

CINCINNATI FINANCIAL CORP
Form 10-Q
April 24, 2019

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 March 31, 2019.

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 incorporation or organization) | (I.R.S. Employer Identification 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

N/A

(Former name or former address, if changed since last report.)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Trading Symbol(s) Name of each exchange on which registered

| | | |
|--------------|------|-----------------------------|
| Common stock | CINF | Nasdaq Global Select Market |
|--------------|------|-----------------------------|

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 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 such files).

Yes No

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

Large accelerated filer Accelerated filer Nonaccelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 19, 2019, there were 163,229,828 shares of common stock outstanding.

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2019

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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) | March 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| Assets | | |
| Investments | | |
| Fixed maturities, at fair value (amortized cost: 2019—\$10,734; 2018—\$10,643) | \$ 11,022 | \$ 10,689 |
| Equity securities, at fair value (cost: 2019—\$3,381; 2018—\$3,368) | 6,571 | 5,920 |
| Other invested assets | 271 | 123 |
| Total investments | 17,864 | 16,732 |
| Cash and cash equivalents | 802 | 784 |
| Investment income receivable | 128 | 132 |
| Finance receivable | 72 | 71 |
| Premiums receivable | 1,785 | 1,644 |
| Reinsurance recoverable | 527 | 484 |
| Prepaid reinsurance premiums | 50 | 44 |
| Deferred policy acquisition costs | 751 | 738 |
| Land, building and equipment, net, for company use (accumulated depreciation: 2019—\$265; 2018—\$265) | 202 | 195 |
| Other assets | 340 | 308 |
| Separate accounts | 831 | 803 |
| Total assets | \$ 23,352 | \$ 21,935 |
| Liabilities | | |
| Insurance reserves | | |
| Loss and loss expense reserves | \$ 5,944 | \$ 5,707 |
| Life policy and investment contract reserves | 2,784 | 2,779 |
| Unearned premiums | 2,717 | 2,516 |
| Other liabilities | 752 | 804 |
| Deferred income tax | 817 | 627 |
| Note payable | 32 | 32 |
| Long-term debt and lease obligations | 845 | 834 |
| Separate accounts | 831 | 803 |
| Total liabilities | 14,722 | 14,102 |
| Commitments and contingent liabilities (Note 12) | | |
| Shareholders' Equity | | |
| Common stock, par value—\$2 per share; (authorized: 2019 and 2018—500 million shares; issued: 2019 and 2018—198.3 million shares) | 397 | 397 |
| Paid-in capital | 1,277 | 1,281 |
| Retained earnings | 8,229 | 7,625 |
| Accumulated other comprehensive income | 210 | 22 |
| Treasury stock at cost (2019—35.1 million shares and 2018—35.5 million shares) | (1,483) | (1,492) |
| Total shareholders' equity | 8,630 | 7,833 |

| | | |
|--|----------|-----------|
| Total liabilities and shareholders' equity | \$23,352 | \$ 21,935 |
|--|----------|-----------|

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

Cincinnati Financial Corporation First-Quarter 2019 10-Q

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Cincinnati Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Income

| (Dollars in millions, except per share data) | Three months ended March 31, | |
|--|------------------------------------|-----------|
| | 2019 | 2018 |
| Revenues | | |
| Earned premiums | \$1,333 | \$1,260 |
| Investment income, net of expenses | 157 | 150 |
| Investment gains and losses, net | 663 | (191) |
| Fee revenues | 4 | 4 |
| Other revenues | 2 | 1 |
| Total revenues | 2,159 | 1,224 |
| Benefits and Expenses | | |
| Insurance losses and contract holders' benefits | 860 | 854 |
| Underwriting, acquisition and insurance expenses | 411 | 403 |
| Interest expense | 13 | 13 |
| Other operating expenses | 8 | 4 |
| Total benefits and expenses | 1,292 | 1,274 |
| Income (Loss) Before Income Taxes | 867 | (50) |
| Provision (Benefit) for Income Taxes | | |
| Current | 28 | 28 |
| Deferred | 144 | (47) |
| Total provision (benefit) for income taxes | 172 | (19) |
| Net Income (Loss) | \$695 | \$(31) |
| Per Common Share | | |
| Net income (loss)—basic | \$4.27 | \$(0.19) |
| Net income (loss)—diluted | 4.22 | (0.19) |

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 March 31, | |
|---|------------------------------------|---------|
| | 2019 | 2018 |
| Net Income (Loss) | \$695 | \$(31) |
| Other Comprehensive Income (Loss) | | |
| Change in unrealized gains on investments, net of tax (benefit) of \$50 and (\$46), respectively | 192 | (175) |
| Amortization of pension actuarial loss and prior service cost, net of tax of \$0 and \$0, respectively | — | — |
| Change in life deferred acquisition costs, life policy reserves and other, net of tax (benefit) of \$(1) and \$1, respectively | (4) | 5 |
| Other comprehensive income (loss) | 188 | (170) |
| Comprehensive Income (Loss) | \$883 | \$(201) |

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

Cincinnati Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity

| (Dollars in millions) | Three months ended March 31, | |
|---|---------------------------------|----------------|
| | 2019 | 2018 |
| Common Stock | | |
| Beginning of year | \$397 | \$397 |
| Share-based awards | — | — |
| End of period | 397 | 397 |
| Paid-In Capital | | |
| Beginning of year | 1,281 | 1,265 |
| Share-based awards | (14) | (17) |
| Share-based compensation | 9 | 9 |
| Other | 1 | 1 |
| End of period | 1,277 | 1,258 |
| Retained Earnings | | |
| Beginning of year | 7,625 | 5,180 |
| Cumulative effect of change in accounting for equity securities as of January 1, 2018 | — | 2,503 |
| Adjusted beginning of year | 7,625 | 7,683 |
| Net income (loss) | 695 | (31) |
| Dividends declared (per share of \$0.56 for 2019 and \$0.53 for 2018) | (91) | (87) |
| End of period | 8,229 | 7,565 |
| Accumulated Other Comprehensive Income (Loss) | | |
| Beginning of year | 22 | 2,788 |
| Cumulative effect of change in accounting for equity securities as of January 1, 2018 | — | (2,503) |
| Adjusted beginning of year | 22 | 285 |
| Other comprehensive income (loss) | 188 | (170) |
| End of period | 210 | 115 |
| Treasury Stock | | |
| Beginning of year | (1,492) | (1,387) |
| Share-based awards | 13 | 14 |
| Shares acquired - share repurchase authorization | — | (15) |
| Shares acquired - share-based compensation plans | (5) | (2) |
| Other | 1 | 1 |
| End of period | (1,483) | (1,389) |
| Total Shareholders' Equity | \$8,630 | \$7,946 |
| (In millions) | | |
| Common Stock - Shares Outstanding | | |
| Beginning of year | 162.8 | 163.9 |
| Share-based awards | 0.4 | 0.4 |
| Shares acquired - share repurchase authorization | — | (0.2) |
| End of period | 163.2 | 164.1 |

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) | Three months ended March 31, 2019 2018 | |
|---|---|---------|
| Cash Flows From Operating Activities | | |
| Net income (loss) | \$695 | \$(31) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 19 | 18 |
| Investment gains and losses, net | (660) | 191 |
| Share-based compensation | 9 | 9 |
| Interest credited to contract holders' | 11 | 11 |
| Deferred income tax expense | 144 | (47) |
| Changes in: | | |
| Investment income receivable | 4 | 10 |
| Premiums and reinsurance receivable | (95) | (26) |
| Deferred policy acquisition costs | (24) | (10) |
| Other assets | (25) | (8) |
| Loss and loss expense reserves | (40) | 72 |
| Life policy and investment contract reserves | 22 | 21 |
| Unearned premiums | 113 | 55 |
| Other liabilities | (93) | (137) |
| Current income tax receivable/payable | 120 | 26 |
| Net cash provided by operating activities | 200 | 154 |
| Cash Flows From Investing Activities | | |
| Sale of fixed maturities | 1 | 5 |
| Call or maturity of fixed maturities | 269 | 393 |
| Sale of equity securities | 31 | 104 |
| Purchase of fixed maturities | (289) | (438) |
| Purchase of equity securities | (26) | (110) |
| Investment in finance receivables | (8) | (6) |
| Collection of finance receivables | 7 | 6 |
| Investment in buildings and equipment | (5) | (3) |
| Change in other invested assets, net | (36) | (5) |
| Net cash used in investing activities | (56) | (54) |
| Cash Flows From Financing Activities | | |
| Payment of cash dividends to shareholders | (85) | (80) |
| Shares acquired - share repurchase authorization | — | (15) |
| Proceeds from stock options exercised | 3 | 4 |
| Contract holders' funds deposited | 19 | 21 |
| Contract holders' funds withdrawn | (44) | (46) |
| Other | (19) | (37) |
| Net cash used in financing activities | (126) | (153) |
| Net change in cash and cash equivalents | 18 | (53) |
| Cash and cash equivalents at beginning of year | 784 | 657 |
| Cash and cash equivalents at end of period | \$802 | \$604 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Income taxes received | \$94 | \$— |

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Noncash Activities

| | | |
|--|-----|-----|
| Conversion of securities | \$— | \$3 |
| Equipment acquired under capital lease obligations | 3 | 5 |
| Cashless exercise of stock options | 5 | 2 |
| Other assets and other liabilities | 23 | 30 |

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). Effective February 28, 2019, the company acquired MSP Underwriting Limited (MSP), a London-based global specialty underwriter. Refer to Note 14, Acquisition, for additional information. The interim condensed consolidated financial statements include MSP's results for the period from February 28, 2019, through March 31, 2019. Foreign exchange rates related to MSP's operations did not have a material impact to our condensed consolidated financial statements. 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. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been condensed or omitted.

Our March 31, 2019, condensed consolidated financial statements are unaudited. 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 2018 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 2016-02, Leases (Topic 842)

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842 and ASU 2018-11, Targeted Improvements to Topic 842. ASU 2018-10 makes narrow-scope amendments to certain aspects of the new leasing standard while ASU 2018-11 provides relief from costs of implementing certain aspects of the new leasing standard.

The company adopted this ASU effective January 1, 2019, and it did not have a material impact on our company's consolidated financial position, cash flows or results of operations. The company has elected the practical expedient package for carrying forward historical lease classifications, not re-evaluating for embedded leases and not reassessing initial direct costs. The company also elected additional practical expedients to not recognize short-term leases on the balance sheet and to only combine lease and nonlease components for certain asset classes. We also elected not to restate prior periods. In support of its insurance operations, the company leases real estate properties which qualify as operating leases and also leases equipment and autos which qualify as finance leases. The lease term for real estate properties is typically five years while the term for equipment and autos is three to six years.

ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. ASU 2017-08 amends guidance on the amortization period of premiums on certain purchased callable debt securities. The amendments shorten the amortization period of premiums on certain purchased callable debt securities to the earliest call date.

The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment to

beginning retained earnings. The effective date of ASU 2017-08 is for interim and annual reporting periods beginning after December 15, 2018. The company adopted this ASU effective January 1, 2019, and it did not have a material impact on our company's consolidated financial position, cash flows or results of operations.

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ASU 2018-07, Compensation - Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 expands the scope of Topic 718, Compensation - Stock Compensation, which currently only includes share-based payments issued to employees, to include share-based payments issued to nonemployees for the acquisition of goods and services. The effective date of ASU 2018-07 is for interim and annual reporting periods beginning after December 15, 2018. The company adopted this ASU effective January 1, 2019, and it did not have a material impact on our company's consolidated financial position, cash flows or results of operations.

Pending Accounting Updates

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. Management is currently evaluating the impact on our company's consolidated financial position, cash flows and results of operations.

ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Instead, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The loss recognized should not exceed the total amount of goodwill allocated to that reporting unit and income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered. The effective date of ASU 2017-04 is for interim and annual goodwill impairment tests performed in any fiscal years 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.

ASU 2018-12, Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts

In August 2018, the FASB issued ASU 2018-12, Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts. ASU 2018-12 is intended to improve the timeliness of recognizing changes in the liability for future policy benefits and modify the rate used to discount future cash flows. The ASU will simplify and improve the accounting for certain market-based options or guarantees associated with deposit or account balance contracts, simplify amortization of deferred acquisition costs while improving and expanding required disclosures. The effective date of ASU 2018-12 is for interim and annual reporting periods beginning after December 15, 2020. 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 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 clarifies the fair value

measurement disclosure requirements of ASC 820 by adding, eliminating and modifying disclosures. The effective date of ASU 2018-13 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 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans

In August 2018, the FASB issued ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. ASU 2018-14 clarifies the guidance in ASC 715 to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The effective date of ASU 2018-14 is for annual reporting periods ending after December 15, 2020. 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 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

In August 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. ASU 2018-15 amends ASC 350 to include implementation costs of a cloud computing arrangement that is a service contract and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized in a cloud computing arrangement that is considered a service contract. The effective date of ASU 2018-15 is for interim and annual reporting periods beginning after December 15, 2019. 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.

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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 fixed-maturity securities:

| (Dollars in millions) | Cost or amortized cost | Gross unrealized gains | losses | Fair value |
|---|------------------------------|---------------------------|--------|---------------|
| At March 31, 2019 | | | | |
| Fixed maturity securities: | | | | |
| Corporate | \$ 5,753 | \$ 160 | \$ 25 | \$5,888 |
| States, municipalities and political subdivisions | 4,269 | 153 | 3 | 4,419 |
| Government-sponsored enterprises | 305 | — | 3 | 302 |
| Commercial mortgage-backed | 292 | 6 | 1 | 297 |
| United States government | 99 | 1 | — | 100 |
| Foreign government | 16 | — | — | 16 |
| Total | \$ 10,734 | \$ 320 | \$ 32 | \$11,022 |
| At December 31, 2018 | | | | |
| Fixed maturity securities: | | | | |
| Corporate | \$ 5,712 | \$ 85 | \$ 87 | \$5,710 |
| States, municipalities and political subdivisions | 4,251 | 84 | 31 | 4,304 |
| Government-sponsored enterprises | 316 | 1 | 7 | 310 |
| Commercial mortgage-backed | 287 | 3 | 2 | 288 |
| United States government | 67 | 1 | 1 | 67 |
| Foreign government | 10 | — | — | 10 |
| Total | \$ 10,643 | \$ 174 | \$ 128 | \$10,689 |

The net unrealized investment gains in our fixed-maturity portfolio at March 31, 2019, 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 March 31, 2019, and December 31, 2018. At March 31, 2019, Microsoft Corporation (Nasdaq:MSFT) was our largest single equity holding with a fair value of \$296 million, which was 4.6% of our publicly traded common equities portfolio and 1.7% of the total investment portfolio.

