	(386)	(620)
Cash Flows From Financing Activities		
Payment of cash dividends to shareholders	(229)	(218)
Shares acquired - share repurchase authorization	(2)	(41)
Payments of note payable	(15)	(14)
Proceeds from stock options exercised	17	14
Contract holders' funds deposited	71	62
Contract holders' funds withdrawn	(118)	(101)
Excess tax benefits on stock-based compensation	4	4
Other	(10)	(13)
Net cash used in financing activities	(282)	(307)
Net change in cash and cash equivalents	156	(172)

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Cash and cash equivalents at beginning of year	544	591
Cash and cash equivalents at end of period	\$700	\$419
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$26	\$26
Income taxes paid	152	179
Noncash Activities		
Conversion of securities	\$4	\$—
Equipment acquired under capital lease obligations	18	16
Cashless exercise of stock options	10	11
Other assets and other liabilities	29	—

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, 2015, condensed consolidated balance sheet amounts are derived from the audited financial statements but do not include all disclosures required by GAAP.

Our September 30, 2016, 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 2015 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.

Adopted Accounting Updates

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 Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 was for interim and annual reporting periods beginning after December 15, 2015. The company adopted this ASU and it did 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 was for interim and annual reporting periods beginning after December 15, 2015. The company adopted this ASU and it did not have a material impact on our company's financial position, cash flows or results of operations.

Pending Accounting Updates

ASU 2014-09 Revenue from Contracts with Customers

In May 2014, the FASB issued 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. The ASU has not yet been adopted; however, it is not expected to have a material impact on our company's financial position, cash flows or results of operations.

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 loss and loss expense reserves 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 loss and loss expense reserves, 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 loss and loss expense reserves for

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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 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 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 revises the accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The effective date of ASU 2016-01 is for interim and annual reporting periods beginning after December 15, 2017. The ASU has not yet been adopted. Management is currently evaluating the impact on our company's consolidated financial position, cash flows and results of operations.

ASU 2016-02, Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The main provision of ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The effective date of ASU 2016-02 is for interim and annual reporting periods beginning after December 15, 2018. The ASU has not yet been adopted. Management is currently evaluating the impact on our company's consolidated financial position, cash flows and results of operations.

ASU 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting

In March 2016, the FASB issued ASU 2016-07, Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. ASU 2016-07 eliminates the requirement to retroactively adjust an investment, results of operations, and retained earnings once an investment qualifies for use of the equity method. It requires the equity method investor to add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting without retroactive adjustment. The effective date of ASU 2016-07 is for interim and annual reporting periods beginning after December 15, 2016. The ASU has not yet been adopted; however, it is not expected to have a material impact on our company's consolidated financial position, cash flows or results of operations.

ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies and improves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The effective date of ASU 2016-09 is for interim and annual reporting periods beginning after December 15, 2016. The ASU has not yet been adopted; however, it is not expected to have a material impact on our company's consolidated financial position, cash flows or results of operations.

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 amends previous guidance on the impairment of financial instruments by adding an impairment model that allows an entity to recognize expected credit losses as an allowance rather than impairing as they are incurred. The new guidance is intended to reduce complexity of credit impairment

models and result in a more timely recognition of expected credit losses. The effective date of ASU 2016-13 is for interim and annual reporting periods beginning after December 15, 2019. The ASU has not yet been adopted; however, it is not expected to have a material impact on our company's consolidated financial position, cash flows or results of operations.

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ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments
In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The effective date of ASU 2016-15 is for interim and annual reporting periods beginning after December 15, 2017. The ASU has not yet been adopted; however, it is not expected to have a material impact on our company's consolidated financial position, cash flows or results of operations.

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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 amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
At September 30, 2016				
Fixed maturity securities:				
Corporate	\$ 5,621	\$ 375	\$ 14	\$5,982
States, municipalities and political subdivisions	3,619	222	1	3,840
Commercial mortgage-backed	290	18	—	308
Government-sponsored enterprises	108	—	—	108
Foreign government	10	—	—	10
Convertibles and bonds with warrants attached	5	—	—	5
United States government	4	—	—	4
Subtotal	9,657	615	15	10,257
Equity securities:				
Common equities	2,982	2,156	61	5,077
Nonredeemable preferred equities	187	40	—	227
Subtotal	3,169	2,196	61	5,304
Total	\$ 12,826	\$ 2,811	\$ 76	\$ 15,561
At December 31, 2015				
Fixed maturity securities:				
Corporate	\$ 5,294	\$ 255	\$ 96	\$5,453
States, municipalities and political subdivisions	3,440	172	1	3,611
Commercial mortgage-backed	287	4	2	289
Government-sponsored enterprises	284	—	6	278
Foreign government	10	—	—	10
Convertibles and bonds with warrants attached	5	—	—	5
United States government	4	—	—	4
Subtotal	9,324	431	105	9,650
Equity securities:				
Common equities	2,749	1,787	51	4,485
Nonredeemable preferred equities	189	32	—	221
Subtotal	2,938	1,819	51	4,706
Total	\$ 12,262	\$ 2,250	\$ 156	\$ 14,356

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, 2016, and December 31, 2015. The seven largest unrealized investment gains in our common stock portfolio are from Honeywell International Incorporated (NYSE:HON), Exxon Mobil Corporation (NYSE:XOM), The Procter & Gamble Company (NYSE:PG), Johnson & Johnson (NYSE:JNJ), BlackRock Inc. (NYSE:BLK), 3M Co (NYSE:MMM) and Microsoft Corporation (Nasdaq:MSFT), which had a combined gross unrealized gain of \$649 million. At September 30, 2016, Apple Inc. (Nasdaq:AAPL) was our largest single common stock holding with a fair value of \$158 million, which was 3.1 percent of our publicly traded common stock portfolio and 1.0 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, 2016						
Fixed maturity securities:						
Corporate	\$ 166	\$ 4	\$ 200	\$ 10	\$366	\$ 14
States, municipalities and political subdivisions	128	1	—	—	128	1
Commercial mortgage-backed	8	—	3	—	11	—
Government-sponsored enterprises	43	—	—	—	43	—
Subtotal	345	5	203	10	548	15
Equity securities:						
Common equities	177	6	203	55	380	61
Total	\$ 522	\$ 11	\$ 406	\$ 65	\$928	\$ 76
At December 31, 2015						
Fixed maturity securities:						
Corporate	\$ 1,099	\$ 63	\$ 133	\$ 33	\$1,232	\$ 96
States, municipalities and political subdivisions	47	1	22	—	69	1
Commercial mortgage-backed	103	2	2	—	105	2
Government-sponsored enterprises	100	2	127	4	227	6
Subtotal	1,349	68	284	37	1,633	105
Equity securities:						
Common equities	270	51	—	—	270	51
Nonredeemable preferred equities	35	—	—	—	35	—
Subtotal	305	51	—	—	305	51
Total	\$ 1,654	\$ 119	\$ 284	\$ 37	\$1,938	\$ 156

Contractual maturity dates for fixed-maturity investments were:

(Dollars in millions)	Amortized cost	Fair value	% of fair value
At September 30, 2016			
Maturity dates:			
Due in one year or less	\$ 446	\$452	4.4 %
Due after one year through five years	3,049	3,265	31.8
Due after five years through ten years	3,856	4,067	39.7
Due after ten years	2,306	2,473	24.1
Total	\$ 9,657	\$10,257	100.0%

Actual maturities may differ from contractual maturities when there is a right to call or prepay obligations with or without call or prepayment penalties.