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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 March 31, 2019 | | | | | | |
| Fixed maturity securities: | | | | | | |
| Corporate | \$ 343 | \$ 5 | \$ 685 | \$ 20 | \$1,028 | \$ 25 |
| States, municipalities and political subdivisions | 10 | — | 237 | 3 | 247 | 3 |
| Government-sponsored enterprises | 7 | — | 204 | 3 | 211 | 3 |
| Commercial mortgage-backed securities | 2 | — | 45 | 1 | 47 | 1 |
| United States government | — | — | 23 | — | 23 | — |
| Total | \$ 362 | \$ 5 | \$ 1,194 | \$ 27 | \$1,556 | \$ 32 |
| At December 31, 2018 | | | | | | |
| Fixed maturity securities: | | | | | | |
| Corporate | \$ 2,082 | \$ 51 | \$ 501 | \$ 36 | \$2,583 | \$ 87 |
| States, municipalities and political subdivisions | 823 | 18 | 340 | 13 | 1,163 | 31 |
| Government-sponsored enterprises | 49 | 1 | 211 | 6 | 260 | 7 |
| Commercial mortgage-backed | 77 | — | 64 | 2 | 141 | 2 |
| United States government | — | — | 33 | 1 | 33 | 1 |
| Total | \$ 3,031 | \$ 70 | \$ 1,149 | \$ 58 | \$4,180 | \$ 128 |

Contractual maturity dates for fixed-maturities investments were:

| (Dollars in millions) | Amortized cost | Fair value | % of fair value |
|--|----------------|------------|-----------------|
| At March 31, 2019 | | | |
| Maturity dates: | | | |
| Due in one year or less | \$ 598 | \$604 | 5.5 % |
| Due after one year through five years | 2,977 | 3,039 | 27.6 |
| Due after five years through ten years | 3,656 | 3,742 | 33.9 |
| Due after ten years | 3,503 | 3,637 | 33.0 |
| Total | \$ 10,734 | \$11,022 | 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.

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The following table provides investment income and investment gains and losses, net:

| (Dollars in millions) | Three months ended March 31, 2019 2018 | |
|---|--|---------|
| Investment income: | | |
| Interest | \$111 | \$110 |
| Dividends | 46 | 42 |
| Other | 3 | 1 |
| Total | 160 | 153 |
| Less investment expenses | 3 | 3 |
| Total | \$157 | \$150 |
| Investment gains and losses, net: | | |
| Equity securities: | | |
| Investment gains and losses on securities sold, net | \$4 | \$3 |
| Unrealized gains and losses on securities still held, net | 652 | (198) |
| Subtotal | 656 | (195) |
| Fixed maturities: | | |
| Gross realized gains | 2 | 4 |
| Subtotal | 2 | 4 |
| Other | 5 | — |
| Total | \$663 | \$(191) |

During the three months ended March 31, 2019 and 2018, there were no 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 months ended March 31, 2019 and 2018.

At March 31, 2019, 358 fixed-maturity securities with a total unrealized loss of \$27 million had been in an unrealized loss position for 12 months or more. Of that total, no fixed-maturity security had a fair value below 70% of amortized cost. At December 31, 2018, 400 fixed-maturity securities with a total unrealized loss of \$58 million had been in an unrealized loss position for 12 months or more. Of that total, no fixed-maturity securities had fair values below 70% of amortized cost.

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, 2018, and ultimately management determines fair value. See our 2018 Annual Report on Form 10-K, Item 8, Note 3, Fair Value Measurements, Page 141, 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 March 31, 2019, and December 31, 2018. We do not have any 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 March 31, 2019 | | | | |
| Fixed maturities, available for sale: | | | | |
| Corporate | \$ — | \$ 5,887 | \$ 1 | \$5,888 |
| States, municipalities and political subdivisions | — | 4,415 | 4 | 4,419 |
| Government-sponsored enterprises | — | 302 | — | 302 |
| Commercial mortgage-backed | — | 297 | — | 297 |
| United States government | 100 | — | — | 100 |
| Foreign government | — | 16 | — | 16 |
| Subtotal | 100 | 10,917 | 5 | 11,022 |
| Common equities | 6,381 | — | — | 6,381 |
| Nonredeemable preferred equities | — | 190 | — | 190 |
| Separate accounts taxable fixed maturities | — | 820 | — | 820 |
| Top Hat savings plan mutual funds and common equity (included in Other assets) | 38 | — | — | 38 |
| Total | \$ 6,519 | \$ 11,927 | \$ 5 | \$18,451 |

At December 31, 2018

Fixed maturities, available for sale:

| | | | | |
|--|-------|----------|------|---------|
| Corporate | \$ — | \$ 5,709 | \$ 1 | \$5,710 |
| States, municipalities and political subdivisions | — | 4,300 | 4 | 4,304 |
| Government-sponsored enterprises | — | 310 | — | 310 |
| Commercial mortgage-backed | — | 288 | — | 288 |
| United States government | 67 | — | — | 67 |
| Foreign government | — | 10 | — | 10 |
| Subtotal | 67 | 10,617 | 5 | 10,689 |
| Common equities | 5,742 | — | — | 5,742 |
| Nonredeemable preferred equities | — | 178 | — | 178 |
| Separate accounts taxable fixed maturities | — | 791 | — | 791 |
| Top Hat savings plan mutual funds and common equity (included in Other assets) | 34 | — | — | 34 |

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| | | | | |
|-------|----------|-----------|------|----------|
| Total | \$ 5,843 | \$ 11,586 | \$ 5 | \$17,434 |
|-------|----------|-----------|------|----------|

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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 March 31, 2019. Total Level 3 assets continue to be less than 1% 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 out of Level 3 included situations where a broker quote was used without observable inputs or data that could be corroborated by our pricing vendors in the prior period and significant other observable inputs were identified 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 March 31:

| (Dollars in millions) | Asset fair value measurements using significant unobservable inputs | | |
|---|---|--|-------|
| | Corporate fixed maturities | States, municipalities and political subdivisions fixed maturities | Total |
| Beginning balance, January 1, 2019 | \$ 1 | \$ 4 | \$ 5 |
| Total gains or losses (realized/unrealized): | | | |
| Included in net income | — | — | — |
| Included in other comprehensive income | — | — | — |
| Purchases | — | — | — |
| Sales | — | — | — |
| Transfers into Level 3 | — | — | — |
| Transfers out of Level 3 | — | — | — |
| Ending balance, March 31, 2019 | \$ 1 | \$ 4 | \$ 5 |
| Beginning balance, January 1, 2018 | \$ 1 | \$ 5 | \$ 6 |
| Total gains or losses (realized/unrealized): | | | |
| Included in net income (loss) | — | — | — |
| Included in other comprehensive income (loss) | — | (1) | (1) |
| Purchases | — | — | — |
| Sales | — | — | — |
| Transfers into Level 3 | — | — | — |
| Transfers out of Level 3 | — | — | — |
| Ending balance, March 31, 2018 | \$ 1 | \$ 4 | \$ 5 |

With the exception of the above tables, additional disclosures for the Level 3 category are not material and therefore not provided.

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

The disclosures below are presented to provide 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) | | | Book value | | Principal amount | |
|-----------------------|---------------|-----------------------------|------------|-------------------|------------------|-------------------|
| Interest rate | Year of issue | | March 2019 | December 31, 2018 | March 31, 2019 | December 31, 2018 |
| 6.900% | 1998 | Senior debentures, due 2028 | \$ 27 | \$ 27 | \$ 28 | \$ 28 |
| 6.920% | 2005 | Senior debentures, due 2028 | 391 | 391 | 391 | 391 |
| 6.125% | 2004 | Senior notes, due 2034 | 370 | 370 | 374 | 374 |
| | | Total | \$ 788 | \$ 788 | \$ 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 March 31, 2019 | | | | |
| Note payable | \$ — | \$ 32 | \$ — | \$ 32 |
| 6.900% senior debentures, due 2028 | — | 33 | — | 33 |
| 6.920% senior debentures, due 2028 | — | 486 | — | 486 |
| 6.125% senior notes, due 2034 | — | 459 | — | 459 |
| Total | \$ — | \$ 1,010 | \$ — | \$ 1,010 |

At December 31, 2018

| | | | | |
|------------------------------------|------|--------|------|--------|
| Note payable | \$ — | \$ 32 | \$ — | \$ 32 |
| 6.900% senior debentures, due 2028 | — | 32 | — | 32 |
| 6.920% senior debentures, due 2028 | — | 471 | — | 471 |
| 6.125% senior notes, due 2034 | — | 440 | — | 440 |
| Total | \$ — | \$ 975 | \$ — | \$ 975 |

The following table shows the fair value of our life policy loans included in other invested assets and the 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 March 31, 2019 | | | | |
| Life policy loans | \$ — | \$ — | \$ 41 | \$ 41 |
| Deferred annuities | — | — | 751 | 751 |
| Structured settlements | — | 195 | — | 195 |
| Total | \$ — | \$ 195 | \$ 751 | \$ 946 |

At December 31, 2018

| | | | | |
|------------------------|------|--------|--------|--------|
| Life policy loans | \$ — | \$ — | \$ 40 | \$ 40 |
| Deferred annuities | — | — | 742 | 742 |
| Structured settlements | — | 185 | — | 185 |
| Total | \$ — | \$ 185 | \$ 742 | \$ 927 |

Outstanding principal and interest for these life policy loans totaled \$32 million and \$33 million at March 31, 2019, and December 31, 2018, respectively.

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Recorded reserves for the deferred annuities were \$776 million and \$787 million at March 31, 2019, and December 31, 2018, respectively. Recorded reserves for the structured settlements were \$154 million and \$156 million at March 31, 2019, and December 31, 2018, 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 ended March 31, | |
|---|---------------------------------|---------|
| | 2019 | 2018 |
| Gross loss and loss expense reserves, beginning of period | \$5,646 | \$5,219 |
| Less reinsurance recoverable | 238 | 187 |
| Net loss and loss expense reserves, beginning of period | 5,408 | 5,032 |
| Net loss and loss expense reserves related to acquisition of MSP at February 28, 2019 | 246 | — |
| Net incurred loss and loss expenses related to: | | |
| Current accident year | 857 | 839 |
| Prior accident years | (67) | (48) |
| Total incurred | 790 | 791 |
| Net paid loss and loss expenses related to: | | |
| Current accident year | 177 | 195 |
| Prior accident years | 647 | 519 |
| Total paid | 824 | 714 |
| Net loss and loss expense reserves, end of period | 5,620 | 5,109 |
| Plus reinsurance recoverable | 266 | 184 |
| Gross loss and loss expense reserves, end of period | \$5,886 | \$5,293 |

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, claims, underwriting, loss prevention and accounting management. This committee is 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 \$58 million at March 31, 2019, and \$52 million at March 31, 2018, for certain life and health loss and loss expense reserves.

For the three months ended March 31, 2019, we experienced \$67 million of favorable development on prior accident years, including \$62 million of favorable development in commercial lines, \$3 million of unfavorable development in personal lines and \$2 million of favorable development in excess and surplus lines. Within commercial lines, we recognized favorable reserve development of \$31 million for the commercial casualty line, \$15 million for the workers' compensation line and \$11 million for the commercial auto line due to reduced uncertainty of prior accident year loss and loss adjustment expense for these lines. Within personal lines, we recognized unfavorable reserve development of \$11 million for the homeowner line of business due primarily to higher-than-anticipated loss development on known claims.

For the three months ended March 31, 2018, we experienced \$48 million of favorable development on prior accident years, including \$35 million of favorable development in commercial lines, \$1 million of favorable development in personal lines, \$10 million of favorable development in excess and surplus lines and \$2 million of favorable development in our reinsurance assumed operations. This included \$7 million from favorable development of catastrophe losses. Within commercial lines, we recognized favorable reserve development of

\$21 million for the commercial property line, \$13 million for the workers' compensation line, \$2 million for the commercial auto line and \$4 million for the other commercial lines due to reduced uncertainty of prior accident year loss and loss adjustment expenses for these lines. We recognized unfavorable reserve development of \$5 million for the commercial casualty line. The unfavorable reserve development for commercial casualty was primarily due to an increase in case reserves for accident year 2017.

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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) | March 31, 2019 | December 31, 2018 |
|--|-------------------|----------------------|
| Life policy reserves: | | |
| Ordinary/traditional life | \$ 1,168 | \$ 1,149 |
| Other | 48 | 48 |
| Subtotal | 1,216 | 1,197 |
| Investment contract reserves: | | |
| Deferred annuities | 776 | 787 |
| Universal life | 632 | 632 |
| Structured settlements | 154 | 156 |
| Other | 6 | 7 |
| Subtotal | 1,568 | 1,582 |
| Total life policy and investment contract reserves | \$ 2,784 | \$ 2,779 |

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 March 31, | |
|--|------------------------------------|--------|
| | 2019 | 2018 |
| Property casualty: | | |
| Deferred policy acquisition costs asset, beginning of period | \$464 | \$438 |
| Capitalized deferred policy acquisition costs | 254 | 232 |
| Amortized deferred policy acquisition costs | (233) | (224) |
| Deferred policy acquisition costs asset, end of period | \$485 | \$446 |
| Life: | | |
| Deferred policy acquisition costs asset, beginning of period | \$274 | \$232 |
| Capitalized deferred policy acquisition costs | 16 | 13 |
| Amortized deferred policy acquisition costs | (13) | (10) |
| Shadow deferred policy acquisition costs | (11) | 10 |
| Deferred policy acquisition costs asset, end of period | \$266 | \$245 |
| Consolidated: | | |
| Deferred policy acquisition costs asset, beginning of period | \$738 | \$670 |
| Capitalized deferred policy acquisition costs | 270 | 245 |
| Amortized deferred policy acquisition costs | (246) | (234) |
| Shadow deferred policy acquisition costs | (11) | 10 |
| Deferred policy acquisition costs asset, end of period | \$751 | \$691 |

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.

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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 March 31, | | | | | |
|---|------------------------------|------------|--------|------------|------------|----------|
| | 2019 | | | 2018 | | |
| | Before tax | Income tax | Net | Before tax | Income tax | Net |
| Investments: | | | | | | |
| AOCI, beginning of period | \$46 | \$ 9 | \$37 | \$3,540 | \$ 733 | \$2,807 |
| Cumulative effect of change in accounting for equity securities as of January 1, 2018 | — | — | — | (3,155) | (652) | (2,503) |
| Adjusted AOCI, beginning of period | 46 | 9 | 37 | 385 | 81 | 304 |
| OCI before investment gains and losses, net, recognized in net income | 244 | 51 | 193 | (217) | (45) | (172) |
| Investment gains and losses, net, recognized in net income | (2) | (1) | (1) | (4) | (1) | (3) |
| OCI | 242 | 50 | 192 | (221) | (46) | (175) |
| AOCI, end of period | \$288 | \$ 59 | \$229 | \$164 | \$ 35 | \$129 |
| Pension obligations: | | | | | | |
| AOCI, beginning of period | \$(16) | \$(2) | \$(14) | \$(12) | \$(1) | \$(11) |
| OCI excluding amortization recognized in net income | — | — | — | — | — | — |
| Amortization recognized in net income | — | — | — | — | — | — |
| OCI | — | — | — | — | — | — |
| AOCI, end of period | \$(16) | \$(2) | \$(14) | \$(12) | \$(1) | \$(11) |
| Life deferred acquisition costs, life policy reserves and other: | | | | | | |
| AOCI, beginning of period | \$(1) | \$ — | \$(1) | \$(10) | \$(2) | \$(8) |
| OCI before investment gains and losses, net, recognized in net income | — | — | — | 6 | 1 | 5 |
| Investment gains and losses, net, recognized in net income | (5) | (1) | (4) | — | — | — |
| OCI | (5) | (1) | (4) | 6 | 1 | 5 |
| AOCI, end of period | \$(6) | \$(1) | \$(5) | \$(4) | \$(1) | \$(3) |
| Summary of AOCI: | | | | | | |
| AOCI, beginning of period | \$29 | \$ 7 | \$22 | \$3,518 | \$ 730 | \$2,788 |
| Cumulative effect of change in accounting for equity securities as of January 1, 2018 | — | — | — | (3,155) | (652) | (2,503) |
| Adjusted AOCI, beginning of period | 29 | 7 | 22 | 363 | 78 | 285 |
| Investments OCI | 242 | 50 | 192 | (221) | (46) | (175) |
| Pension obligations OCI | — | — | — | — | — | — |
| Life deferred acquisition costs, life policy reserves and other OCI | (5) | (1) | (4) | 6 | 1 | 5 |
| Total OCI | 237 | 49 | 188 | (215) | (45) | (170) |
| AOCI, end of period | \$266 | \$ 56 | \$210 | \$148 | \$ 33 | \$115 |

Investment gains and losses, net, and life deferred acquisition costs, life policy reserves and other investment gains and losses, net, are recorded in the investment gains and losses, 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.

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NOTE 8 – Reinsurance

Primary components of our property casualty reinsurance assumed operations include involuntary and voluntary assumed risks as well as contracts from our reinsurance assumed operations, known as Cincinnati Re. 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.

The table below summarizes our consolidated property casualty insurance net written premiums, earned premiums and incurred loss and loss expenses:

| (Dollars in millions) | Three months ended March 31, | |
|---|---------------------------------|---------|
| | 2019 | 2018 |
| Direct written premiums | \$1,335 | \$1,247 |
| Assumed written premiums | 87 | 49 |
| Ceded written premiums | (41) | (38) |
| Net written premiums | \$1,381 | \$1,258 |
| | | |
| Direct earned premiums | \$1,266 | \$1,207 |
| Assumed earned premiums | 43 | 33 |
| Ceded earned premiums | (42) | (40) |
| Earned premiums | \$1,267 | \$1,200 |
| | | |
| Direct incurred loss and loss expenses | \$787 | \$781 |
| Assumed incurred loss and loss expenses | 25 | 16 |
| Ceded incurred loss and loss expenses | (22) | (6) |
| Incurred loss and loss expenses | \$790 | \$791 |

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

The table below summarizes our consolidated life insurance earned premiums and contract holders' benefits incurred:

| (Dollars in millions) | Three months ended March 31, | |
|--|---------------------------------------|-------|
| | 2019 | 2018 |
| Direct earned premiums | \$83 | \$77 |
| Ceded earned premiums | (17) | (17) |
| Earned premiums | \$66 | \$60 |
| | | |
| Direct contract holders' benefits incurred | 85 | 76 |
| Ceded contract holders' benefits incurred | (15) | (13) |
| Contract holders' benefits incurred | \$70 | \$63 |

The ceded benefits incurred can vary depending on the type of life insurance policy held and the year the policy was issued.

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NOTE 9 – Income Taxes

The differences between the 21% statutory federal income tax rate and our effective income tax rate were as follows:

| (Dollars in millions) | Three months ended March | | | |
|--|--------------------------|--------|--------|--------|
| | 31, 2019 | | 2018 | |
| Tax at statutory rate: | \$182 | 21.0 % | \$(11) | 21.0 % |
| Increase (decrease) resulting from: | | | | |
| Tax-exempt income from municipal bonds | (5) | (0.6) | (5) | 10.0 |
| Dividend received exclusion | (4) | (0.5) | (3) | 6.0 |
| Other | (1) | (0.1) | — | 1.0 |
| Provision for income taxes | \$172 | 19.8 % | \$(19) | 38.0 % |

The provision for federal income taxes is based upon filing a consolidated income tax return for the company and its subsidiaries.

Unrecognized Tax Benefits

As of March 31, 2019, and December 31, 2018, we had a gross unrecognized tax benefit of \$34 million. There were no changes to this amount during the first quarter of 2019.

Acquisition of MSP

As more fully discussed in Note 1, Accounting Policies and Note 14, Acquisition, we closed on the acquisition of MSP during the first quarter of 2019. As a result of this acquisition, \$59 million of net deferred tax assets were acquired or established at the acquisition date with an offsetting valuation allowance of \$55 million.

Accounting guidance requires deferred tax assets to be reduced by a valuation allowance when management believes it is more likely than not that some, or all, of the deferred tax assets will not be realized. After considering all positive and negative evidence related to the MSP operations, we believe it was appropriate to set up a valuation allowance for purposes of our opening MSP balance sheet.

The purchase price allocation to our MSP deferred tax assets and corresponding valuation allowance is subject to further post-closing adjustments based on the actual net asset value (NAV) of MSP and its subsidiaries at closing, pursuant to the procedures set forth in the sale and purchase agreement.

As a result of first quarter operations, there were immaterial changes to the MSP valuation allowance as of March 31, 2019.

As of March 31, 2019, MSP had operating loss carryforwards of \$192 million which are subject to certain limitations. These MSP losses can only be utilized within the MSP group and cannot offset the income of our CFC group. Other than the MSP loss carryforwards, we had no other operating or capital loss carryforwards as of March 31, 2019.

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 March 31, 2019 2018 | |
|--|---|----------|
| Numerator: | | |
| Net income (loss)—basic and diluted | \$695 | \$(31) |
| Denominator: | | |
| Basic weighted-average common shares outstanding | 163.0 | 164.0 |
| Effect of share-based awards: | | |
| Stock options | 0.9 | — |
| Nonvested shares | 0.7 | — |
| Diluted weighted-average shares | 164.6 | 164.0 |
| Earnings per share: | | |
| Basic | \$4.27 | \$(0.19) |
| Diluted | \$4.22 | \$(0.19) |
| Number of anti-dilutive share-based awards | 0.7 | 2.8 |

The sources of dilution of our common shares are certain equity-based awards. See our 2018 Annual Report on Form 10-K, Item 8, Note 17, Share-Based Associate Compensation Plans, Page 173, for information about share-based awards. The above table shows the number of anti-dilutive share-based awards for the three months ended March 31, 2019 and 2018. These share-based awards were not included in the computation of net income (loss) per common share (diluted) because their exercise would have anti-dilutive effects. In accordance with ASC 260, Earnings per Share, the assumed exercise of share-based awards in 2018 were excluded from the computation of diluted loss per share.

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 March 31, 2019 2018 | |
|---|---|------|
| Service cost | \$2 | \$3 |
| Non-service costs (benefit): | | |
| Interest cost | 3 | 3 |
| Expected return on plan assets | (5) | (5) |
| Amortization of actuarial loss and prior service cost | — | — |
| Other | 1 | — |
| Total non-service benefit | (1) | (2) |
| Net periodic benefit cost | \$1 | \$1 |

See our 2018 Annual Report on Form 10-K, Item 8, Note 13, Employee Retirement Benefits, Page 166, for information on our retirement benefits. Service costs and non-service costs (benefit) are allocated in the same proportion primarily to the underwriting, acquisition and insurance expenses line item with the remainder allocated to the insurance losses and contract holders' benefits line item on the condensed consolidated statements of income for both 2019 and 2018.

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We made matching contributions totaling \$5 million and \$6 million to our 401(k) and Top Hat savings plans during the first quarters of 2019 and 2018.

We made no contributions to our qualified pension plan during the first three months of 2019.

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 for any other matters for which the risk of loss is not probable, but more than remote, is immaterial.

NOTE 13 – Segment Information

We operate primarily in two industries, property casualty insurance and life insurance. Our chief operating decision maker regularly reviews 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. We also report as Other the underwriting results of Cincinnati Re, our reinsurance assumed operation, and MSP, our London-based global specialty underwriter, which was acquired on February 28, 2019. See our 2018 Annual Report on Form 10-K, Item 8, Note 18, Segment Information, Page 176, 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 ended March 31, | |
|--|---------------------------------|---------|
| | 2019 | 2018 |
| Revenues: | | |
| Commercial lines insurance | | |
| Commercial casualty | \$268 | \$265 |
| Commercial property | 234 | 228 |
| Commercial auto | 170 | 161 |
| Workers' compensation | 77 | 80 |
| Other commercial | 61 | 56 |
| Commercial lines insurance premiums | 810 | 790 |
| Fee revenues | 1 | 2 |
| Total commercial lines insurance | 811 | 792 |
| Personal lines insurance | | |
| Personal auto | 155 | 151 |
| Homeowner | 147 | 136 |
| Other personal | 42 | 38 |
| Personal lines insurance premiums | 344 | 325 |
| Fee revenues | 1 | 1 |
| Total personal lines insurance | 345 | 326 |
| Excess and surplus lines insurance | | |
| Excess and surplus lines insurance | 63 | 56 |
| Fee revenues | 1 | — |
| Total excess and surplus lines insurance | 64 | 56 |
| Life insurance premiums | | |
| Life insurance premiums | 66 | 60 |
| Fee revenues | 1 | 1 |
| Total life insurance | 67 | 61 |
| Investments | | |
| Investment income, net of expenses | 157 | 150 |
| Investment gains and losses, net | 663 | (191) |
| Total investment revenue | 820 | (41) |
| Other | | |
| Earned premiums | 50 | 29 |
| Other | 2 | 1 |
| Total other revenues | 52 | 30 |
| Total revenues | \$2,159 | \$1,224 |
| Income (loss) before income taxes: | | |
| Insurance underwriting results | | |
| Commercial lines insurance | \$76 | \$15 |
| Personal lines insurance | (4) | (9) |
| Excess and surplus lines insurance | 11 | 18 |
| Life insurance | (1) | 2 |
| Investments | 796 | (65) |

| | | |
|-----------------------------|-----------|--------------|
| Other | (11) | (11) |
| | \$867 | \$(50) |
| Identifiable assets: | March 31, | December 31, |
| | 2019 | 2018 |
| Property casualty insurance | \$ 3,308 | \$ 3,285 |
| Life insurance | 1,472 | 1,424 |
| Investments | 17,738 | 16,741 |
| Other | 834 | 485 |
| Total | \$ 23,352 | \$ 21,935 |

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NOTE 14 – Acquisition

On February 28, 2019 (closing date or acquisition date), pursuant to the agreement (the SPA) for the sale and purchase of the entire issued share capital of MSP Underwriting Limited, dated October 11, 2018, by and between the company and Münchener Rückversicherungs Gesellschaft AG (Munich Re), the company acquired from Munich Re all of the issued and outstanding share capital of MSP and its subsidiaries, including the Lloyd's managing agent, Beaufort Underwriting Agency Limited for Syndicate 318 (the acquisition). MSP, which operates through Beaufort Underwriting Agency Limited, is a London based global specialty underwriter. The acquisition of MSP reflects progress toward our long-term objective of diversifying revenue and profitability by expanding our operations geographically and by line of business.

As aggregate consideration for the purchase of the share capital of MSP and its subsidiaries, the company paid £48 million, or \$64 million, in cash to Munich Re at the closing of the acquisition. The amount paid at closing consisted of an originally estimated £102 million decreased by a NAV adjustment, calculated as the difference between the target NAV set forth in the SPA and the estimated NAV of MSP and its subsidiaries at the closing date. The purchase price is subject to further post-closing adjustments based on the actual NAV of MSP and its subsidiaries at closing, pursuant to the procedures set forth in the SPA.

The allocation of the purchase price is based on information included in MSP's financial statements at the closing date, which is subject to negotiation per the SPA. The purchase price allocation is subject to change if additional information becomes available within the measurement period, which cannot exceed 12 months from the acquisition date. The fair values of the assets acquired and liabilities assumed may be subject to adjustments, which may impact the amounts recorded for the assets acquired and liabilities assumed as well as the goodwill.

The fair value of the assets acquired, liabilities assumed and the allocation of the purchase price on the acquisition date have been summarized in the following table:

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| (Dollars in millions) | Amount |
|---|--------|
| Assets | |
| Investments and other invested assets | \$ 198 |
| Cash and cash equivalents | 64 |
| Premiums receivable | 45 |
| Reinsurance recoverable | 42 |
| Other assets | 23 |
| Total assets acquired | \$ 372 |
| Liabilities | |
| Loss and loss expense reserves | \$ 277 |
| Unearned premiums | 88 |
| Other liabilities | 24 |
| Total liabilities assumed | \$ 389 |
| Fair value of identifiable intangible assets: | |
| Syndicate capacity - indefinite lived | \$ 31 |
| Syndicate broker relationships - definite lived | 12 |
| Value of business acquired - definite lived | 4 |
| Internally developed technology - definite lived | 3 |
| Total fair value of identifiable intangible assets | \$ 50 |
| Total purchase price paid | \$ 64 |
| Total assets acquired (including fair value of identifiable intangible assets) | 422 |
| Total liabilities assumed | 389 |
| Fair value of net assets acquired prior to allocation of goodwill | 33 |
| Excess of purchase price paid over fair value of net assets acquired assigned to goodwill | \$ 31 |

Identifiable intangible assets and goodwill are included in other assets in the condensed consolidated balance sheets. The goodwill arose as the fair value of the consideration transferred exceeded the fair value of the net identifiable assets acquired at the acquisition date. The broker relationships and internally developed technology will be amortized straight-line over five and 15 years, respectively. Value of business acquired will be amortized over the remaining coverage period of the underlying insurance contracts. Goodwill and intangibles are tested for impairment on an annual basis or more frequently if events or circumstances indicate the assets might be impaired. The company will perform its annual impairment test on goodwill and intangibles on September 30 of each year.

The financial results of MSP are included in the condensed consolidated statements of income from the acquisition date and are deemed to be immaterial.

In connection with the acquisition, the company incurred immaterial transaction related expenses.

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 2018 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 for insurance company regulation in the United States of America. 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 2018 Annual Report on Form 10-K, Item 1A, Risk Factors, Page 33.

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

• 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

• 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

• Our inability to integrate MSP and its subsidiaries into our on-going operations, or disruptions to our on-going operations due to such integration

• 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; disrupt our relationships with agents, policyholders and others; cause reputational damage, mitigation expenses and data loss and expose us to liability under federal and state laws

• 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 March | | |
|--|--------------------------|---------|----------|
| | 31, 2019 | 2018 | % Change |
| Earned premiums | \$1,333 | \$1,260 | 6 |
| Investment income, net of expenses (pretax) | 157 | 150 | 5 |
| Investment gains and losses, net (pretax) | 663 | (191) | nm |
| Total revenues | 2,159 | 1,224 | 76 |
| Net income (loss) | 695 | (31) | nm |
| Comprehensive income (loss) | 883 | (201) | nm |
| Net income (loss) per share—diluted | 4.22 | (0.19) | nm |
| Cash dividends declared per share | 0.56 | 0.53 | 6 |
| Diluted weighted average shares outstanding | 164.6 | 164.0 | 0 |

Total revenues rose 76% for the first quarter of 2019, compared with the first quarter of 2018, primarily due to higher earned premiums and significant net investment gains. Premium and investment revenue trends are discussed further in the respective sections of Financial Results.

Investment gains and losses are recognized on the sales of investments, on certain changes in fair values of securities even though we continue to hold the securities 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. The change in fair value of securities is also generally independent of the insurance underwriting process.

Net income for the first quarter of 2019, compared with first-quarter 2018, increased \$726 million, including increases of \$674 million in after-tax net investment gains and losses, \$49 million in after-tax property casualty underwriting income and \$6 million in after-tax investment income. First-quarter 2019 catastrophe losses, mostly weather related, were \$17 million more after taxes and unfavorably affected both net income and property casualty underwriting income. Life insurance segment results on a pretax basis for the first quarter of 2019 decreased \$3 million compared with the first quarter of 2018.

Performance by segment is discussed below in Financial Results. As discussed in our 2018 Annual Report on Form 10-K, Item 7, Factors Influencing Our Future Performance, Page 53, there are several reasons that our performance during 2019 may be below our long-term targets. In that annual report, as part of Financial Results, we also discussed the full-year 2019 outlook for each reporting segment.

The board of directors is committed to rewarding shareholders directly through cash dividends and through share repurchase authorizations. Through 2018, the company had increased the annual cash dividend rate for 58 consecutive years, a record we believe is matched by only seven other publicly traded companies. In February 2019, the board of directors increased the regular quarterly dividend to 56 cents per share, setting the stage for our 59th consecutive year of increasing cash dividends. During the first three months of 2019, cash dividends declared by the company increased 6% compared with the same period of 2018. Our board regularly evaluates relevant factors in decisions related to dividends and share repurchases. The 2019 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.