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		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Investment income:				
Interest	\$111	\$108	\$330	\$319
Dividends	39	37	117	108
Other	1	1	2	2
Total	151	146	449	429
Less investment expenses	3	3	7	7
Total	\$148	\$143	\$442	\$422

Realized investment gains and losses summary:

Fixed maturities:				
Gross realized gains	\$10	\$4	\$17	\$14
Gross realized losses	—	—	(1)	—
Other-than-temporary impairments	—	(8)	(2)	(11)
Equity securities:				
Gross realized gains	47	6	147	106
Gross realized losses	—	—	(1)	(1)
Other-than-temporary impairments	—	—	—	(1)
Other	(1)	1	1	3
Total	\$56	\$3	\$161	\$110

Change in unrealized investment gains and losses:

Fixed maturities	\$(20)	\$(15)	\$274	\$(153)
Equity securities	82	(350)	367	(574)
Income tax (provision) benefit	(21)	127	(224)	254
Total	\$41	\$(238)	\$417	\$(473)

During the three months ended September 30, 2016, there were no equity securities and no fixed-maturity securities other-than-temporarily impaired. During the nine months ended September 30, 2016, there were no equity securities and four 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, 2016 and 2015. At September 30, 2016, 36 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. At September 30, 2016, three equity investments with a total unrealized loss of \$55 million had been in an unrealized loss position for 12 months or more. Of that total, one equity investment with a total unrealized loss of \$36 million had a fair value below 70 percent of amortized cost.

During 2015, we other-than-temporarily impaired 20 securities. At December 31, 2015, 69 fixed-maturity investments with a total unrealized loss of \$37 million had been in an unrealized loss position for 12 months or more. Of that total, five fixed-maturity investments had fair values below 70 percent of amortized cost. There were no equity security investments in an unrealized loss position for 12 months or more as of December 31, 2015.

NOTE 3 – Fair Value Measurements

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, 2015, and ultimately management determines fair value. See our 2015 Annual Report on Form 10-K, Item 8, Note 3, Fair Value Measurements, Page 133, 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, 2016, and December 31, 2015. 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 active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
At September 30, 2016				
Fixed maturities, available for sale:				
Corporate	\$ —	\$ 5,940	\$ 42	\$5,982
States, municipalities and political subdivisions	—	3,840	—	3,840
Commercial mortgage-backed	—	308	—	308
Government-sponsored enterprises	—	108	—	108
Foreign government	—	10	—	10
Convertibles and bonds with warrants attached	—	5	—	5
United States government	4	—	—	4
Subtotal	4	10,211	42	10,257
Common equities, available for sale	5,077	—	—	5,077
Nonredeemable preferred equities, available for sale	—	227	—	227
Separate accounts taxable fixed maturities	—	753	—	753
Top Hat savings plan mutual funds and common equity (included in Other assets)	24	—	—	24
Total	\$ 5,105	\$ 11,191	\$ 42	\$16,338
At December 31, 2015				
Fixed maturities, available for sale:				
Corporate	\$ —	\$ 5,402	\$ 51	\$5,453
States, municipalities and political subdivisions	—	3,611	—	3,611
Commercial mortgage-backed	—	289	—	289
Government-sponsored enterprises	—	278	—	278
Foreign government	—	10	—	10
Convertibles and bonds with warrants attached	—	5	—	5
United States government	4	—	—	4
Subtotal	4	9,595	51	9,650
Common equities, available for sale	4,485	—	—	4,485
Nonredeemable preferred equities, available for sale	—	218	3	221
Separate accounts taxable fixed maturities	—	736	1	737
Top Hat savings plan mutual funds and common	21	—	—	21

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equity (included in Other assets)				
Total	\$ 4,510	\$ 10,549	\$ 55	\$15,114

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Each financial instrument that was deemed to have significant unobservable inputs when determining valuation is identified in the following tables by security type with a summary of changes in fair value as of September 30, 2016. Total Level 3 assets continue to be less than 1 percent of financial assets measured at fair value in the condensed consolidated balance sheets. Assets presented in the table below were valued based primarily on broker/dealer quotes for which there is a lack of transparency as to inputs used to develop the valuations. Transfers into Level 3 included situations where a fair value quote was not provided by the company's nationally recognized pricing vendor and as a result the price was stale or had been replaced with a broker quote where the inputs had not been corroborated to be market observable resulting in the security being classified as Level 3. Transfers out of Level 3 included situations where a broker quote was used in the prior period and a fair value quote became available from the company's nationally recognized pricing vendor in the current period. The quantitative detail of these unobservable inputs is neither provided nor reasonably available to us.

The following table provides the change in Level 3 assets for the three months ended September 30:

(Dollars in millions)	Asset fair value measurements using significant unobservable inputs (Level 3)				
	Corporate fixed maturities	Separate accounts taxable fixed maturities	States, municipalities and political subdivisions fixed maturities	Nonredeemable preferred equities	Total
Beginning balance, July 1, 2016	\$52	\$ 1	\$ —	\$ —	\$53
Total gains or losses (realized/unrealized):					
Included in net income	—	—	—	—	—
Included in other comprehensive income	1	—	—	—	1
Purchases	—	—	—	—	—
Sales	(1)	—	—	—	(1)
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(10)	(1)	—	—	(11)
Ending balance, September 30, 2016	\$42	\$ —	\$ —	\$ —	\$42
Beginning balance, July 1, 2015	\$18	\$ —	\$ 1	\$ 2	\$21
Total gains or losses (realized/unrealized):					
Included in net income	1	—	—	—	1
Included in other comprehensive income	22	—	—	—	22
Purchases	—	—	—	—	—
Sales	—	—	—	—	—
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	—	—	(1)	—	(1)
Ending balance, September 30, 2015	\$41	\$ —	\$ —	\$ 2	\$43

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The following table provides the change in Level 3 assets for the nine months ended September 30:

(Dollars in millions)	Asset fair value measurements using significant unobservable inputs (Level 3)				
	Corporate fixed maturities	Separate accounts taxable fixed maturities	States, municipalities and political subdivisions fixed maturities	Nonredeemable preferred equities	Total
Beginning balance, January 1, 2016	\$ 51	\$ 1	\$ —	\$ 3	\$55
Total gains or losses (realized/unrealized):					
Included in net income	—	—	—	—	—
Included in other comprehensive income	1	—	—	(1)	—
Purchases	22	—	—	—	22
Sales	(1)	—	—	(2)	(3)
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(31)	(1)	—	—	(32)
Ending balance, September 30, 2016	\$ 42	\$ —	\$ —	\$ —	\$42
Beginning balance, January 1, 2015	\$ 18	\$ —	\$ —	\$ 2	\$20
Total gains or losses (realized/unrealized):					
Included in net income	—	—	—	—	—
Included in other comprehensive income	1	—	—	—	1
Purchases	22	—	—	—	22
Sales	—	—	—	—	—
Transfers into Level 3	—	—	1	—	1
Transfers out of Level 3	—	—	(1)	—	(1)
Ending balance, September 30, 2015	\$ 41	\$ —	\$ —	\$ 2	\$43

Additional disclosures for the Level 3 category are not material.

Fair Value Disclosures for Assets and Liabilities Not Carried at Fair Value

The disclosures below are presented to provide timely information about the effects of current market conditions on financial instruments that are not reported at fair value in our condensed consolidated financial statements.