As disclosed in Item 1, Note 14 – Acquisition, we completed our transaction to acquire MSP Underwriting Limited (MSP), a London-based global specialty underwriter for Lloyd's Syndicate 318, on February 28, 2019. The \$64 million paid at the closing represented a multiple of 1.9 times the \$33 million of MSP's net identifiable assets acquired, subject to additional post-closing adjustments. We expect the transaction to contribute to future earnings and book value growth as we believe it should provide opportunities to support business produced by our independent agencies in new geographies and lines of business.

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Balance Sheet Data and Performance Measures

| (Dollars in millions, except share data) | At March | At |
|--|----------|----------|
| | 31, | December |
| | 2019 | 2018 |
| Total investments | \$17,864 | \$16,732 |
| Total assets | 23,352 | 21,935 |
| Short-term debt | 32 | 32 |
| Long-term debt | 788 | 788 |
| Shareholders' equity | 8,630 | 7,833 |
| Book value per share | 52.88 | 48.10 |
| Debt-to-total-capital ratio | 8.7 | % 9.5 % |

Total assets at March 31, 2019, increased 6% compared with year-end 2018, and included a 6% increase in total investments that reflected a combination of net purchases and higher fair values for many securities in our portfolio. Shareholders' equity increased 10%, and book value per share also increased 10% during the first three months of 2019. Our debt-to-total-capital ratio (capital is the sum of debt plus shareholders' equity) decreased compared with year-end 2018.

Our value creation ratio is our primary performance metric. That ratio was 11.1% for the first three months of 2019, more than the same period in 2018 primarily due to a higher amount of overall net gains from our investment portfolio. The \$4.78 increase in book value per share during the first three months of 2019 contributed 9.9 percentage points to the value creation ratio, while dividends declared at \$0.56 per share contributed 1.2 points. Value creation ratios for comparable periods by major components and in total, along with calculations from per-share amounts, are shown in the tables below.

| | Three months ended March 31, | |
|--|------------------------------|--------|
| | 2019 | 2018 |
| Value creation ratio major components: | | |
| Net income before investment gains | 2.2 % | 1.5 % |
| Change in fixed-maturity securities, realized and unrealized gains | 2.5 | (2.1) |
| Change in equity securities, investment gains | 6.6 | (1.9) |
| Other | (0.2) | (0.2) |
| Value creation ratio | 11.1 % | (2.7)% |

| (Dollars are per share) | Three months ended | |
|---|--------------------|-----------|
| | March 31, | |
| | 2019 | 2018 |
| Value creation ratio: | | |
| End of period book value* | \$52.88 | \$48.42 |
| Less beginning of period book value | 48.10 | 50.29 |
| Change in book value | 4.78 | (1.87) |
| Dividend declared to shareholders | 0.56 | 0.53 |
| Total value creation | \$5.34 | \$(1.34) |
| Value creation ratio from change in book value** | 9.9 | % (3.7)% |
| Value creation ratio from dividends declared to shareholders*** | 1.2 | 1.0 |
| Value creation ratio | 11.1 | % (2.7)% |

* Book value per share is calculated by dividing end of period total shareholders' equity by end of period shares outstanding

** 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 2018 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 2018 Annual Report on Form 10-K, Item 1, Our Business and Our Strategy, Page 5. At March 31, 2019, we actively marketed through agencies located in 43 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.

To measure our long-term progress in creating shareholder value, our value creation ratio is our primary financial performance target. As discussed in our 2018 Annual Report on Form 10-K, Item 7, Executive Summary, Page 49, management believes this measure is a meaningful indicator of our long-term progress in creating shareholder value 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 three months of 2019, our consolidated property casualty net written premium year-over-year growth was 10%. As of February 2019, A.M. Best projected the industry's full-year 2019 written premium growth at approximately 4%. For the five-year period 2014 through 2018, our growth rate slightly exceeded 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% to 100%. For the first three months of 2019, our GAAP combined ratio was 93.0% and our statutory combined ratio was 91.5%, both including 5.6 percentage points of current accident year catastrophe losses mostly offset by 5.3 percentage points of favorable loss reserve development on prior accident years. As of February 2019, A.M. Best projected the industry's full-year 2019 statutory combined ratio at approximately 101%, including approximately 5 percentage points of catastrophe losses and a favorable effect of approximately 1.5 percentage points of loss reserve development on prior accident years. 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 three months of 2019, pretax investment income was \$157 million, up 5% compared with the same period in 2018. We believe our investment portfolio mix provides an appropriate balance of income stability and growth with capital appreciation potential.

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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 2018 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. In 2019, we continue to improve underwriting and rate adequacy for our commercial auto and personal auto lines of business. Our commercial auto policies that renewed during the first three months of 2019 experienced an estimated average price increase at percentages in the high-single-digit range, and our personal auto policies that renewed during that period also averaged an estimated price increase at percentages in the high-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. Premium growth initiatives also include expansion of Cincinnati ReSM, our reinsurance assumed operation, and successful integration of MSP.

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 2019, we are planning approximately 100 appointments of independent agencies that offer most or all of our property casualty insurance products. During the first three months of 2019, we appointed 22 new agencies that meet that criteria.

We also plan to appoint additional agencies that focus on high net worth personal lines clients. In 2019, we are targeting the appointment of approximately 80 agencies that market only personal lines products for us. During the first three months of 2019, we appointed 24 new agencies that meet that criteria.

As of March 31, 2019, a total of 1,761 agency relationships market our property casualty insurance products from 2,376 reporting locations. The totals do not include Lloyd's brokers or coverholders that source business for MSP. We also continue to grow premiums through the disciplined expansion of Cincinnati Re and the acquisition of MSP. During the first three months of 2019, Cincinnati Re contributed \$38 million of growth in consolidated property casualty insurance net written premiums while MSP contributed \$21 million. We also believe MSP over time will provide opportunities to support business produced by our independent agencies in new geographies and lines of business.

Financial Strength

An important part of our long-term strategy is financial strength, which is described in our 2018 Annual Report on Form 10-K, Item 1, Our Business and Our Strategy, Financial Strength, Page 8. 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 2018 Annual Report on Form 10-K, Item 7, Liquidity and Capital Resources, 2019 Reinsurance Ceded Programs, Page 105. 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 March 31, 2019, we held \$2.751 billion of our cash and invested assets at the parent-company level, of which \$2.477 billion, or 90.0%, was invested in common stocks, and \$166 million, or 6.0%, was cash or cash equivalents. Our debt-to-total-capital ratio was 8.7% at March 31, 2019. 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 March 31, 2019, matching year-end 2018.

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.

At April 23, 2019, our insurance subsidiaries continued to be highly rated.

Insurer Financial Strength Ratings

| Rating agency | Standard market property casualty insurance subsidiaries | | Life insurance subsidiary | | Excess and surplus lines insurance subsidiary | | Outlook |
|--|--|---------|---------------------------|---------|---|---------|--------------------------|
| | 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/ Positive/ Stable |
| Fitch Ratings fitchratings.com | A+ Strong | 5 of 21 | A+ Strong | 5 of 21 | - | - | Stable |
| Moody's Investors Service moody's.com | A1 Good | 5 of 21 | - | - | - | - | Stable |
| S&P Global Ratings spratings.com | A+ Strong | 5 of 21 | A+ Strong | 5 of 21 | - | - | Stable |

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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, our reinsurance assumed operations and our London-based global specialty underwriter known as MSP.

| (Dollars in millions) | Three months ended March 31, | | |
|--|------------------------------|---------|------------|
| | 2019 | 2018 | % Change |
| Earned premiums | \$1,267 | \$1,200 | 6 |
| Fee revenues | 3 | 3 | 0 |
| Total revenues | 1,270 | 1,203 | 6 |
| Loss and loss expenses from: | | | |
| Current accident year before catastrophe losses | 786 | 779 | 1 |
| Current accident year catastrophe losses | 71 | 60 | 18 |
| Prior accident years before catastrophe losses | (70) | (41) | (71) |
| Prior accident years catastrophe losses | 3 | (7) | nm |
| Loss and loss expenses | 790 | 791 | 0 |
| Underwriting expenses | 389 | 383 | 2 |
| Underwriting profit | \$91 | \$29 | 214 |
| Ratios as a percent of earned premiums: | | | Pt. Change |
| Current accident year before catastrophe losses | 62.0 | % 64.9 | % (2.9) |
| Current accident year catastrophe losses | 5.6 | 5.0 | 0.6 |
| Prior accident years before catastrophe losses | (5.5) | (3.3) | (2.2) |
| Prior accident years catastrophe losses | 0.2 | (0.6) | 0.8 |
| Loss and loss expenses | 62.3 | 66.0 | (3.7) |
| Underwriting expenses | 30.7 | 31.9 | (1.2) |
| Combined ratio | 93.0 | % 97.9 | % (4.9) |
| Combined ratio | 93.0 | % 97.9 | % (4.9) |
| Contribution from catastrophe losses and prior years reserve development | 0.3 | 1.1 | (0.8) |
| Combined ratio before catastrophe losses and prior years reserve development | 92.7 | % 96.8 | % (4.1) |

Our consolidated property casualty insurance operations generated an underwriting profit of \$91 million for the first quarter of 2019. The improvement of \$62 million, compared with the same period of 2018, was partially offset by an increase of \$21 million in losses from weather-related natural catastrophes. Weather-related losses not identified as part of designated catastrophe events for the property casualty industry, typically referred to as noncatastrophe weather losses, decreased by \$26 million in the first three months of 2019, offsetting the increase in catastrophe losses. We believe future property casualty underwriting results will continue to benefit from price increases and our ongoing initiatives to improve pricing precision and loss experience related to claims and loss control practices. For all property casualty lines of business in aggregate, excluding MSP reserves as of the February 28, 2019, acquisition date, net loss and loss expense reserves at March 31, 2019, were \$34 million lower than at year-end 2018, including an increase of \$47 million for the incurred but not reported (IBNR) portion. The \$34 million reserve decrease lowered year-end 2018 net loss and loss expense reserves by less than 1%.

We measure and analyze property casualty underwriting results primarily by the combined ratio and its component ratios. The GAAP-basis combined ratio is the percentage of incurred losses plus all expenses per each earned premium

dollar – the lower the ratio, the better the performance. An underwriting profit results when the combined ratio is below 100%. A combined ratio above 100% indicates that an insurance company's losses and expenses exceeded premiums.

Our consolidated property casualty combined ratio for the first quarter of 2019 decreased by 4.9 percentage points, compared with the same period of 2018, despite an increase of 1.4 points from higher catastrophe losses and loss

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expenses. The increase from catastrophe loss effects was offset by a decrease of 2.5 points from lower noncatastrophe weather-related losses.

The combined ratio can be affected significantly by natural catastrophe losses and other large losses as discussed in detail below. The combined ratio can also be affected by updated estimates of loss and loss expense reserves established for claims that occurred in prior periods, referred to as prior accident years. Net favorable development on prior accident year reserves, including reserves for catastrophe losses, benefited the combined ratio by 5.3 percentage points in the first three months of 2019, compared with 3.9 percentage points in the same period of 2018. Net favorable development is discussed in further detail in Financial Results by property casualty insurance segment.

The ratio for current accident year loss and loss expenses before catastrophe losses improved in the first three months of 2019. That 62.0% ratio decreased 2.9 percentage points compared with the 64.9% accident year 2018 ratio measured as of March 31, 2018, including a decrease of 1.1 points in the ratio for large losses of \$1 million or more per claim, discussed below. The effects of lower first-quarter 2019 noncatastrophe weather-related losses contributed approximately 2 points to the overall decrease in the current accident year ratio.

The underwriting expense ratio for the first three months of 2019 decreased, compared with the same period of 2018, reflecting a higher than average expense ratio for the first quarter 2018 due to a lower amount of deferred acquisition costs. The current year period reflects a ratio generally in line with our longer-term historical average, as well as ongoing expense management efforts and higher earned premiums.

Consolidated Property Casualty Insurance Premiums

| (Dollars in millions) | Three months ended | | |
|--------------------------------------|--------------------|---------|-------------|
| | March 31, | | |
| | 2019 | 2018 | % Change |
| Agency renewal written premiums | \$1,130 | \$1,083 | 4 |
| Agency new business written premiums | 181 | 159 | 14 |
| Other written premiums | 70 | 16 | 338 |
| Net written premiums | 1,381 | 1,258 | 10 |
| Unearned premium change | (114) | (58) | (97) |
| Earned premiums | \$1,267 | \$1,200 | 6 |

The trends in net written premiums and earned premiums summarized in the table above include the effects of price increases. Price change trends that heavily influence renewal written premium increases or decreases, along with other premium growth drivers for 2019, are discussed in more detail by segment below in Financial Results.

Consolidated property casualty net written premiums for the three months ended March 31, 2019, grew \$123 million compared with the same period of 2018. Our premium growth initiatives from prior years have provided an ongoing favorable effect on growth during the current year, particularly as newer agency relationships mature over time.

Consolidated property casualty agency new business written premiums increased by \$22 million for the first quarter of 2019, compared with the same period of 2018. The increase was produced by our commercial lines and excess and surplus lines insurance segments. New agency appointments during 2018 and 2019 produced a \$10 million increase in standard lines new business for the first three months of 2019 compared with the same period of 2018. As we appoint new agencies that choose to move accounts to us, we report these accounts as new business. While this business is new to us, in many cases it is not new to the agent. We believe these seasoned accounts tend to be priced more accurately than business that may be less familiar to our agent upon obtaining it from a competing agent.

Net written premiums for Cincinnati Re, included in other written premiums, increased \$38 million for the first quarter of 2019, compared with the same period of 2018. Cincinnati Re assumes risks through reinsurance treaties and in some cases cedes part of the risk and related premiums to one or more unaffiliated reinsurance companies through transactions known as retrocessions. For the first three months of 2019, earned premiums for Cincinnati Re totaled \$40 million, compared with \$29 million earned in the same period a year ago.

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Other written premiums also include premiums ceded to reinsurers as part of our reinsurance ceded program and premiums written through MSP, acquired on February 28, 2019. An increase in ceded premiums reduced net written premiums by \$3 million for the first quarter of 2019, compared with the same period of 2018. MSP contributed \$21 million to 2019 net written premiums and \$11 million to earned premiums.

Catastrophe losses and loss expenses typically have a material effect on property casualty results and can vary significantly from period to period. Losses from natural catastrophes contributed 5.8 percentage points to the combined ratio in the first quarter of 2019, compared with 4.4 percentage points in the same period of 2018. Some of those losses were applicable to annual loss deductible provisions of our collateralized reinsurance funded through catastrophe bonds. For our collateralized reinsurance arrangement that became effective in January 2017, we can recover catastrophe bond funds if aggregate losses, after the \$8 million per occurrence deductible, exceed \$190 million during an annual coverage period. There were no events between January 1 and March 31, 2019, that met the requirements for recovery, such as occurrences within the specific geographic locations included in the severe convective storm portion of our coverage, after our per occurrence deductible.

For our property catastrophe occurrence and aggregate excess of loss treaty that became effective July 1, 2018, we can recover: catastrophe loss amounts up to \$50 million in excess of net \$125 million per occurrence for combined business written on a direct basis and by Cincinnati Re; \$25 million in excess of \$32 million for the aggregation of Cincinnati Re catastrophe occurrences subject to certain deductibles; \$50 million in excess of \$10 million for business written on a direct basis for the loss perils of earthquake, brushfire and wildfire in certain western states; or various combinations of occurrences with coverage up to the \$50 million aggregate limit. The aggregate limit is \$25 million if covered losses pertain only to Cincinnati Re. The aggregate recovery from reinsurers providing this coverage totaled \$14 million for incurred losses for the first quarter of 2019, after considering all applicable deductibles, due to adverse reserve development in our personal lines insurance segment from a California wildfire event that occurred during 2018, exhausting the \$50 million aggregate limit. The 2018 aggregate recovery from reinsurers providing this coverage totaled \$36 million for incurred losses, which was applied to two California wildfire events.

The following table shows consolidated property casualty insurance catastrophe losses and loss expenses incurred, net of reinsurance, as well as the effect of loss development on prior period catastrophe events. We individually list declared catastrophe events for which our incurred losses reached or exceeded \$10 million.

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Consolidated Property Casualty Insurance Catastrophe Losses and Loss Expenses Incurred

| (Dollars in millions, net of reinsurance) | | Three months ended March 31, | | | | |
|--|---------------------------------|------------------------------|-------------|-----------|-------|-------|
| | | Comn lines | Pers. lines | E&S lines | Other | Total |
| Dates | Region | | | | | |
| 2019 | | | | | | |
| Jan. 29-Feb. 1 | Midwest, Northeast | \$14 | \$11 | \$— | \$— | \$25 |
| Feb. 23-26 | Midwest, Northeast, South | 11 | 12 | — | — | 23 |
| Mar. 12-17 | Midwest, Northeast, West, South | 4 | 7 | — | — | 11 |
| All other 2019 catastrophes | | 4 | 8 | — | — | 12 |
| Development on 2018 and prior catastrophes | | (6) | 8 | — | 1 | 3 |
| Calendar year incurred total | | \$27 | \$46 | \$— | \$1 | \$74 |
| 2018 | | | | | | |
| Jan. 8-10 | West | \$— | \$11 | \$— | \$— | \$11 |
| Mar. 1-3 | Northeast, South | 6 | 6 | — | — | 12 |
| Mar. 18-21 | South | 17 | 5 | 1 | — | 23 |
| All other 2018 catastrophes | | 7 | 7 | — | — | 14 |
| Development on 2017 and prior catastrophes | | (7) | — | — | — | (7) |
| Calendar year incurred total | | \$23 | \$29 | \$1 | \$— | \$53 |

The following table includes data for losses incurred of \$1 million or more per claim, net of reinsurance.

Consolidated Property Casualty Insurance Losses Incurred by Size

| (Dollars in millions, net of reinsurance) | Three months ended March 31, | | |
|--|------------------------------|-------|----------|
| | 2019 | 2018 | % Change |
| Current accident year losses greater than \$5 million | \$— | \$15 | nm |
| Current accident year losses \$1 million - \$5 million | 37 | 32 | 16 |
| Large loss prior accident year reserve development | 16 | 34 | (53) |
| Total large losses incurred | 53 | 81 | (35) |
| Losses incurred but not reported | 47 | 10 | nm |
| Other losses excluding catastrophe losses | 493 | 520 | (5) |
| Catastrophe losses | 69 | 51 | 35 |
| Total losses incurred | \$662 | \$662 | 0 |

Ratios as a percent of earned premiums:

| | | | Pt. Change |
|--|------|--------|------------|
| Current accident year losses greater than \$5 million | — | % 1.3 | % (1.3) |
| Current accident year losses \$1 million - \$5 million | 2.9 | 2.7 | 0.2 |
| Large loss prior accident year reserve development | 1.2 | 2.8 | (1.6) |
| Total large loss ratio | 4.1 | 6.8 | (2.7) |
| Losses incurred but not reported | 3.7 | 0.8 | 2.9 |
| Other losses excluding catastrophe losses | 38.9 | 43.4 | (4.5) |
| Catastrophe losses | 5.5 | 4.2 | 1.3 |
| Total loss ratio | 52.2 | % 55.2 | % (3.0) |

We believe the inherent variability of aggregate loss experience for our portfolio of larger policies is greater than that of our portfolio of smaller policies, and we continue to monitor the variability in addition to general

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inflationary trends in loss costs. Our analysis continues to indicate no unexpected concentration of large losses and case reserve increases by risk category, geographic region, policy inception, agency or field marketing territory. The first-quarter 2019 property casualty total large losses incurred of \$53 million, net of reinsurance, were lower than the \$83 million quarterly average during full-year 2018 and lower than the \$81 million experienced for the first quarter of 2018. The ratio for these large losses was 2.7 percentage points lower compared with last year's first quarter. We believe results for the three-month periods largely reflected normal fluctuations in loss patterns and normal variability in large case reserves for claims above \$1 million. Losses by size are discussed in further detail in results of operations by property casualty insurance segment.

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FINANCIAL RESULTS

Consolidated results reflect the operating results of each of our five segments along with the parent company, Cincinnati Re, MSP and other activities reported as “Other.” The five segments are:

- Commercial lines insurance
- Personal lines insurance
- Excess and surplus lines insurance
- Life insurance
- Investments

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COMMERCIAL LINES INSURANCE RESULTS

(Dollars in millions)

| | Three months ended March 31, | | |
|--|---------------------------------|--------|---------------|
| | 2019 | 2018 | % Change |
| Earned premiums | \$810 | \$790 | 3 |
| Fee revenues | 1 | 2 | (50) |
| Total revenues | 811 | 792 | 2 |
| Loss and loss expenses from: | | | |
| Current accident year before catastrophe losses | 510 | 524 | (3) |
| Current accident year catastrophe losses | 33 | 30 | 10 |
| Prior accident years before catastrophe losses | (56) | (28) | (100) |
| Prior accident years catastrophe losses | (6) | (7) | 14 |
| Loss and loss expenses | 481 | 519 | (7) |
| Underwriting expenses | 254 | 258 | (2) |
| Underwriting profit | \$76 | \$15 | 407 |
| | | | Pt. Change |
| Ratios as a percent of earned premiums: | | | |
| Current accident year before catastrophe losses | 63.0 % | 66.2 % | (3.2) |
| Current accident year catastrophe losses | 4.1 | 3.8 | 0.3 |
| Prior accident years before catastrophe losses | (6.9) | (3.5) | (3.4) |
| Prior accident years catastrophe losses | (0.8) | (0.9) | 0.1 |
| Loss and loss expenses | 59.4 | 65.6 | (6.2) |
| Underwriting expenses | 31.4 | 32.7 | (1.3) |
| Combined ratio | 90.8 % | 98.3 % | (7.5) |
| Combined ratio | 90.8 % | 98.3 % | (7.5) |
| Contribution from catastrophe losses and prior years reserve development | (3.6) | (0.6) | (3.0) |
| Combined ratio before catastrophe losses and prior years reserve development | 94.4 % | 98.9 % | (4.5) |

Overview

Performance highlights for the commercial lines segment include:

Premiums – Earned premiums and net written premiums for the commercial lines segment grew during the first three months of 2019, in part due to renewal written premium growth that continued to include higher average pricing. Net written premiums increased during the first quarter of 2019, compared with the same period a year ago, following targeted underwriting actions in selected states that significantly slowed growth during 2018. The table below analyzes the primary components of premiums. We continue to use predictive analytics tools to improve pricing precision and segmentation while leveraging our local relationships with agents through the efforts of our teams that work closely with them. We seek to maintain appropriate pricing discipline for both new and renewal business as our agents and underwriters assess account quality to make careful decisions on a case-by-case basis whether to write or renew a policy.

Agency renewal written premiums increased by 4% during the first three months of 2019, compared with the same period of 2018. During the first quarter of 2019, our overall standard commercial lines policies averaged estimated renewal price increases at percentages in the low-single-digit range, similar to the fourth quarter of 2018. We continue to segment commercial lines policies, emphasizing identification and retention of policies we believe have relatively stronger pricing. Conversely, we have been seeking stricter renewal terms and conditions on policies we believe have relatively weaker pricing, thus retaining fewer of those policies. We measure average changes in commercial lines

renewal pricing as the percentage rate of change in renewal premium for the new policy period compared with the premium for the expiring policy period, assuming no change in the level of insured exposures or policy coverage between those periods for the respective policies.

Our average overall commercial lines renewal pricing change includes the impact of flat pricing for certain coverages within package policies written for a three-year term that were in force but did not expire during the

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period being measured. Therefore, our reported change in average commercial lines renewal pricing reflects a blend of three-year policies that did not expire and other policies that did expire during the measurement period. For commercial lines policies that did expire and were then renewed during the first quarter of 2019, we estimate that our average percentage price increase for commercial auto continued in the high-single-digit range. The estimated average percentage price change for our commercial property line of business was an increase in the mid-single-digit range and for commercial casualty it was an increase in the low-single-digit range. The estimated average percentage price change for workers' compensation was a decrease in the mid-single-digit range.

Renewal premiums for certain policies, primarily our commercial casualty and workers' compensation lines of business, include the results of policy audits that adjust initial premium amounts based on differences between estimated and actual sales or payroll related to a specific policy. Audits completed during the first three months of 2019 contributed \$17 million to net written premiums.

New business written premiums for commercial lines increased \$16 million during the first three months of 2019, compared with the same period of 2018. The increase reflected growth for each major line of business except workers' compensation, which decreased by approximately \$1 million. Trend analysis for year-over-year comparisons of individual quarters is more difficult to assess for commercial lines new business written premiums, due to inherent variability. That variability is often driven by larger policies with annual premiums greater than \$100,000.

Other written premiums include premiums ceded to reinsurers as part of our reinsurance ceded program. For our commercial lines insurance segment, an increase in ceded premiums reduced net written premiums by less than \$1 million for the first three months of 2019, compared with the same period of 2018.

Commercial Lines Insurance Premiums

| (Dollars in millions) | Three months ended | | |
|--------------------------------------|--------------------|-------|-------------|
| | March 31, | | |
| | 2019 | 2018 | % Change |
| Agency renewal written premiums | \$799 | \$771 | 4 |
| Agency new business written premiums | 120 | 104 | 15 |
| Other written premiums | (23) | (21) | (10) |
| Net written premiums | 896 | 854 | 5 |
| Unearned premium change | (86) | (64) | (34) |
| Earned premiums | \$810 | \$790 | 3 |

Combined ratio – The commercial lines combined ratio improved by 7.5 percentage points for the first quarter of 2019, compared with the same period a year ago, despite a ratio increase of 0.4 points in losses from natural catastrophes. The improvement included a higher level of favorable reserve development on prior accident years in addition to better loss experience for the current accident year.

The commercial lines ratio for current accident year loss and loss expenses before catastrophe losses improved in the first three months of 2019. That 63.0% ratio decreased 3.2 percentage points compared with the 66.2% accident year 2018 ratio measured as of March 31, 2018, including a decrease of 1.5 percentage points in the ratio for large losses of \$1 million or more per claim, discussed below.

Catastrophe losses and loss expenses accounted for 3.3 percentage points of the combined ratio for the first three months of 2019, compared with 2.9 percentage points for the same period a year ago. Through 2018, the 10-year annual average for that catastrophe measure for the commercial lines segment was 5.4 percentage points, and the five-year annual average was 5.1 percentage points. The three-month 2019 ratio for noncatastrophe weather-related losses, at 3.5%, was 3.0 percentage points better than the same period a year ago.

The net effect of reserve development on prior accident years during the first three months of 2019 was favorable for commercial lines overall by \$62 million, compared with \$35 million for the same period in 2018. For the first three months of 2019, our commercial casualty and workers' compensation lines of business were the largest contributors to

the total commercial lines net favorable reserve development on prior accident years, representing approximately three-fourths of the total. The net favorable reserve development recognized during the first three months of 2019 for our commercial lines insurance segment was largely for accident years 2016 through 2018 and was primarily due to lower-than-anticipated loss emergence on known claims. Reserve

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estimates are inherently uncertain as described in our 2018 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 54.

The commercial lines underwriting expense ratio for the first three months of 2019 decreased, compared with the same period a year ago reflecting a higher than average expense ratio for the first quarter 2018 due to a lower amount of deferred acquisition costs. The current year period reflects a ratio generally in line with our longer-term historical average, as well as ongoing expense management efforts and higher earned premiums.

Commercial Lines Insurance Losses Incurred by Size

| (Dollars in millions, net of reinsurance) | Three months ended | | |
|--|--------------------|-------|--------|
| | March 31, | | % |
| | 2019 | 2018 | Change |
| Current accident year losses greater than \$5 million | \$— | \$15 | nm |
| Current accident year losses \$1 million - \$5 million | 26 | 22 | 18 |
| Large loss prior accident year reserve development | 13 | 29 | (55) |
| Total large losses incurred | 39 | 66 | (41) |
| Losses incurred but not reported | 43 | 16 | 169 |
| Other losses excluding catastrophe losses | 286 | 325 | (12) |
| Catastrophe losses | 25 | 22 | 14 |
| Total losses incurred | \$393 | \$429 | (8) |

| Ratios as a percent of earned premiums: | | | Pt. | |
|--|------|--------|--------|--------|
| | | | Change | |
| Current accident year losses greater than \$5 million | — | % 1.9 | % | (1.9) |
| Current accident year losses \$1 million - \$5 million | 3.3 | 2.9 | | 0.4 |
| Large loss prior accident year reserve development | 1.6 | 3.6 | | (2.0) |
| Total large loss ratio | 4.9 | 8.4 | | (3.5) |
| Losses incurred but not reported | 5.4 | 2.1 | | 3.3 |
| Other losses excluding catastrophe losses | 35.1 | 41.1 | | (6.0) |
| Catastrophe losses | 3.1 | 2.8 | | 0.3 |
| Total loss ratio | 48.5 | % 54.4 | % | (5.9) |

We continue to monitor new losses and case reserve increases greater than \$1 million for trends in factors such as initial reserve levels, loss cost inflation and claim settlement expenses. Our analysis continues to indicate no unexpected concentration of these large losses and case reserve increases by risk category, geographic region, policy inception, agency or field marketing territory. The first-quarter 2019 commercial lines total large losses incurred of \$39 million, net of reinsurance, were lower than the quarterly average of \$71 million during full-year 2018 and the \$66 million total large losses incurred for the first quarter of 2018. The decrease in commercial lines large losses for the first three months of 2019 was largely due to our commercial casualty and commercial property lines of business. The first-quarter 2019 ratio for commercial lines total large losses was 3.5 percentage points lower compared with last year's first-quarter ratio. We believe results for the three-month periods largely reflected normal fluctuations in loss patterns and normal variability in large case reserves for claims above \$1 million.

PERSONAL LINES INSURANCE RESULTS

(Dollars in millions)

| | Three months ended March 31, | | |
|--|---------------------------------|---------|---------------|
| | 2019 | 2018 | % Change |
| Earned premiums | \$344 | \$325 | 6 |
| Fee revenues | 1 | 1 | 0 |
| Total revenues | 345 | 326 | 6 |
| Loss and loss expenses from: | | | |
| Current accident year before catastrophe losses | 209 | 210 | 0 |
| Current accident year catastrophe losses | 38 | 29 | 31 |
| Prior accident years before catastrophe losses | (5) | (1) | (400) |
| Prior accident years catastrophe losses | 8 | — | nm |
| Loss and loss expenses | 250 | 238 | 5 |
| Underwriting expenses | 99 | 97 | 2 |
| Underwriting loss | \$(4) | \$(9) | 56 |
| Ratios as a percent of earned premiums: | | | Pt. Change |
| Current accident year before catastrophe losses | 60.6 % | 64.5 % | (3.9) |
| Current accident year catastrophe losses | 10.9 | 9.0 | 1.9 |
| Prior accident years before catastrophe losses | (1.4) | (0.1) | (1.3) |
| Prior accident years catastrophe losses | 2.4 | (0.1) | 2.5 |
| Loss and loss expenses | 72.5 | 73.3 | (0.8) |
| Underwriting expenses | 28.8 | 29.9 | (1.1) |
| Combined ratio | 101.3 % | 103.2 % | (1.9) |
| Combined ratio | 101.3 % | 103.2 % | (1.9) |
| Contribution from catastrophe losses and prior years reserve development | 11.9 | 8.8 | 3.1 |
| Combined ratio before catastrophe losses and prior years reserve development | 89.4 % | 94.4 % | (5.0) |

Overview

Performance highlights for the personal lines segment include:

Premiums – Personal lines earned premiums and net written premiums continued to grow during the first quarter of 2019, largely due to increases in agency renewal written premiums reflecting higher average pricing. Personal lines net written premiums from high net worth policies totaled approximately \$77 million for the first three months of 2019, compared with \$64 million for the same period of 2018. The table below analyzes the primary components of premiums.