This table summarizes the book value and principal amounts of our long-term debt:

(Dollars in millions)	Year of issue	Book value	Principal amount			
			September 30, 2016	December 31, 2015		
6.900%	1998	Senior debentures, due 2028	\$ 26	\$ 26	\$ 28	\$ 28
6.920%	2005	Senior debentures, due 2028	391	391	391	391
6.125%	2004	Senior notes, due 2034	369	369	374	374
		Total	\$ 786	\$ 786	\$ 793	\$ 793

The following table shows fair values of our note payable and long-term debt:

(Dollars in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
At September 30, 2016				
Note payable	\$	— \$ 20	\$	—\$20
6.900% senior debentures, due 2028	—	35	—	35
6.920% senior debentures, due 2028	—	511	—	511
6.125% senior notes, due 2034	—	452	—	452
Total	\$	— \$ 1,018	\$	—\$1,018

At December 31, 2015

Note payable	\$	— \$ 35	\$	—\$35
6.900% senior debentures, due 2028	—	31	—	31
6.920% senior debentures, due 2028	—	480	—	480
6.125% senior notes, due 2034	—	425	—	425
Total	\$	— \$ 971	\$	—\$971

The following table shows the fair value of our life policy loans included in other invested assets:

(Dollars in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
At September 30, 2016				
Life policy loans	\$	— \$	— \$ 41	\$ 41
At December 31, 2015				
Life policy loans	\$	— \$	— \$ 40	\$ 40

Outstanding principal and interest for these life policy loans totaled \$30 million and \$31 million at September 30, 2016, and December 31, 2015, respectively.

The following table shows fair values of our deferred annuities and structured settlements included in life policy and investment contract reserves:

(Dollars in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
At September 30, 2016				
Deferred annuities	\$	— \$	—	\$ 881
Structured settlements	—	218	—	218
Total	\$	— \$ 218	\$ 881	\$1,099
At December 31, 2015				
Deferred annuities	\$	— \$	—	\$ 886
Structured settlements	—	208	—	208
Total	\$	— \$ 208	\$ 886	\$1,094

Recorded reserves for the deferred annuities were \$864 million and \$860 million at September 30, 2016, and December 31, 2015, respectively. Recorded reserves for the structured settlements were \$170 million and \$174 million at September 30, 2016, and December 31, 2015, respectively.

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NOTE 4 – Property Casualty Loss and Loss Expenses

This table summarizes activity for our consolidated property casualty loss and loss expense reserves:

(Dollars in millions)	Three months		Nine months	
	ended September		ended September	
	30,	30,	30,	30,
	2016	2015	2016	2015
Gross loss and loss expense reserves, beginning of period	\$4,918	\$4,647	\$4,660	\$4,438
Less reinsurance recoverable	310	292	281	282
Net loss and loss expense reserves, beginning of period	4,608	4,355	4,379	4,156
Net incurred loss and loss expenses related to:				
Current accident year	730	661	2,261	2,096
Prior accident years	(40)	(48)	(151)	(140)
Total incurred	690	613	2,110	1,956
Net paid loss and loss expenses related to:				
Current accident year	374	343	848	794
Prior accident years	288	261	1,005	954
Total paid	662	604	1,853	1,748
Net loss and loss expense reserves, end of period	4,636	4,364	4,636	4,364
Plus reinsurance recoverable	301	289	301	289
Gross loss and loss expense reserves, end of period	\$4,937	\$4,653	\$4,937	\$4,653

We use actuarial methods, models and judgment to estimate, as of a financial statement date, the property casualty loss and loss expense reserves required to pay for and settle all outstanding insured claims, including incurred but not reported (IBNR) claims, as of that date. The actuarial estimate is subject to review and adjustment by an inter-departmental committee that includes actuarial management who are familiar with relevant company and industry business, claims and underwriting trends, as well as general economic and legal trends that could affect future loss and loss expense payments. The amount we will actually have to pay for claims can be highly uncertain. This uncertainty, together with the size of our reserves, makes the loss and loss expense reserves our most significant estimate. The reserve for loss and loss expenses in the condensed consolidated balance sheets also included \$54 million at September 30, 2016, and \$47 million at September 30, 2015, for certain life and health loss and loss expense reserves.

For the three months ended September 30, 2016, we experienced \$40 million of favorable development on prior accident years, including \$31 million of favorable development in commercial lines, \$4 million of adverse development in personal lines, \$12 million of favorable development in excess and surplus lines and \$1 million of favorable development in our reinsurance assumed operations. We recognized favorable reserve development during the three months ended September 30, 2016, of \$16 million for the workers' compensation line, \$7 million for the commercial casualty line and \$11 million for the other commercial lines line due to reduced uncertainty of prior accident year loss and loss adjustment expense for these lines. We recognized unfavorable reserve development during the three months ended September 30, 2016, of \$9 million for the personal auto line and \$4 million for the commercial auto line. Both lines developed unfavorably due to higher loss cost effects in recent accident years, resulting in an increase of our reserve estimate for claims that have not yet been settled.

For the nine months ended September 30, 2016, we experienced \$151 million of favorable development on prior accident years, including \$118 million of favorable development in commercial lines, \$4 million of favorable development in personal lines, \$27 million of favorable development in excess and surplus lines and \$2 million of favorable development in our reinsurance assumed operations. This included \$5 million from favorable development of catastrophe losses for the nine months ended September 30, 2016. We recognized favorable reserve development during the nine months ended September 30, 2016, of \$52 million for the workers' compensation line, \$30 million for the commercial casualty line, \$25 million for the commercial property line and \$37 million for the other commercial lines due to reduced uncertainty of prior accident year loss and loss adjustment expense for these lines. We recognized unfavorable reserve development during the nine months ended September 30, 2016, of \$26 million for the commercial auto line and \$15 million for the personal auto line. Both lines developed unfavorably due to higher loss cost effects in recent accident years, resulting in an increase of our reserve estimate for claims that have not yet been settled.

For the three months ended September 30, 2015, we experienced \$48 million of favorable development on prior accident years, including \$43 million of favorable development in commercial lines, \$2 million of adverse development in personal lines and \$7 million of favorable development in excess and surplus lines. We recognized favorable reserve development during the three months ended September 30, 2015, of \$25 million for the workers' compensation line and \$16 million for the commercial casualty line due to reduced uncertainty of prior accident year loss and loss adjustment expense for these lines. Our commercial auto line developed unfavorably by \$4 million for the three months ended September 30, 2015, due to higher loss cost effects in recent accident years, resulting in an increase of our reserve estimate for claims that have not yet been settled.

For the nine months ended September 30, 2015, we experienced \$140 million of favorable development on prior accident years, including \$120 million of favorable development in commercial lines, \$1 million of adverse development in personal lines and \$21 million of favorable development in excess and surplus lines. This included \$12 million from favorable development of catastrophe losses for the nine months ended September 30, 2015. We recognized favorable reserve development during the nine months ended September 30, 2015, of \$80 million for the workers' compensation line, \$36 million for the commercial casualty line and \$17 million for the other commercial line due to reduced uncertainty of prior accident year loss and loss adjustment expenses for these lines. Our commercial auto line developed unfavorably by \$27 million for the nine months ended September 30, 2015, due to higher loss cost effects in recent accident years, resulting in an increase of our reserve estimate for claims that have not yet been settled.

NOTE 5 – Life Policy and Investment Contract Reserves

We establish the reserves for traditional life insurance policies based on expected expenses, mortality, morbidity, withdrawal rates, timing of claim presentation and investment yields, including a provision for uncertainty. Once these assumptions are established, they generally are maintained throughout the lives of the contracts.

We use both our own experience and industry experience, adjusted for historical trends, in arriving at our assumptions for expected mortality, morbidity and withdrawal rates as well as for expected expenses. We base our assumptions for expected investment income on our own experience adjusted for current economic conditions.

We establish reserves for the company's deferred annuity, universal life and structured settlement policies equal to the cumulative account balances, which include premium deposits plus credited interest less charges and withdrawals. Some of our universal life policies contain no-lapse guarantee provisions. For these policies, we establish a reserve in addition to the account balance, based on expected no-lapse guarantee benefits and expected policy assessments.