Agency renewal written premiums increased 7% for the first three months of 2019, largely due to rate increases in selected states. We estimate that premium rates for our personal auto line of business increased at average percentages in the high-single-digit range during the first three months of 2019. For our homeowner line of business, we estimate that premium rates for the first three months of 2019 increased at average percentages in the mid-single-digit range. For both our personal auto and homeowner lines of business, some individual policies experienced lower or higher rate changes based on each risk's specific characteristics and enhanced pricing precision enabled by predictive models. Personal lines new business written premiums for the first quarter of 2019 decreased \$4 million, reflecting pricing discipline particularly in selected states, compared with the same period of 2018.

Other written premiums include premiums ceded to reinsurers as part of our reinsurance ceded program. For our personal lines insurance segment, an increase in ceded premiums reduced net written premiums by less than

\$1 million for the first three months of 2019, compared with the same period of 2018.

We continue to implement strategies discussed in our 2018 Annual Report on Form 10-K, Item 1, Strategic Initiatives, Page 14, to enhance our responsiveness to marketplace changes and to help achieve our long-term

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objectives for personal lines growth and profitability. These strategies include initiatives to more profitably underwrite personal auto policies.

Personal Lines Insurance Premiums

| (Dollars in millions) | Three months ended | | |
|--------------------------------------|--------------------|-------|--------|
| | March 31, | | % |
| | 2019 | 2018 | Change |
| Agency renewal written premiums | \$282 | \$264 | 7 |
| Agency new business written premiums | 35 | 39 | (10) |
| Other written premiums | (8) | (6) | (33) |
| Net written premiums | 309 | 297 | 4 |
| Unearned premium change | 35 | 28 | 25 |
| Earned premiums | \$344 | \$325 | 6 |

Combined ratio – Our personal lines combined ratio improved slightly for the first three months of 2019, compared with the same period a year ago. The improvement was primarily due to better experience in the ratio for current accident year loss and loss expenses before catastrophe losses that offset a ratio for weather-related natural catastrophe losses and loss expenses that was 4.4 percentage points worse.

The personal lines ratio for current accident year loss and loss expenses before catastrophe losses improved in the first three months of 2019. That 60.6% ratio decreased 3.9 percentage points compared with the 64.5% accident year 2018 ratio measured as of March 31, 2018, including a decrease of 0.1 percentage point in the ratio for large losses of \$1 million or more per claim, discussed below.

Catastrophe losses and loss expenses accounted for 13.3 percentage points of the combined ratio for the first three months of 2019, compared with 8.9 percentage points for the same period of last year. Through 2018, the 10-year annual average catastrophe loss ratio for the personal lines segment was 10.9 percentage points, and the five-year annual average was 8.9 percentage points. The ratio for noncatastrophe weather-related losses for the first three months of 2019, at 6.2%, was 1.2 percentage points better than the same period a year ago.

In addition to the average rate increases discussed above, we continue to refine our pricing to better match premiums to the risk of loss on individual policies. Improved pricing precision and broad-based rate increases are expected to help position the combined ratio at a profitable level over the long term. In addition, greater geographic diversification is expected to reduce the volatility of homeowner loss ratios attributable to weather-related catastrophe losses over time.

Our homeowner line of business, representing 42% of our 2018 personal lines earned premiums, was the only major line in this segment with a three-month 2019 total loss and loss expense ratio before catastrophe losses significantly higher than we desired, although it improved compared with the prior-year period. Its catastrophe loss experience has been elevated in recent quarters, largely due to wildfire losses that have affected much of the property casualty industry. In recent quarters our homeowner policies have experienced average renewal price increases at percentages near the high end of the mid-single-digit range. We believe rate increases and other actions to improve pricing precision and reduce loss costs will improve future profitability.

The net effect of reserve development on prior accident years during the first three months of 2019 was unfavorable for personal lines overall by \$3 million, compared with favorable net reserve development of \$1 million for the same period of 2018. Our homeowner line of business was the largest contributor to the 2018 total personal lines net unfavorable reserve development on prior accident years, partially offset by net favorable reserve development for our personal auto and other personal lines of business. The net unfavorable reserve development was primarily due to higher-than-anticipated loss emergence on known claims. Reserve estimates are inherently uncertain as described in our 2018 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 54.

The underwriting expense ratio decreased for the first three months of 2019, compared with the same period a year ago, reflecting a higher than average expense ratio for the first quarter 2018 due to a lower amount of deferred acquisition costs. The current year period reflects a ratio generally in line with our longer-term historical average, as well as ongoing expense management efforts and higher earned premiums.

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Personal Lines Insurance Losses Incurred by Size

| (Dollars in millions, net of reinsurance) | Three months ended | | |
|--|--------------------|-------|-------------|
| | March 31, | | |
| | 2019 | 2018 | % Change |
| Current accident year losses greater than \$5 million | \$— | \$— | nm |
| Current accident year losses \$1 million - \$5 million | 10 | 10 | — |
| Large loss prior accident year reserve development | 2 | 5 | (60) |
| Total large losses incurred | 12 | 15 | (20) |
| Losses incurred but not reported | 4 | (1) | nm |
| Other losses excluding catastrophe losses | 163 | 167 | (2) |
| Catastrophe losses | 45 | 29 | 55 |
| Total losses incurred | \$224 | \$210 | 7 |

| Ratios as a percent of earned premiums: | | | Pt. Change | | |
|--|------|---|---------------|---|--------|
| | — | % | — | % | |
| Current accident year losses greater than \$5 million | — | % | — | % | 0.0 |
| Current accident year losses \$1 million - \$5 million | 2.8 | | 2.9 | | (0.1) |
| Large loss prior accident year reserve development | 0.6 | | 1.7 | | (1.1) |
| Total large loss ratio | 3.4 | | 4.6 | | (1.2) |
| Losses incurred but not reported | 1.0 | | (0.4) | | 1.4 |
| Other losses excluding catastrophe losses | 47.4 | | 51.6 | | (4.2) |
| Catastrophe losses | 13.1 | | 8.8 | | 4.3 |
| Total loss ratio | 64.9 | % | 64.6 | % | 0.3 |

We continue to monitor new losses and case reserve increases greater than \$1 million for trends in factors such as initial reserve levels, loss cost inflation and claim settlement expenses. Our analysis continues to indicate no unexpected concentration of these large losses and case reserve increases by risk category, geographic region, policy inception, agency or field marketing territory. In the first quarter of 2019, the personal lines total large loss ratio, net of reinsurance, was 1.2 percentage points lower than last year's first quarter. The decrease in personal lines large losses for the first three months of 2019 occurred primarily for our homeowner line of business. We believe results for the three-month periods largely reflected normal fluctuations in loss patterns and normal variability in large case reserves for claims above \$1 million.

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EXCESS AND SURPLUS LINES INSURANCE RESULTS

(Dollars in millions)

| | Three months ended March 31, | | |
|--|---------------------------------|--------|---------------|
| | 2019 | 2018 | % Change |
| Earned premiums | \$63 | \$56 | 13 |
| Fee revenues | 1 | — | nm |
| Total revenues | 64 | 56 | 14 |
| Loss and loss expenses from: | | | |
| Current accident year before catastrophe losses | 35 | 30 | 17 |
| Current accident year catastrophe losses | — | 1 | (100) |
| Prior accident years before catastrophe losses | (2) | (10) | 80 |
| Prior accident years catastrophe losses | — | — | 0 |
| Loss and loss expenses | 33 | 21 | 57 |
| Underwriting expenses | 20 | 17 | 18 |
| Underwriting profit | \$11 | \$18 | (39) |
| Ratios as a percent of earned premiums: | | | Pt. Change |
| Current accident year before catastrophe losses | 55.5 % | 54.6 % | 0.9 |
| Current accident year catastrophe losses | 0.3 | 1.8 | (1.5) |
| Prior accident years before catastrophe losses | (4.2) | (17.2) | 13.0 |
| Prior accident years catastrophe losses | (0.1) | 0.1 | (0.2) |
| Loss and loss expenses | 51.5 | 39.3 | 12.2 |
| Underwriting expenses | 32.0 | 29.5 | 2.5 |
| Combined ratio | 83.5 % | 68.8 % | 14.7 |
| Combined ratio | 83.5 % | 68.8 % | 14.7 |
| Contribution from catastrophe losses and prior years reserve development | (4.0) | (15.3) | 11.3 |
| Combined ratio before catastrophe losses and prior years reserve development | 87.5 % | 84.1 % | 3.4 |

Overview

Performance highlights for the excess and surplus lines segment include:

Premiums – Excess and surplus lines net written premiums continued to grow during the first quarter of 2019, primarily due to an increase in new business written premiums. For the first three months of 2019, excess and surplus lines policy renewals experienced estimated average price increases at percentages in the low-single-digit range.

We measure average changes in excess and surplus lines renewal pricing as the percentage rate of change in renewal premium for the new policy period compared with the premium for the expiring policy period, assuming no change in the level of insured exposures or policy coverage between those periods for respective policies.

New business written premiums produced by agencies increased by \$10 million for the first quarter of 2019, compared with the same period of 2018. We believe the unusually large increase is a reflection of more opportunities in the marketplace for insurance companies to obtain higher premium rates, plus our additional marketing efforts. Some of what we report as new business came from accounts that were not new to our agents. We believe our agents' seasoned accounts tend to be priced more accurately than business that may be less familiar to them.

Excess and Surplus Lines Insurance Premiums

| (Dollars in millions) | Three months ended March 31, | | |
|--------------------------------------|---------------------------------|------|-------------|
| | 2019 | 2018 | % Change |
| Agency renewal written premiums | \$49 | \$48 | 2 |
| Agency new business written premiums | 26 | 16 | 63 |
| Other written premiums | (4) | (3) | (33) |
| Net written premiums | 71 | 61 | 16 |
| Unearned premium change | (8) | (5) | (60) |
| Earned premiums | \$63 | \$56 | 13 |

Combined ratio – The excess and surplus lines combined ratio increased by 14.7 percentage points for the first three months of 2019, compared with the same period of 2018. The increase was primarily due to less favorable reserve development on prior accident years.

The excess and surplus lines ratio for current accident year loss and loss expenses before catastrophe losses rose in the first three months of 2019. That 55.5% ratio increased 0.9 percentage points compared with the 54.6% accident year 2018 ratio measured as of March 31, 2018, including an increase of 1.6 percentage points in the ratio for large losses of \$1 million or more per claim, discussed below.

Excess and surplus lines net favorable reserve development on prior accident years, as a ratio to earned premiums, was 4.3% for the first three months of 2019, compared with 17.1% for the same period of 2018. The net favorable reserve development recognized during the first three months of 2019 was primarily attributable to accident year 2018. The favorable reserve development was due primarily to lower-than-anticipated loss emergence on known claims. Reserve estimates are inherently uncertain as described in our 2018 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 54.

The excess and surplus lines underwriting expense ratio for the first quarter of 2019 increased, compared with the same period of 2018, primarily due to higher internal expense allocations that offset higher earned premiums and ongoing expense management efforts.

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Excess and Surplus Lines Insurance Losses Incurred by Size

| (Dollars in millions, net of reinsurance) | Three months ended March 31, | | |
|--|---------------------------------|------|-------------|
| | 2019 | 2018 | % Change |
| Current accident year losses greater than \$5 million | \$— | \$— | nm |
| Current accident year losses \$1 million - \$5 million | 1 | — | nm |
| Large loss prior accident year reserve development | 1 | — | nm |
| Total large losses incurred | 2 | — | nm |
| Losses incurred but not reported | — | (5) | nm |
| Other losses excluding catastrophe losses | 19 | 14 | 36 |
| Catastrophe losses | — | 1 | nm |
| Total losses incurred | \$21 | \$10 | 110 |

| Ratios as a percent of earned premiums: | Pt. Change | | |
|--|---------------|--------|--------|
| | — % | — % | 0.0 |
| Current accident year losses greater than \$5 million | — % | — % | 0.0 |
| Current accident year losses \$1 million - \$5 million | 1.6 | — | 1.6 |
| Large loss prior accident year reserve development | 1.2 | (0.4) | 1.6 |
| Total large loss ratio | 2.8 | (0.4) | 3.2 |
| Losses incurred but not reported | 0.8 | (9.0) | 9.8 |
| Other losses excluding catastrophe losses | 29.1 | 26.4 | 2.7 |
| Catastrophe losses | 0.2 | 1.8 | (1.6) |
| Total loss ratio | 32.9% | 18.8 % | 14.1 |

We continue to monitor new losses and case reserve increases greater than \$1 million for trends in factors such as initial reserve levels, loss cost inflation and claim settlement expenses. Our analysis continues to indicate no unexpected concentration of these large losses and case reserve increases by risk category, geographic region, policy inception, agency or field marketing territory. In the first quarter of 2019, the excess and surplus lines total ratio for large losses, net of reinsurance, was 3.2 percentage points higher than last year's first quarter. We believe results for the three-month period largely reflected normal fluctuations in loss patterns and normal variability in large case reserves for claims above \$1 million.

LIFE INSURANCE RESULTS

| (Dollars in millions) | Three months ended | | |
|---|--------------------|-------|----------|
| | March 31, | | |
| | 2019 | 2018 | % Change |
| Earned premiums | \$66 | \$60 | 10 |
| Fee revenues | 1 | 1 | 0 |
| Total revenues | 67 | 61 | 10 |
| Contract holders' benefits incurred | 70 | 63 | 11 |
| Investment interest credited to contract holders' | (24) | (24) | 0 |
| Underwriting expenses incurred | 22 | 20 | 10 |
| Total benefits and expenses | 68 | 59 | 15 |
| Life insurance segment profit (loss) | \$(1) | \$2 | nm |

Overview

Performance highlights for the life insurance segment include:

Revenues – Revenues increased for the three months ended March 31, 2019, compared with the same period a year ago, primarily due to higher earned premiums from term life insurance, our largest life insurance product line.

Net in-force life insurance policy face amounts increased to \$67.304 billion at March 31, 2019, from \$66.142 billion at year-end 2018.

Fixed annuity deposits received for the three months ended March 31, 2019, were \$7 million, matching the same period of 2018. Fixed annuity deposits have a minimal impact to earned premiums because deposits received are initially recorded as liabilities. Profit is earned over time by way of interest-rate spreads. We do not write variable or equity-indexed annuities.

Life Insurance Premiums

| (Dollars in millions) | Three months ended | | |
|---|--------------------|------|----------|
| | March 31, | | |
| | 2019 | 2018 | % Change |
| Term life insurance | \$45 | \$41 | 10 |
| Universal life insurance | 10 | 9 | 11 |
| Other life insurance and annuity products | 11 | 10 | 10 |
| Net earned premiums | \$66 | \$60 | 10 |

Profitability – Our life insurance segment typically reports a small profit or loss on a GAAP basis because profits from investment income spreads are included in our investment segment results. We include only investment income credited to contract holders (including interest assumed in life insurance policy reserve calculations) in our life insurance segment results. A loss of \$1 million for our life insurance segment in the first three months of 2019, compared with a gain of \$2 million for the same period of 2018, was primarily due to less favorable effects from the unlocking of actuarial assumptions.

Life insurance segment benefits and expenses consist principally of contract holders' (policyholders') benefits incurred related to traditional life and interest-sensitive products and operating expenses incurred, net of deferred acquisition costs. Total benefits increased in the first three months of 2019. Life policy and investment contract reserves increased with continued growth in net in-force life insurance policy face amounts. Mortality results increased, compared with the same period of 2018, and were slightly higher than our 2019 projections.

Underwriting expenses for the first three months of 2019 increased compared with the same period a year ago. For the first three months of 2019, unlocking of interest rate and other actuarial assumptions decreased the amount of expenses deferred to future periods, increasing underwriting expenses. For the first three months of 2018, unlocking of

interest rate and other assumptions had an immaterial impact on the amount of expenses deferred to future periods.

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We recognize that assets under management, capital appreciation and investment income are integral to evaluating the success of the life insurance segment because of the long duration of life products. On a basis that includes investment income and investment gains or losses from life-insurance-related invested assets, the life insurance company reported net income of \$10 million for the three months ended March 31, 2019, compared with net income of \$13 million for the same period of 2018. The life insurance company portfolio had net after-tax investment losses of \$1 million for the three months ended March 31, 2019, compared with less than \$1 million of net after-tax investment gains for the three months ended March 31, 2018.

INVESTMENTS RESULTS

Overview

The investments segment contributes investment income and investment gains and losses to results of operations. Investments traditionally are our primary source of pretax and after-tax profits.

Investment Income

Pretax investment income increased 5% for the first quarter of 2019, compared with the same period of 2018. Interest income increased by \$1 million as net purchases of fixed-maturity securities offset the continuing effects of the low interest rate environment. Higher dividend income reflected rising dividend rates and net purchases of equity securities in recent quarters.

Investments Results

| (Dollars in millions) | Three months ended March 31, | | |
|---|---------------------------------|----------|-------------|
| | 2019 | 2018 | % Change |
| Total investment income, net of expenses | \$ 157 | \$ 150 | 5 |
| Investment interest credited to contract holders' | (24) | (24) | 0 |
| Investment gains and losses, net | 663 | (191) | nm |
| Investments profit, pretax | \$ 796 | \$ (65) | nm |

We continue to position our portfolio considering both the challenges presented by the current low interest rate environment and the risks presented by potential future inflation. As bonds in our generally laddered portfolio mature or are called over the near term, we will be challenged to replace their current yield. The table below shows the average pretax yield-to-amortized cost associated with expected principal redemptions for our fixed-maturity portfolio. The expected principal redemptions are based on par amounts and include dated maturities, calls and prefunded municipal bonds that we expect will be called during each respective time period.

| (Dollars in millions) | % Yield | Principal redemptions |
|---|---------|-----------------------|
| At March 31, 2019 | | |
| Fixed-maturity pretax yield profile: | | |
| Expected to mature during the remainder of 2019 | 5.50 | \$ 439 |
| Expected to mature during 2020 | 4.62 | 670 |
| Expected to mature during 2021 | 4.34 | 987 |
| Average yield and total expected maturities from the remainder of 2019 through 2021 | 4.68 | \$ 2,096 |

The table below shows the average pretax yield-to-amortized cost for fixed-maturity securities acquired during the periods indicated. The average yield for total fixed-maturity securities acquired during the first three months of 2019 was higher than the 4.20% average yield-to-amortized cost of the fixed-maturity securities portfolio at the end of 2018. Our fixed-maturity portfolio's average yield of 4.15% for the first three months of 2019, from the investment income table below, was lower than that yield for the year-end 2018 fixed-maturities portfolio.

| | Three months ended March 31, 2019 2018 | |
|---|---|-------|
| Average pretax yield-to-amortized cost on new fixed-maturities: | | |
| Acquired taxable fixed-maturities | 4.99% | 4.11% |
| Acquired tax-exempt fixed-maturities | 3.52 | 3.32 |
| Average total fixed-maturities acquired | 4.79 | 4.02 |

While our bond portfolio more than covers our insurance reserve liabilities, we believe our diversified common stock portfolio of mainly blue chip, dividend-paying companies represents one of our best investment opportunities for the long term. We discussed our portfolio strategies in our 2018 Annual Report on Form 10-K, Item 1, Investments Segment, Page 26, and Item 7, Investments Outlook, Page 91. We discuss risks related to our investment income and our fixed-maturity and equity investment portfolios in this quarterly report Item 3, Quantitative and Qualitative Disclosures About Market Risk.

The table below provides details about investment income. Average yields in this table are based on the average invested asset and cash amounts indicated in the table, using fixed-maturity securities valued at amortized cost and all other securities at fair value.

| (Dollars in millions) | Three months ended March 31, | | |
|--|------------------------------|----------|----------|
| | 2019 | 2018 | % Change |
| Investment income: | | | |
| Interest | \$111 | \$110 | 1 |
| Dividends | 46 | 42 | 10 |
| Other | 3 | 1 | 200 |
| Less investment expenses | 3 | 3 | 0 |
| Investment income, pretax | 157 | 150 | 5 |
| Less income taxes | 24 | 23 | 4 |
| Total investment income, after-tax | \$133 | \$127 | 5 |
| Investment returns: | | | |
| Average invested assets plus cash and cash equivalents | \$17,924 | \$17,242 | |
| Average yield pretax | 3.50 | % 3.48 | % |
| Average yield after-tax | 2.97 | 2.95 | |
| Effective tax rate | 15.5 | 15.4 | |
| Fixed-maturity returns: | | | |
| Average amortized cost | \$10,689 | \$10,339 | |
| Average yield pretax | 4.15 | % 4.26 | % |
| Average yield after-tax | 3.46 | 3.56 | |
| Effective tax rate | 16.7 | 16.3 | |

Total Investment Gains and Losses

Investment gains and losses are recognized on the sales of investments, for certain changes in fair values of securities even though we continue to hold the securities or as otherwise required by GAAP. The change in fair value for equity securities still held are included in investment gains and losses and also in net income. The change in unrealized gains or losses for fixed-maturity securities are included as a component of other comprehensive income (OCI). Accounting requirements for other-than-temporary impairment (OTTI) charges for the fixed-maturity portfolio are disclosed in our 2018 Annual Report on Form 10-K, Item 8, Note 1, Summary of Significant Accounting Policies, Page 128.

The table below summarizes total investment gains and losses, before taxes.

| (Dollars in millions) | Three months ended March 31, 2019 2018 | |
|--|--|---------|
| Investment gains and losses: | | |
| Equity securities: | | |
| Investment gains and losses on securities sold, net | \$4 | \$3 |
| Unrealized gains and losses on securities still held, net | 652 | (198) |
| Subtotal | 656 | (195) |
| Fixed maturities: | | |
| Gross realized gains | 2 | 4 |
| Other | 5 | — |
| Total investment gains and losses reported in net income | 663 | (191) |
| Change in unrealized investment gains and losses: | | |
| Fixed maturities | 242 | (221) |
| Total unrealized investment gains and losses reported in OCI | 242 | (221) |
| Total | \$905 | \$(412) |

Of the 3,746 fixed-maturity securities in the portfolio, no securities were trading below 70% of amortized cost at March 31, 2019. Our asset impairment committee regularly monitors the portfolio, including a quarterly review of the entire portfolio for potential OTTI charges. We believe that if liquidity in the markets were to significantly deteriorate or economic conditions were to significantly weaken, we could experience declines in portfolio values and possibly additional OTTI charges.

We had no OTTI charges for either the first three months of 2019 or the first three months of 2018.

OTHER

We report as Other the noninvestment operations of the parent company and a noninsurance subsidiary, CFC Investment Company. We also report as Other the underwriting results of Cincinnati Re, our reinsurance assumed operation, and MSP, which was acquired on February 28, 2019. Underwriting results in the table below for Cincinnati Re and MSP include earned premiums, loss and loss expenses and underwriting expenses.

Total revenues for the first three months of 2019 for our Other operations increased, compared with the same period of 2018, primarily due to earned premiums from Cincinnati Re and MSP, which each increased by \$11 million. Total expenses for Other increased for the first three months of 2019, primarily due to more losses and loss expenses from Cincinnati Re.

Other loss in the table below represents losses before income taxes. For both periods shown, Other loss resulted largely from interest expense from debt of the parent company.

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| (Dollars in millions) | Three months ended | | |
|---------------------------------------|--------------------|--------|----------|
| | March 31, | | |
| | 2019 | 2018 | % Change |
| Interest and fees on loans and leases | \$2 | \$1 | 100 |
| Earned premiums | 50 | 29 | 72 |
| Total revenues | 52 | 30 | 73 |
| Interest expense | 13 | 13 | 0 |
| Loss and loss expenses | 26 | 13 | 100 |
| Underwriting expenses | 16 | 11 | 45 |
| Operating expenses | 8 | 4 | 100 |
| Total expenses | 63 | 41 | 54 |
| Other loss | \$(11) | \$(11) | 0 |

TAXES

We had \$172 million of income tax expense for the three months ended March 31, 2019, compared with an income tax benefit of \$19 million for the same period of 2018. The effective tax rate for the three months ended March 31, 2019, was 19.8% compared with 38.0% for the same period last year. The change in our effective tax rate between years was primarily due to a large net investment gain included in income for 2019 versus a net investment loss included in income for the prior-year period.

Historically, we have pursued a strategy of investing some portion of cash flow in tax-advantaged fixed-maturity and equity securities to minimize our overall tax liability and maximize after-tax earnings. See Tax-Exempt Fixed Maturities in this quarterly report Item 3, Quantitative and Qualitative Disclosures About Market Risk for further discussion on municipal bond purchases in our fixed-maturity investment portfolio. For our property casualty insurance subsidiaries, approximately 75% of interest from tax-advantaged fixed-maturity investments and approximately 40% of dividends from qualified equities are exempt from federal tax after applying proration from the 1986 Tax Reform Act. Our noninsurance companies own an immaterial amount of tax-advantaged fixed-maturity investments. For our noninsurance companies, the dividend received deduction exempts 50% of dividends from qualified equities. Our life insurance company does not own tax-advantaged fixed-maturity investments or equities subject to the dividend received deduction. Details about our effective tax rate are in this quarterly report Item 1, Note 9 – Income Taxes.

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LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2019, shareholders' equity was \$8.630 billion, compared with \$7.833 billion at December 31, 2018. Total debt was \$820 million at March 31, 2019, unchanged from December 31, 2018. At March 31, 2019, cash and cash equivalents totaled \$802 million, compared with \$784 million at December 31, 2018.

SOURCES OF LIQUIDITY

Subsidiary Dividends

Our lead insurance subsidiary declared dividends of \$200 million to the parent company in the first three months of 2019, compared with \$100 million for the same period of 2018. For full-year 2018, subsidiary dividends declared totaled \$500 million. State of Ohio regulatory requirements restrict the dividends our insurance subsidiary can pay. For full-year 2019, total dividends that our insurance subsidiary could pay to our parent company without regulatory approval are approximately \$626 million. We do not expect MSP to pay a dividend to the parent company during 2019.

Investing Activities

Investment income is a source of liquidity for both the parent company and its insurance subsidiary. We continue to focus on portfolio strategies to balance near-term income generation and long-term book value growth.

Parent company obligations can be funded with income on investments held at the parent-company level or through sales of securities in that portfolio, although our investment philosophy seeks to compound cash flows over the long term. These sources of capital can help minimize subsidiary dividends to the parent company, protecting insurance subsidiary capital.

For a discussion of our historic investment strategy, portfolio allocation and quality, see our 2018 Annual Report on Form 10-K, Item 1, Investments Segment, Page 26.

Insurance Underwriting

Our property casualty and life insurance underwriting operations provide liquidity because we generally receive premiums before paying losses under the policies purchased with those premiums. After satisfying our cash requirements, we use excess cash flows for investment, increasing future investment income.

Historically, cash receipts from property casualty and life insurance premiums, along with investment income, have been more than sufficient to pay claims, operating expenses and dividends to the parent company.

The table below shows a summary of operating cash flow for property casualty insurance (direct method):

| (Dollars in millions) | Three months ended | | |
|--|--------------------|---------|-------------|
| | March 31, | | |
| | 2019 | 2018 | % Change |
| Premiums collected | \$1,349 | \$1,269 | 6 |
| Loss and loss expenses paid | (824) | (714) | (15) |
| Commissions and other underwriting expenses paid | (514) | (519) | 1 |
| Cash flow from underwriting | 11 | 36 | (69) |
| Investment income received | 113 | 108 | 5 |
| Cash flow from operations | \$124 | \$144 | (14) |

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Collected premiums for property casualty insurance rose \$80 million during the first three months of 2019, compared with the same period in 2018. Loss and loss expenses paid for the 2019 period increased \$110 million. Commissions and other underwriting expenses paid decreased \$5 million, primarily due to higher commissions paid to agencies, reflecting the increase in collected premiums.

We discuss our future obligations for claims payments and for underwriting expenses in our 2018 Annual Report on Form 10-K, Item 7, Contractual Obligations, Page 97, and Other Commitments also on Page 97.

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Capital Resources

At March 31, 2019, our debt-to-total-capital ratio was 8.7%, with \$788 million in long-term debt and \$32 million in borrowing on our revolving short-term line of credit. That line of credit had a \$32 million balance at December 31, 2018. At March 31, 2019, \$268 million was available for future cash management needs as part of the general provisions of the line of credit agreement, with another \$300 million available as part of an accordion feature. Based on our capital requirements at March 31, 2019, during the remainder of the year we do not anticipate a material increase in debt levels exceeding the available line of credit amount. As a result, we expect changes in our debt-to-total-capital ratio to continue to be largely a function of the contribution of unrealized investment gains or losses to shareholders' equity. As part of our MSP acquisition, on February 25, 2019, we entered into an unsecured letter of credit agreement in the amount of \$238 million to provide a portion of the capital needed to support its obligations at Lloyd's.

We provide details of our three long-term notes in this quarterly report Item 1, Note 3 – Fair Value Measurements. None of the notes are encumbered by rating triggers.

Four independent ratings firms award insurer financial strength ratings to our property casualty insurance companies and three firms rate our life insurance company. Those firms made no changes to our parent company debt ratings during the first three months of 2019. Our debt ratings are discussed in our 2018 Annual Report on Form 10-K, Item 7, Liquidity and Capital Resources, Other Sources of Liquidity, Page 95.

Off-Balance Sheet Arrangements

We do not use any special-purpose financing vehicles or have any undisclosed off-balance sheet arrangements (as that term is defined in applicable SEC rules) that are reasonably likely to have a current or future material effect on the company's financial condition, results of operation, liquidity, capital expenditures or capital resources. Similarly, the company holds no fair-value contracts for which a lack of marketplace quotations would necessitate the use of fair-value techniques.

USES OF LIQUIDITY

Our parent company and insurance subsidiary have contractual obligations and other commitments. In addition, one of our primary uses of cash is to enhance shareholder return.

Contractual Obligations

We estimated our future contractual obligations as of December 31, 2018, in our 2018 Annual Report on Form 10-K, Item 7, Contractual Obligations, Page 97. There have been no material changes to our estimates of future contractual obligations since our 2018 Annual Report on Form 10-K.