This table summarizes our life policy and investment contract reserves:

(Dollars in millions)	September 30, 2016	December 31, 2015
Life policy reserves:		
Ordinary/traditional life	\$ 991	\$ 943
Other	45	44
Subtotal	1,036	987
Investment contract reserves:		
Deferred annuities	864	860
Universal life	565	558
Structured settlements	170	174
Other	6	4
Subtotal	1,605	1,596
Total life policy and investment contract reserves	\$ 2,641	\$ 2,583

NOTE 6 – Deferred Policy Acquisition Costs

Expenses directly related to successfully acquired insurance policies – primarily commissions, premium taxes and underwriting costs – are deferred and amortized over the terms of the policies. We update our acquisition cost assumptions periodically to reflect actual experience, and we evaluate the costs for recoverability. The table below shows the deferred policy acquisition costs and asset reconciliation.

(Dollars in millions)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Property casualty:				
Deferred policy acquisition costs asset, beginning of period	\$412	\$390	\$388	\$379
Capitalized deferred policy acquisition costs	216	201	644	606
Amortized deferred policy acquisition costs	(207)	(197)	(611)	(591)
Deferred policy acquisition costs asset, end of period	\$421	\$394	\$421	\$394
Life:				
Deferred policy acquisition costs asset, beginning of period	\$212	\$210	\$228	\$199
Capitalized deferred policy acquisition costs	11	11	35	34
Amortized deferred policy acquisition costs	(15)	(10)	(37)	(29)
Amortized shadow deferred policy acquisition costs	(2)	4	(20)	11
Deferred policy acquisition costs asset, end of period	\$206	\$215	\$206	\$215
Consolidated:				
Deferred policy acquisition costs asset, beginning of period	\$624	\$600	\$616	\$578
Capitalized deferred policy acquisition costs	227	212	679	640
Amortized deferred policy acquisition costs	(222)	(207)	(648)	(620)
Amortized shadow deferred policy acquisition costs	(2)	4	(20)	11
Deferred policy acquisition costs asset, end of period	\$627	\$609	\$627	\$609

No premium deficiencies were recorded in the condensed consolidated statements of income, as the sum of the anticipated loss and loss expenses, policyholder dividends and unamortized deferred acquisition expenses did not exceed the related unearned premiums and anticipated investment income.

NOTE 7 – Accumulated Other Comprehensive Income

Accumulated other comprehensive income (AOCI) includes changes in unrealized gains and losses on investments, changes in pension obligations and changes in life deferred acquisition costs, life policy reserves and other as follows: (Dollars in millions)

	Three months ended September 30,					
	2016			2015		
	Before tax	Income tax	Net	Before tax	Income tax	Net
Investments:						
AOCI, beginning of period	\$2,673	\$ 925	\$1,748	\$2,357	\$ 815	\$1,542
OCI before realized gains recognized in net income	119	41	78	(363)	(126)	(237)
Realized gains recognized in net income	(57)	(20)	(37)	(2)	(1)	(1)
OCI	62	21	41	(365)	(127)	(238)
AOCI, end of period	\$2,735	\$ 946	\$1,789	\$1,992	\$ 688	\$1,304
Pension obligations:						
AOCI, beginning of period	\$(40)	\$(13)	\$(27)	\$(33)	\$(11)	\$(22)
OCI excluding amortization recognized in net income	—	—	—	—	—	—
Amortization recognized in net income	—	—	—	1	—	1
OCI	—	—	—	1	—	1
AOCI, end of period	\$(40)	\$(13)	\$(27)	\$(32)	\$(11)	\$(21)
Life deferred acquisition costs, life policy reserves and other:						
AOCI, beginning of period	\$(10)	\$(3)	\$(7)	\$(8)	\$(2)	\$(6)
OCI before realized gains recognized in net income	(4)	(1)	(3)	5	1	4
Realized gains recognized in net income	1	1	—	(1)	—	(1)
OCI	(3)	—	(3)	4	1	3
AOCI, end of period	\$(13)	\$(3)	\$(10)	\$(4)	\$(1)	\$(3)
Summary of AOCI:						
AOCI, beginning of period	\$2,623	\$ 909	\$1,714	\$2,316	\$ 802	\$1,514
Investments OCI	62	21	41	(365)	(127)	(238)
Pension obligations OCI	—	—	—	1	—	1
Life deferred acquisition costs, life policy reserves and other OCI	(3)	—	(3)	4	1	3
Total OCI	59	21	38	(360)	(126)	(234)
AOCI, end of period	\$2,682	\$ 930	\$1,752	\$1,956	\$ 676	\$1,280

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(Dollars in millions)	Nine months ended September 30,					
	2016			2015		
	Before tax	Income tax	Net	Before tax	Income tax	Net
Investments:						
AOCI, beginning of period	\$2,094	\$ 722	\$1,372	\$2,719	\$ 942	\$1,777
OCI excluding realized gains recognized in net income	801	280	521	(620)	(216)	(404)
Realized gains recognized in net income	(160)	(56)	(104)	(107)	(38)	(69)
OCI	641	224	417	(727)	(254)	(473)
AOCI, end of period	\$2,735	\$ 946	\$1,789	\$1,992	\$ 688	\$1,304
Pension obligations:						
AOCI, beginning of period	\$(42)	\$(14)	\$(28)	\$(36)	\$(12)	\$(24)
OCI excluding amortization recognized in net income	—	—	—	—	—	—
Amortization recognized in net income	2	1	1	4	1	3
OCI	2	1	1	4	1	3
AOCI, end of period	\$(40)	\$(13)	\$(27)	\$(32)	\$(11)	\$(21)
Life deferred acquisition costs, life policy reserves and other:						
AOCI, beginning of period	\$1	\$ 1	\$—	\$(12)	\$(3)	\$(9)
OCI excluding realized gains recognized in net income	(13)	(4)	(9)	11	3	8
Realized gains recognized in net income	(1)	—	(1)	(3)	(1)	(2)
OCI	(14)	(4)	(10)	8	2	6
AOCI, end of period	\$(13)	\$(3)	\$(10)	\$(4)	\$(1)	\$(3)
Summary of AOCI:						
AOCI, beginning of period	\$2,053	\$ 709	\$1,344	\$2,671	\$ 927	\$1,744
Investments OCI	641	224	417	(727)	(254)	(473)
Pension obligations OCI	2	1	1	4	1	3
Life deferred acquisition costs, life policy reserves and other OCI	(14)	(4)	(10)	8	2	6
Total OCI	629	221	408	(715)	(251)	(464)
AOCI, end of period	\$2,682	\$ 930	\$1,752	\$1,956	\$ 676	\$1,280

Investments realized gains and life deferred acquisition costs, life policy reserves and other realized gains are recorded in the realized investment gains, net, line item in the condensed consolidated statements of income. Amortization on pension obligations is recorded in the insurance losses and contract holders' benefits and underwriting, acquisition and insurance expenses in the condensed consolidated statements of income.

NOTE 8 – Reinsurance

Primary components of our property casualty operations assumed reinsurance include involuntary and voluntary assumed as well as contracts from our newly established reinsurance assumed operations, known as Cincinnati ReSM. Primary components of our ceded reinsurance include a property per risk treaty, property excess treaty, casualty per occurrence treaty, casualty excess treaty, property catastrophe treaty and catastrophe bonds and retrocessions on our reinsurance assumed operations. Management's decisions about the appropriate level of risk retention are affected by various factors, including changes in our underwriting practices, capacity to retain risks and reinsurance market conditions.

Our condensed consolidated statements of income include earned consolidated property casualty insurance premiums on assumed and ceded business:

(Dollars in millions)	Three months ended September		Nine months ended September	
	30, 2016	2015	30, 2016	2015
Direct earned premiums	\$1,153	\$1,110	\$3,409	\$3,279
Assumed earned premiums	22	3	53	8
Ceded earned premiums	(42)	(37)	(119)	(111)
Earned premiums	\$1,133	\$1,076	\$3,343	\$3,176

Our condensed consolidated statements of income include incurred consolidated property casualty insurance loss and loss expenses on assumed and ceded business:

(Dollars in millions)	Three months ended September		Nine months ended September	
	30, 2016	2015	30, 2016	2015
Direct incurred loss and loss expenses	\$691	\$618	\$2,131	\$1,984
Assumed incurred loss and loss expenses	9	2	30	2
Ceded incurred loss and loss expenses	(10)	(7)	(51)	(30)
Incurred loss and loss expenses	\$690	\$613	\$2,110	\$1,956

Our change in ceded incurred compared to prior years resulted from an increase in current accident year losses.

Our life insurance company purchases reinsurance for protection of a portion of the risk that is written. Primary components of our life reinsurance program include individual mortality coverage and aggregate catastrophe and accidental death coverage in excess of certain deductibles.

Our condensed consolidated statements of income include earned life insurance premiums on ceded business:

(Dollars in millions)	Three months ended September		Nine months ended September	
	30, 2016	2015	30, 2016	2015
Direct earned premiums	\$74	\$67	\$220	\$200
Ceded earned premiums	(16)	(16)	(45)	(44)

Earned premiums \$58 \$51 \$175 \$156

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Our condensed consolidated statements of income include life insurance contract holders' benefits incurred on ceded business:

(Dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Direct contract holders' benefits incurred	\$72	\$70	\$228	\$214
Ceded contract holders' benefits incurred	(9)	(13)	(40)	(39)
Contract holders' benefits incurred	\$63	\$57	\$188	\$175

The ceded benefits incurred can vary depending on the type of life insurance policies held and the year the policies were sold.

NOTE 9 – Income Taxes

As of September 30, 2016, and December 31, 2015, we had no liability for unrecognized tax benefits.

The differences between the 35 percent statutory federal income tax rate and our effective income tax rate were as follows:

(Dollars in millions)	Three months ended September 30,				Nine months ended September 30,			
	2016	35.0 %	2015	35.0 %	2016	35.0 %	2015	35.0 %
Tax at statutory rate:	\$88	35.0 %	\$85	35.0 %	\$239	35.0 %	\$233	35.0 %
Increase (decrease) resulting from:								
Tax-exempt income from municipal bonds	(8)	(3.2)	(9)	(3.7)	(25)	(3.7)	(25)	(3.8)
Dividend received exclusion	(8)	(3.2)	(8)	(3.3)	(24)	(3.5)	(23)	(3.5)
Other	1	0.3	1	0.4	3	0.4	2	0.4
Provision for income taxes	\$73	28.9 %	\$69	28.4 %	\$193	28.2 %	\$187	28.1 %

The provision for federal income taxes is based upon filing a consolidated income tax return for the company and its subsidiaries. As of September 30, 2016, we had no operating or capital loss carry forwards.

NOTE 10 – Net Income Per Common Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding. Diluted earnings per share are computed based on the weighted average number of common and dilutive potential common shares outstanding using the treasury stock method. The table shows calculations for basic and diluted earnings per share:

(In millions except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Numerator:				
Net income—basic and diluted	\$180	\$174	\$491	\$478
Denominator:				

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Basic weighted-average common shares outstanding	164.6	164.0	164.5	164.1
Effect of share-based awards:				
Stock options	1.2	1.0	1.1	0.9
Nonvested shares	1.0	0.5	0.9	0.5
Diluted weighted-average shares	166.8	165.5	166.5	165.5
Earnings per share:				
Basic	\$1.09	\$1.06	\$2.98	\$2.91
Diluted	1.08	1.05	2.95	2.89
Number of anti-dilutive share-based awards:	—	0.3	0.3	0.7

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The sources of dilution of our common shares are certain equity-based awards. See our 2015 Annual Report on Form 10-K, Item 8, Note 17, Share-Based Associate Compensation Plans, Page 152, for information about equity-based awards. The above table shows the number of anti-dilutive share-based awards for the three and nine months ended September 30, 2016 and 2015. We did not include these share-based awards in the computation of net income per common share (diluted) because their exercise would have anti-dilutive effects.

NOTE 11 – Employee Retirement Benefits

The following summarizes the components of net periodic benefit cost for our qualified and supplemental pension plans:

(Dollars in millions)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Service cost	\$ 3	\$ 3	\$ 8	\$ 9
Interest cost	4	3	11	10
Expected return on plan assets	(5)	(4)	(14)	(13)
Amortization of actuarial loss and prior service cost	0	1	2	4
Net periodic benefit cost	\$ 2	\$ 3	\$ 7	\$ 10

See our 2015 Annual Report on Form 10-K, Item 8, Note 13, Employee Retirement Benefits, Page 146, for information on our retirement benefits. We made matching contributions totaling \$3 million and \$2 million to our 401(k) and Top Hat savings plans during the third quarter of 2016 and 2015, respectively, and contributions of \$11 million and \$9 million for the first nine months of 2016 and 2015, respectively.

We contributed \$13 million to our qualified pension plan during the first nine months of 2016. We do not anticipate further contributions during the remainder of 2016.

NOTE 12 – Commitments and Contingent Liabilities

In the ordinary course of conducting business, the company and its subsidiaries are named as defendants in various legal proceedings. Most of these proceedings are claims litigation involving the company's insurance subsidiaries in which the company is either defending or providing indemnity for third-party claims brought against insureds or litigating first-party coverage claims. The company accounts for such activity through the establishment of unpaid loss and loss expense reserves. We believe that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, is immaterial to our consolidated financial condition, results of operations and cash flows.

The company and its subsidiaries also are occasionally involved in other legal and regulatory proceedings, some of which assert claims for substantial amounts. These actions include, among others, putative class actions seeking certification of a state or national class. Such proceedings have alleged, for example, breach of an alleged duty to search national databases to ascertain unreported deaths of insureds under life insurance policies. The company's insurance subsidiaries also are occasionally parties to individual actions in which extra-contractual damages, punitive damages or penalties are sought, such as claims alleging bad faith handling of insurance claims or writing unauthorized coverage or claims alleging discrimination by former or current associates.

On a quarterly basis, we review these outstanding matters. Under current accounting guidance, we establish accruals when it is probable that a loss has been incurred and we can reasonably estimate its potential exposure. The company accounts for such probable and estimable losses, if any, through the establishment of legal expense reserves. Based on our quarterly review, we believe that our accruals for probable and estimable losses are reasonable and that the amounts accrued do not have a material effect on our consolidated financial condition or results of operations. However, if any one or more of these matters results in a judgment against us or settlement for an amount that is significantly greater than the amount accrued, the resulting liability could have a material effect on the company's consolidated results of operations or cash flows. Based on our most recent review, our estimate of losses for any other matters for which the risk of loss is not probable, but more than remote, is immaterial.

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NOTE 13 – Segment Information

We operate primarily in two industries, property casualty insurance and life insurance. We regularly review our reporting segments to make decisions about allocating resources and assessing performance. Our reporting segments are:

• Commercial lines insurance

• Personal lines insurance

• Excess and surplus lines insurance

• Life insurance

• Investments

We report as Other the noninvestment operations of the parent company and its noninsurer subsidiary, CFC Investment Company and Cincinnati Re, our reinsurance assumed operations. See our 2015 Annual Report on Form 10-K, Item 8, Note 18, Segment Information, Page 155, for a description of revenue, income or loss before income taxes and identifiable assets for each of the five segments.

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Segment information is summarized in the following table:

(Dollars in millions)	Three months		Nine months		
	ended September 30, 2016	2015	ended September 30, 2016	2015	
Revenues:					
Commercial lines insurance					
Commercial casualty	\$265	\$257	\$785	\$753	
Commercial property	217	205	646	604	
Commercial auto	151	141	442	416	
Workers' compensation	90	93	268	276	
Other commercial	56	61	169	186	
Commercial lines insurance premiums	779	757	2,310	2,235	
Fee revenues	1	1	3	3	
Total commercial lines insurance	780	758	2,313	2,238	
Personal lines insurance					
Personal auto	137	128	403	376	
Homeowner	122	117	362	345	
Other personal	34	32	99	96	
Personal lines insurance premiums	293	277	864	817	
Fee revenues	1	1	3	2	
Total personal lines insurance	294	278	867	819	
Excess and surplus lines insurance					
Excess and surplus lines insurance	48	42	136	124	
Fee revenues	1	—	1	1	
Total excess and surplus lines insurance	49	42	137	125	
Life insurance premiums					
Life insurance premiums	58	51	175	156	
Fee revenues	2	2	4	4	
Total life insurance	60	53	179	160	
Investments					
Investment income, net of expenses	148	143	442	422	
Realized investment gains, net	56	3	161	110	
Total investment revenue	204	146	603	532	
Other					
Cincinnati Re insurance premiums	13	—	33	—	
Other	2	1	5	5	
Total other revenues	15	1	38	5	
Total revenues	\$1,402	\$1,278	\$4,137	\$3,879	
Income (loss) before income taxes:					
Insurance underwriting results					
Commercial lines insurance	\$72	\$121	\$148	\$244	
Personal lines insurance	(8) (2) —	(30)
Excess and surplus lines insurance	20	14	42	29	
Life insurance	(4) 1	(4) (1)

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Investments	181	125	536	468
Other	(8)	(16)	(38)	(45)
Total income before income taxes	\$253	\$243	\$684	\$665

Identifiable assets:	September 30, 2016	December 31, 2015
Property casualty insurance	\$ 2,857	\$ 2,717
Life insurance	1,417	1,325
Investments	15,682	14,485
Other	499	361
Total	\$ 20,455	\$ 18,888

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

The following discussion highlights significant factors influencing the condensed consolidated results of operations and financial position of Cincinnati Financial Corporation. It should be read in conjunction with the consolidated financial statements and related notes included in our 2015 Annual Report on Form 10-K. Unless otherwise noted, the industry data is prepared by A.M. Best Co., a leading insurance industry statistical, analytical and financial strength rating organization. Information from A.M. Best is presented on a statutory basis. When we provide our results on a comparable statutory basis, we label it as such; all other company data is presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

We present per share data on a diluted basis unless otherwise noted, adjusting those amounts for all stock splits and dividends. Dollar amounts are rounded to millions; calculations of percent changes are based on dollar amounts rounded to the nearest million. Certain percentage changes are identified as not meaningful (nm).

SAFE HARBOR STATEMENT

This is our "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995. Our business is subject to certain risks and uncertainties that may cause actual results to differ materially from those suggested by the forward-looking statements in this report. Some of those risks and uncertainties are discussed in our 2015 Annual Report on Form 10-K, Item 1A, Risk Factors, Page 26.

Factors that could cause or contribute to such differences include, but are not limited to:

- Unusually high levels of catastrophe losses due to risk concentrations, changes in weather patterns, environmental events, terrorism incidents or other causes
- Increased frequency and/or severity of claims or development of claims that are unforeseen at the time of policy issuance
- Inadequate estimates, assumptions or reliance on third-party data used for critical accounting estimates
- Declines in overall stock market values negatively affecting the company's equity portfolio and book value
- Domestic and global events resulting in capital market or credit market uncertainty, followed by prolonged periods of economic instability or recession, that lead to:
 - Significant or prolonged decline in the fair value of a particular security or group of securities and impairment of the asset(s)
 - Significant decline in investment income due to reduced or eliminated dividend payouts from a particular security or group of securities
 - Significant rise in losses from surety and director and officer policies written for financial institutions or other insured entities
 - Prolonged low interest rate environment or other factors that limit the company's ability to generate growth in investment income or interest rate fluctuations that result in declining values of fixed-maturity investments, including declines in accounts in which we hold bank-owned life insurance contract assets
- Recession or other economic conditions resulting in lower demand for insurance products or increased payment delinquencies
- Difficulties with technology or data security breaches, including cyberattacks, that could negatively affect our ability to conduct business and our relationships with agents, policyholders and others
- Disruption of the insurance market caused by technology innovations such as driverless cars that could decrease consumer demand for insurance products
- Delays, inadequate data developed internally or from third parties, or performance inadequacies from ongoing development and implementation of underwriting and pricing methods, including telematics and other usage-based insurance methods, or technology projects and enhancements expected to increase our pricing accuracy, underwriting profit and competitiveness

- Increased competition that could result in a significant reduction in the company's premium volume
- Changing consumer insurance-buying habits and consolidation of independent insurance agencies that could alter our competitive advantages

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• Inability to obtain adequate ceded reinsurance on acceptable terms, amount of reinsurance coverage purchased, financial strength of reinsurers and the potential for nonpayment or delay in payment by reinsurers

• Inability to defer policy acquisition costs for any business segment if pricing and loss trends would lead management to conclude that segment could not achieve sustainable profitability

• Inability of our subsidiaries to pay dividends consistent with current or past levels

• Events or conditions that could weaken or harm the company's relationships with its independent agencies and hamper opportunities to add new agencies, resulting in limitations on the company's opportunities for growth, such as:

- Downgrades of the company's financial strength ratings
- Concerns that doing business with the company is too difficult
- Perceptions that the company's level of service, particularly claims service, is no longer a distinguishing characteristic in the marketplace

Inability or unwillingness to nimbly develop and introduce coverage product updates and innovations that our competitors offer and consumers expect to find in the marketplace

• Actions of insurance departments, state attorneys general or other regulatory agencies, including a change to a federal system of regulation from a state-based system, that:

- Impose new obligations on us that increase our expenses or change the assumptions underlying our critical accounting estimates
- Place the insurance industry under greater regulatory scrutiny or result in new statutes, rules and regulations
- Restrict our ability to exit or reduce writings of unprofitable coverages or lines of business
- Add assessments for guaranty funds, other insurance-related assessments or mandatory reinsurance arrangements; or that impair our ability to recover such assessments through future surcharges or other rate changes
- Increase our provision for federal income taxes due to changes in tax law
- Increase our other expenses
- Limit our ability to set fair, adequate and reasonable rates
- Place us at a disadvantage in the marketplace
- Restrict our ability to execute our business model, including the way we compensate agents

• Adverse outcomes from litigation or administrative proceedings

• Events or actions, including unauthorized intentional circumvention of controls, that reduce the company's future ability to maintain effective internal control over financial reporting under the Sarbanes-Oxley Act of 2002

• Unforeseen departure of certain executive officers or other key employees due to retirement, health or other causes that could interrupt progress toward important strategic goals or diminish the effectiveness of certain longstanding relationships with insurance agents and others

• Events, such as an epidemic, natural catastrophe or terrorism, that could hamper our ability to assemble our workforce at our headquarters location

Further, the company's insurance businesses are subject to the effects of changing social, global, economic and regulatory environments. Public and regulatory initiatives have included efforts to adversely influence and restrict premium rates, restrict the ability to cancel policies, impose underwriting standards and expand overall regulation. The company also is subject to public and regulatory initiatives that can affect the market value for its common stock, such as measures affecting corporate financial reporting and governance. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

CORPORATE FINANCIAL HIGHLIGHTS

Net Income and Comprehensive Income Data

(Dollars in millions except per share data)	Three months ended			Nine months ended		
	September 30,			September 30,		
	2016	2015	% Change	2016	2015	% Change
Earned premiums	\$1,191	\$1,127	6	\$3,518	\$3,332	6
Investment income, net of expenses (pretax)	148	143	3	442	422	5
Realized investment gains, net (pretax)	56	3	nm	161	110	46
Total revenues	1,402	1,278	10	4,137	3,879	7
Net income	180	174	3	491	478	3
Comprehensive income	218	(60)	nm	899	14	nm
Net income per share—diluted	1.08	1.05	3	2.95	2.89	2
Cash dividends declared per share	0.48	0.46	4	1.44	1.38	4
Diluted weighted average shares outstanding	166.8	165.5	1	166.5	165.5	1

Total revenues rose for the third quarter and the first nine months of 2016, compared with the same periods of 2015, primarily due to higher earned premiums. Premium and investment revenue trends are discussed further in the respective sections of Financial Results.

Realized investment gains and losses are recognized on the sales of investments or as otherwise required by GAAP. We have substantial discretion in the timing of investment sales, and that timing generally is independent of the insurance underwriting process. GAAP also requires us to recognize in net income the gains or losses from certain changes in fair values of securities even though we continue to hold the securities.

Net income for the third quarter of 2016, compared with third-quarter 2015, increased \$6 million, reflecting a \$35 million increase in after-tax net realized investment gains that was partially offset by a decrease in property casualty underwriting income of \$28 million after taxes. Catastrophe losses, mostly weather related, were \$19 million more after taxes and unfavorably affected both net income and property casualty underwriting income. After-tax investment income in our investment segment results for the third quarter of 2016 rose \$4 million compared with the same quarter of 2015. Life insurance segment income on a pretax basis for the third quarter of 2016 decreased \$5 million compared with third-quarter 2015.

For the nine months ended September 30, 2016, net income rose \$13 million compared with the first nine months of 2015, primarily due to a \$34 million increase in after-tax net realized investment gains and losses. In addition, after-tax investment income for the first nine months of 2016 was \$15 million higher than a year ago. Property casualty underwriting income decreased by \$31 million after taxes, driven by an unfavorable \$69 million effect from higher catastrophe losses that offset improvement in other loss experience from our underwriting operations. Life insurance segment income on a pretax basis decreased by \$3 million.

Performance by segment is discussed below in Financial Results. As discussed in our 2015 Annual Report on Form 10-K, Item 7, Factors Influencing Our Future Performance, Page 45, there are several reasons that our performance during 2016 may be below our long-term targets. In that annual report, as part of Financial Results, we also discussed the full-year 2016 outlook for each reporting segment.

The board of directors is committed to rewarding shareholders directly through cash dividends and through share repurchase authorizations. Through 2015, the company had increased the indicated annual cash dividend rate for 55 consecutive years, a record we believe was matched by only eight other publicly traded companies. In January

2016, the board of directors increased the regular quarterly dividend to 48 cents per share, setting the stage for our 56th consecutive year of increasing cash dividends. During the first nine months of 2016, cash dividends declared by the company increased more than 4 percent compared with the same period of 2015. Our board regularly evaluates relevant factors in decisions related to dividends and share repurchases. The 2016 dividend increase reflected our strong earnings performance and signaled management's and the board's positive outlook and confidence in our outstanding capital, liquidity and financial flexibility.

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Balance Sheet Data and Performance Measures

	At	At
(In millions except share data)	September	December
	30,	31,
	2016	2015
Total investments	\$15,642	\$14,423
Total assets	20,455	18,888
Short-term debt	20	35
Long-term debt	786	786
Shareholders' equity	7,121	6,427
Book value per share	43.24	39.20
Debt-to-total-capital ratio	10.2	% 11.3

Total assets at September 30, 2016, increased 8 percent compared with year-end 2015, and included 8 percent growth in investments largely driven by higher fair values for many securities in our portfolio. Shareholders' equity increased 11 percent, and book value per share increased 10 percent during the first nine months of 2016.

Our debt-to-total-capital ratio (capital is the sum of debt plus shareholders' equity) was lower than at year-end 2015.

Our value creation ratio is a non-GAAP measure defined below and is our primary performance metric. That ratio was 14.0 percent for the first nine months of 2016, and was better than the same period in 2015 primarily due to higher net gains from our investment portfolio. The effect of net income before net realized gains was strong for both periods.

The \$4.04 increase in book value per share during the first nine months of 2016 contributed 10.3 percentage points to the value creation ratio, while dividends declared at \$1.44 per share contributed 3.7 points. Value creation ratio trends in total and by major components, along with a reconciliation of the non-GAAP measure to comparable GAAP measures, are shown in the tables below.

	Three months		Nine months	
	ended		ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Value creation ratio major components:				
Net income before net realized gains	2.1	% 2.7	% 6.0	% 6.1
Change in fixed-maturity securities, realized and unrealized gains	(0.1)	(0.2)	2.9	(1.5)
Change in equity securities, realized and unrealized gains	1.2	(3.4)	5.2	(4.6)
Other	0.0	0.0	(0.1)	0.0
Value creation ratio	3.2	% (0.9)%	14.0	% 0.0

(Dollars are per share)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Book value change per share:				
End of period book value	\$43.24	\$38.77	\$43.24	\$38.77
Less beginning of period book value	42.37	39.60	39.20	40.14
Change in book value	\$0.87	\$(0.83)	\$4.04	\$(1.37)

Change in book value:				
Net income before realized gains	\$0.87	\$1.05	\$2.34	\$2.48
Change in fixed-maturity securities, realized and unrealized gains	(0.04)	(0.07)	1.14	(0.59)
Change in equity securities, realized and unrealized gains	0.51	(1.37)	2.02	(1.86)
Dividend declared to shareholders	(0.48)	(0.46)	(1.44)	(1.38)
Other	0.01	0.02	(0.02)	(0.02)
Change in book value	\$0.87	\$(0.83)	\$4.04	\$(1.37)

(Dollars are per share)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Value creation ratio:				
End of period book value	\$43.24	\$38.77	\$43.24	\$38.77
Less beginning of period book value	42.37	39.60	39.20	40.14
Change in book value	0.87	(0.83)	4.04	(1.37)
Dividend declared to shareholders	0.48	0.46	1.44	1.38
Total value creation	\$1.35	\$(0.37)	\$5.48	\$0.01
Value creation ratio from change in book value*	2.1	% (2.1)%	10.3	% (3.4)%
Value creation ratio from dividends declared to shareholders**	1.1	1.2	3.7	3.4
Value creation ratio	3.2	% (0.9)%	14.0	% 0.0%

*Change in book value divided by the beginning of period book value

**Dividend declared to shareholders divided by beginning of period book value

DRIVERS OF LONG-TERM VALUE CREATION

Operating through The Cincinnati Insurance Company, Cincinnati Financial Corporation is one of the 25 largest property casualty insurers in the nation, based on 2015 net written premiums for approximately 2,000 U.S. stock and mutual insurer groups. We market our insurance products through a select group of independent insurance agencies as discussed in our 2015 Annual Report on Form 10-K, Item 1, Our Business and Our Strategy, Page 5. At September 30, 2016, we actively marketed through agencies located in 41 states. We maintain a long-term perspective that guides us in addressing immediate challenges or opportunities while focusing on the major decisions that best position our

company for success through all market cycles.

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To measure our long-term progress in creating shareholder value, our value creation ratio is our primary financial performance target. As discussed in our 2015 Annual Report on Form 10-K, Item 7, Executive Summary, Page 40, management believes this non-GAAP measure is a meaningful indicator of our long-term progress in creating shareholder value, is a useful supplement to GAAP information and has three primary performance drivers:

Premium growth – We believe our agency relationships and initiatives can lead to a property casualty written premium growth rate over any five-year period that exceeds the industry average. For the first nine months of 2016, our consolidated property casualty net written premium year-over-year growth was 6 percent, comparing favorably with the industry's 3 percent growth rate reported by A.M. Best for the first six months of 2016. For the five-year period 2011 through 2015, our growth rate was approximately double that of the industry. The industry's growth rate excludes its mortgage and financial guaranty lines of business.

Combined ratio – We believe our underwriting philosophy and initiatives can generate a GAAP combined ratio over any five-year period that is consistently within the range of 95 percent to 100 percent. For the first nine months of 2016, our GAAP combined ratio was 94.4 percent and our statutory combined ratio was 93.4 percent, both including 7.8 percentage points of current accident year catastrophe losses partially offset by 4.6 percentage points of favorable loss reserve development on prior accident years. Our nine-month statutory combined ratio was lower than the 100.0 percent reported for the industry by A.M. Best for the first six months of 2016. The industry's ratio again excludes its mortgage and financial guaranty lines of business.

Investment contribution – We believe our investment philosophy and initiatives can drive investment income growth and lead to a total return on our equity investment portfolio over a five-year period that exceeds the five-year return of the Standard & Poor's 500 Index. For the first nine months of 2016, pretax investment income was \$442 million, up 5 percent compared with the same period in 2015. We believe our investment portfolio mix provides an appropriate balance of income stability and growth with capital appreciation potential.

Highlights of Our Strategy and Supporting Initiatives

Management has worked to identify a strategy that can lead to long-term success, with concurrence by the board of directors. Our strategy is intended to position us to compete successfully in the markets we have targeted while appropriately managing risk. Further description of our long-term, proven strategy can be found in our 2015 Annual Report on Form 10-K, Item 1, Our Business and Our Strategy, Page 5. We believe successful implementation of initiatives that support our strategy will help us better serve our agent customers and reduce volatility in our financial results while we also grow earnings and book value over the long term, successfully navigating challenging economic, market or industry pricing cycles.

Manage insurance profitability – Implementation of these initiatives is intended to enhance underwriting expertise and knowledge, thereby increasing our ability to manage our business while also gaining efficiency. Better profit margins can arise from additional information and more focused action on underperforming product lines, plus pricing capabilities we are expanding through the use of technology and analytics. In addition to enhancing company efficiency, improving internal processes also supports the ability of the independent agencies that represent us to grow profitably by allowing them to serve clients faster and to more efficiently manage agency expenses.

We continue to enhance our property casualty underwriting expertise and to effectively and efficiently underwrite individual policies and process transactions. Ongoing initiatives supporting this work include expanding our pricing and segmentation capabilities through experience and use of predictive analytics and additional data. Our segmentation efforts emphasize identification and retention of insurance policies we believe have relatively stronger pricing, while seeking more aggressive renewal terms and conditions on policies we believe have relatively weaker pricing. An area of concentration in 2016 is improving underwriting and rate adequacy for our commercial auto and personal auto lines of business. Our commercial auto policies that renewed during the first nine months of 2016 experienced an estimated average price percentage increase in the mid-single-digit range. Our personal auto policies that renewed during that period averaged an estimated price percentage increase near the high end of the mid-single-digit range.

Drive premium growth – Implementation of these initiatives is intended to further penetrate each market we serve through our independent agencies. Strategies aimed at specific market opportunities, along with service enhancements, can help our agents grow and increase our share of their business. Diversified growth also may reduce variability of losses from weather-related catastrophes.

We continue to appoint new agencies to develop additional points of distribution. In 2016, we are planning approximately 100 appointments of independent agencies that offer most or all of our property casualty insurance products. During the first nine months of 2016, we appointed 60 new agencies that meet that criteria. We also appointed another 94 agencies to market only personal lines insurance products for us. As of September 30, 2016, a total of 1,592 agency relationships market our property casualty insurance products from 2,059 reporting locations. We plan to appoint additional agencies that focus on high net worth personal lines clients. In 2016, we are targeting approximately \$25 million in high net worth new business written premiums, including premiums from our Executive Capstone™ suite of insurance products and services. During the first nine months of 2016, our agencies produced for us approximately \$21 million in high net worth new business written premiums. During the third quarter of 2016, we appointed agencies in the state of California and began to offer personal lines insurance products for the unique needs of high net worth personal lines clients. That state represents our 41st state for marketing property casualty insurance, including 33 states where we market personal lines policies.

Financial Strength

An important part of our long-term strategy is financial strength, which is described in our 2015 Annual Report on Form 10-K, Item 1, Our Business and Our Strategy, Financial Strength, Page 7. One aspect of our financial strength is prudent use of reinsurance ceded to help manage financial performance variability due to catastrophe loss experience. A description of how we use reinsurance ceded is included in our 2015 Annual Report on Form 10-K, Item 7, Liquidity and Capital Resources, 2016 Reinsurance Ceded Programs, Page 101. Another aspect of our financial strength is our investment portfolio, which remains well-diversified as discussed in this quarterly report in Item 3,

Quantitative and Qualitative Disclosures About Market Risk. Our strong parent-company liquidity and financial strength increase our flexibility to maintain a cash dividend through all periods and to continue to invest in and expand our insurance operations.

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At September 30, 2016, we held \$2.161 billion of our cash and invested assets at the parent-company level, of which \$1.802 billion, or 83.4 percent, was invested in common stocks, and \$267 million, or 12.3 percent, was cash or cash equivalents. Our debt-to-total-capital ratio of 10.2 percent remains well below our target limit. Another important indicator of financial strength is our ratio of property casualty net written premiums to statutory surplus, which was 1.0-to-1 for the 12 months ended September 30, 2016, matching year-end 2015.

Financial strength ratings assigned to us by independent rating firms also are important. In addition to rating our parent company's senior debt, four firms award insurer financial strength ratings to one or more of our insurance subsidiary companies based on their quantitative and qualitative analyses. These ratings primarily assess an insurer's ability to meet financial obligations to policyholders and do not necessarily address all of the matters that may be important to investors. Ratings are under continuous review and subject to change or withdrawal at any time by the rating agency. Each rating should be evaluated independently of any other rating; please see each rating agency's website for its most recent report on our ratings.

All of our insurance subsidiaries continue to be highly rated. As of October 24, 2016, our insurer financial strength ratings were:

Rating agency	Standard market property casualty insurance subsidiaries		Life insurance subsidiary		Excess and surplus lines insurance subsidiary		Date of most recent affirmation or action
	Rating tier		Rating tier		Rating tier		
A.M. Best Co. ambest.com	A+ Superior	2 of 16	A Excellent	3 of 16	A+ Superior	2 of 16	Stable outlook (03/10/16)
Fitch Ratings fitchratings.com	A+ Strong	5 of 21	A+ Strong	5 of 21	-	-	Stable outlook (07/12/16)
Moody's Investors Service moody's.com	A1 Good	5 of 21	-	-	-	-	Stable outlook (05/24/16)
S&P Global Ratings spratings.com	A+ Strong	5 of 21	A+ Strong	5 of 21	-	-	Stable outlook (06/28/16)

CONSOLIDATED PROPERTY CASUALTY INSURANCE HIGHLIGHTS

Consolidated property casualty insurance results include premiums and expenses for our standard market insurance segments (commercial lines and personal lines), our excess and surplus lines segment and our reinsurance assumed operations.

(Dollars in millions)	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Earned premiums	\$1,133	\$1,076	5	\$3,343	\$3,176	5
Fee revenues	3	2	50	7	6	17
Total revenues	1,136	1,078	5	3,350	3,182	5
Loss and loss expenses from:						
Current accident year before catastrophe losses	676	633	7	2,001	1,935	3
Current accident year catastrophe losses	54	28	93	260	161	61
Prior accident years before catastrophe losses	(42)	(47)	11	(146)	(128)	(14)
Prior accident years catastrophe losses	2	(1)	nm	(5)	(12)	58
Loss and loss expenses	690	613	13	2,110	1,956	8
Underwriting expenses	356	332	7	1,044	983	6
Underwriting profit	\$90	\$133	(32)	\$196	\$243	(19)

Ratios as a percent of earned premiums:

Pt. Change