Other Commitments

In addition to our contractual obligations, we have other property casualty operational commitments.

Commissions – Commissions paid were \$350 million in the first three months of 2019. Commission payments generally track with written premiums, except for annual profit-sharing commissions typically paid during the first quarter of the year.

Other underwriting expenses – Many of our underwriting expenses are not contractual obligations, but reflect the ongoing expenses of our business. Noncommission underwriting expenses paid were \$164 million in the first three months of 2019.

Technology costs – In addition to contractual obligations for hardware and software, we anticipate capitalizing up to \$7 million in spending for key technology initiatives in 2019. Capitalized development costs related to key technology initiatives were \$2 million in the first three months of 2019. These activities are conducted at our discretion, and we have no material contractual obligations for activities planned as part of these projects.

Funds at Lloyd's – From time to time, we may be required to meet certain cash funding requirements on behalf of MSP. In March, 2019, we paid \$35 million to Lloyd's.

There were no contributions to our qualified pension plan during the first three months of 2019.

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Investing Activities

After fulfilling operating requirements, we invest cash flows from underwriting, investment and other corporate activities in fixed-maturity and equity securities on an ongoing basis to help achieve our portfolio objectives. We discuss our investment strategy and certain portfolio attributes in this quarterly report Item 3, Quantitative and Qualitative Disclosures About Market Risk.

Uses of Capital

Uses of cash to enhance shareholder return include dividends to shareholders. In February 2019, the board of directors declared regular quarterly cash dividends of 56 cents per share for an indicated annual rate of \$2.24 per share. During the first three months of 2019, we used \$85 million to pay cash dividends to shareholders.

PROPERTY CASUALTY INSURANCE LOSS AND LOSS EXPENSE RESERVES

For the business lines in the commercial and personal lines insurance segments, and in total for the excess and surplus lines insurance segment and other property casualty insurance operations, the following table details gross reserves among case, IBNR (incurred but not reported) and loss expense reserves, net of salvage and subrogation reserves. Reserving practices are discussed in our 2018 Annual Report on Form 10-K, Item 7, Property Casualty Insurance Loss and Loss Expense Obligations and Reserves, Page 98.

Total gross reserves at March 31, 2019, increased \$240 million compared with December 31, 2018. Case loss reserves for losses increased \$124 million, IBNR loss reserves increased by \$119 million and loss expense reserves decreased by \$3 million. The total gross increase was driven by the inclusion of reserves for recently-acquired MSP.

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Property Casualty Gross Reserves

(Dollars in millions)

| | Loss reserves Case reserves | IBNR reserves | Loss expense reserves | Total gross reserves | Percent of total |
|------------------------------------|--------------------------------|------------------|-----------------------------|----------------------------|---------------------|
| At March 31, 2019 | | | | | |
| Commercial lines insurance: | | | | | |
| Commercial casualty | \$918 | \$ 660 | \$ 606 | \$ 2,184 | 37.1 % |
| Commercial property | 248 | 32 | 60 | 340 | 5.8 |
| Commercial auto | 392 | 164 | 135 | 691 | 11.7 |
| Workers' compensation | 385 | 541 | 93 | 1,019 | 17.3 |
| Other commercial | 101 | 7 | 72 | 180 | 3.1 |
| Subtotal | 2,044 | 1,404 | 966 | 4,414 | 75.0 |
| Personal lines insurance: | | | | | |
| Personal auto | 228 | 60 | 73 | 361 | 6.1 |
| Homeowner | 164 | 24 | 34 | 222 | 3.8 |
| Other personal | 49 | 57 | 5 | 111 | 1.9 |
| Subtotal | 441 | 141 | 112 | 694 | 11.8 |
| Excess and surplus lines insurance | 119 | 96 | 88 | 303 | 5.1 |
| Cincinnati Re | 46 | 162 | 2 | 210 | 3.6 |
| MSP | 198 | 65 | 2 | 265 | 4.5 |
| Total | \$2,848 | \$ 1,868 | \$ 1,170 | \$ 5,886 | 100.0% |
| At December 31, 2018 | | | | | |
| Commercial lines insurance: | | | | | |
| Commercial casualty | \$981 | \$ 647 | \$ 604 | \$ 2,232 | 39.5 % |
| Commercial property | 270 | 12 | 60 | 342 | 6.1 |
| Commercial auto | 402 | 152 | 141 | 695 | 12.3 |
| Workers' compensation | 384 | 542 | 92 | 1,018 | 18.0 |
| Other commercial | 99 | 7 | 73 | 179 | 3.2 |
| Subtotal | 2,136 | 1,360 | 970 | 4,466 | 79.1 |
| Personal lines insurance: | | | | | |
| Personal auto | 240 | 50 | 72 | 362 | 6.3 |
| Homeowner | 152 | 9 | 40 | 201 | 3.6 |
| Other personal | 46 | 65 | 5 | 116 | 2.1 |
| Subtotal | 438 | 124 | 117 | 679 | 12.0 |
| Excess and surplus lines insurance | 118 | 96 | 84 | 298 | 5.3 |
| Cincinnati Re | 32 | 169 | 2 | 203 | 3.6 |
| Total | \$2,724 | \$ 1,749 | \$ 1,173 | \$ 5,646 | 100.0% |

LIFE POLICY AND INVESTMENT CONTRACT RESERVES

Gross life policy and investment contract reserves were \$2.784 billion at March 31, 2019, compared with \$2.779 billion at year-end 2018, reflecting continued growth in life insurance policies in force. We discuss our life insurance reserving practices in our 2018 Annual Report on Form 10-K, Item 7, Life Insurance Policyholder Obligations and Reserves, Page 104.

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OTHER MATTERS

SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are discussed in our 2018 Annual Report on Form 10-K, Item 8, Note 1, Summary of Significant Accounting Policies, Page 128, and updated in this quarterly report Item 1, Note 1, Accounting Policies.

In conjunction with those discussions, in the Management's Discussion and Analysis in the 2018 Annual Report on Form 10-K, management reviewed the estimates and assumptions used to develop reported amounts related to the most significant policies. Management discussed the development and selection of those accounting estimates with the audit committee of the board of directors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our greatest exposure to market risk is through our investment portfolio. Market risk is the potential for a decrease in securities' fair value resulting from broad yet uncontrollable forces such as: inflation, economic growth or recession, interest rates, world political conditions or other widespread unpredictable events. It is comprised of many individual risks that, when combined, create a macroeconomic impact.

Our view of potential risks and our sensitivity to such risks is discussed in our 2018 Annual Report on Form 10-K, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, Page 113.

The fair value of our investment portfolio was \$17.593 billion at March 31, 2019, up \$984 million from year-end 2018, including a \$333 million increase in the fixed-maturity portfolio and a \$651 million increase in the equity portfolio.

| (Dollars in millions) | At March 31, 2019 | | | | At December 31, 2018 | | | |
|---|-------------------|------------------|------------|------------------|----------------------|------------------|------------|------------------|
| | Cost or amortized | Percent of total | Fair value | Percent of total | Cost or amortized | Percent of total | Fair value | Percent of total |
| Taxable fixed maturities | \$7,009 | 49.7 % | \$ 7,167 | 40.7 % | \$6,920 | 49.4 % | \$ 6,926 | 41.7 % |
| Tax-exempt fixed maturities | 3,725 | 26.4 | 3,855 | 21.9 | 3,723 | 26.6 | 3,763 | 22.6 |
| Common equity securities | 3,208 | 22.7 | 6,381 | 36.3 | 3,195 | 22.8 | 5,742 | 34.6 |
| Nonredeemable preferred equity securities | 173 | 1.2 | 190 | 1.1 | 173 | 1.2 | 178 | 1.1 |
| Total | \$14,115 | 100.0 % | \$ 17,593 | 100.0 % | \$14,011 | 100.0 % | \$ 16,609 | 100.0 % |

At March 31, 2019, our consolidated investment portfolio included \$5 million of assets for which values are based on prices or valuation techniques that require significant management judgment (Level 3 assets). This represented less than 1% of investment portfolio assets measured at fair value. See Item 1, Note 3, Fair Value Measurements, for additional discussion of our valuation techniques. We have generally obtained and evaluated two nonbinding quotes from brokers; then, our investment professionals determined our best estimate of fair value. These investments include private placements, small issues and various thinly traded securities.

In addition to our investment portfolio, the total investments amount reported in our condensed consolidated balance sheets includes Other invested assets. Other invested assets included \$33 million of life policy loans, \$143 million in Lloyd's deposits, \$68 million of private equity investments and \$27 million of real estate through direct property ownership and development projects in the United States at March 31, 2019.

FIXED-MATURITY SECURITIES INVESTMENTS

By maintaining a well-diversified fixed-maturity portfolio, we attempt to reduce overall risk. We invest new money in the bond market on a regular basis, targeting what we believe to be optimal risk-adjusted, after-tax yields. Risk, in this context, includes interest rate, call, reinvestment rate, credit and liquidity risk. We do not make a concerted effort to alter duration on a portfolio basis in response to anticipated movements in interest rates. By regularly investing in the bond market, we build a broad, diversified portfolio that we believe mitigates the impact of adverse economic factors.

In the first three months of 2019, the increase in fair value of our fixed-maturity portfolio reflected both net purchases of securities and an increase in net unrealized gains, primarily due to a decrease in interest rates and a narrowing of corporate credit spreads. At March 31, 2019, our fixed-maturity portfolio with an average rating of A2/A was valued at 102.7% of its amortized cost, compared with 100.4% at December 31, 2018.

At March 31, 2019, our investment-grade and noninvestment-grade fixed-maturity securities represented 86.8% and 2.5% of the portfolio, respectively. The remaining 10.7% represented fixed-maturity securities that were not rated by Moody's or S&P Global Ratings.

Attributes of the fixed-maturity portfolio include:

| | At March 31, 2019 | At December 31, 2018 | |
|--|----------------------------|----------------------------|-----|
| Weighted average yield-to-amortized cost | 4.16% | 4.20 | % |
| Weighted average maturity | 7.6 yrs | 7.6 | yrs |
| Effective duration | 5.1 yrs | 5.2 | yrs |

We discuss maturities of our fixed-maturity portfolio in our 2018 Annual Report on Form 10-K, Item 8, Note 2, Investments, Page 137, and in this quarterly report Item 2, Investments Results.

TAXABLE FIXED MATURITIES

Our taxable fixed-maturity portfolio, with a fair value of \$7.167 billion at March 31, 2019, included:

| (Dollars in millions) | At March 31, 2019 | At December 31, 2018 |
|---|----------------------------|----------------------------|
| Investment-grade corporate | \$5,623 | \$ 5,464 |
| States, municipalities and political subdivisions | 564 | 541 |
| Government sponsored enterprises | 302 | 310 |
| Commercial mortgage backed securities | 297 | 288 |
| Noninvestment-grade corporate | 265 | 246 |
| United States government | 100 | 67 |
| Foreign government | 16 | 10 |
| Total | \$7,167 | \$ 6,926 |

Our strategy is to buy, and typically hold, fixed-maturity investments to maturity, but we monitor credit profiles and fair value movements when determining holding periods for individual securities. With the exception of United States agency issues that include government-sponsored enterprises, no individual issuer's securities accounted for more than 1.3% of the taxable fixed-maturity portfolio at March 31, 2019.

Our investment-grade corporate bonds had an average rating of Baa2 by Moody's or BBB by S&P Global Ratings and represented 78.5% of the taxable fixed-maturity portfolio's fair value at March 31, 2019, compared with 78.9% at year-end 2018.

The heaviest concentration in our investment-grade corporate bond portfolio, based on fair value at March 31, 2019, was the financial sector. It represented 47.0% of our investment-grade corporate bond portfolio, compared with 47.1% at year-end 2018. No other sector exceeded 10% of our investment-grade corporate bond portfolio.

Our taxable fixed-maturity portfolio at March 31, 2019, included \$297 million of commercial mortgage-backed securities with an average rating of Aa1/AA.

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TAX-EXEMPT FIXED MATURITIES

At March 31, 2019, we had \$3.855 billion of tax-exempt fixed-maturity securities with an average rating of Aa2/AA by Moody's and S&P Global Ratings. We traditionally have purchased municipal bonds focusing on general obligation and essential services issues, such as water, waste disposal or others. The portfolio is well diversified among approximately 1,450 municipal bond issuers. No single municipal issuer accounted for more than 0.6% of the tax-exempt fixed-maturity portfolio at March 31, 2019.

INTEREST RATE SENSITIVITY ANALYSIS

Because of our strong surplus, long-term investment horizon and ability to hold most fixed-maturity investments until maturity, we believe the company is adequately positioned if interest rates were to rise. Although the fair values of our existing holdings may suffer, a higher rate environment would provide the opportunity to invest cash flow in higher-yielding securities, while reducing the likelihood of untimely redemptions of currently callable securities. While higher interest rates would be expected to continue to increase the number of fixed-maturity holdings trading below 100% of amortized cost, we believe lower fixed-maturity security values due solely to interest rate changes would not signal a decline in credit quality. We continue to manage the portfolio with an eye toward both meeting current income needs and managing interest rate risk.

Our dynamic financial planning model uses analytical tools to assess market risks. As part of this model, the effective duration of the fixed-maturity portfolio is continually monitored by our investment department to evaluate the theoretical impact of interest rate movements.

The table below summarizes the effect of hypothetical changes in interest rates on the fair value of the fixed-maturity portfolio:

| (Dollars in millions) | Effect from interest rate change in basis points | | | | |
|-----------------------|--|----------|----------|----------|---------|
| | -200 | -100 | - | 100 | 200 |
| At March 31, 2019 | \$12,117 | \$11,570 | \$11,022 | \$10,451 | \$9,894 |
| At December 31, 2018 | \$11,793 | \$11,245 | \$10,689 | \$10,121 | \$9,576 |

The effective duration of the fixed-maturity portfolio as of March 31, 2019, was 5.1 years, down from 5.2 years at year-end 2018. The above table is a theoretical presentation showing that an instantaneous, parallel shift in the yield curve of 100 basis points could produce an approximately 5.1% change in the fair value of the fixed-maturity portfolio. Generally speaking, the higher a bond is rated, the more directly correlated movements in its fair value are to changes in the general level of interest rates, exclusive of call features. The fair values of average- to lower-rated corporate bonds are additionally influenced by the expansion or contraction of credit spreads.

In our dynamic financial planning model, the selected interest rate change of 100 to 200 basis points represents our view of a shift in rates that is quite possible over a one-year period. The rates modeled should not be considered a prediction of future events as interest rates may be much more volatile in the future. The analysis is not intended to provide a precise forecast of the effect of changes in rates on our results or financial condition, nor does it take into account any actions that we might take to reduce exposure to such risks.

EQUITY INVESTMENTS

Our equity investments, with a fair value totaling \$6.571 billion at March 31, 2019, included \$6.381 billion of common stock securities of companies generally with strong indications of paying and growing their dividends. Other criteria we evaluate include increasing sales and earnings, proven management and a favorable outlook. We believe our equity investment style is an appropriate long-term strategy. While our long-term financial position would be affected by prolonged changes in the market valuation of our investments, we believe our strong surplus position and cash flow provide a cushion against short-term fluctuations in valuation. Continued payment of cash dividends by the issuers of our common equity holdings can provide a floor to their valuation.

The table below summarizes the effect of hypothetical changes in market prices on fair value of our equity portfolio. (Dollars in millions) Effect from market price change in percent

| | -30% | -20% | -10% | — | 10% | 20% | 30% |
|----------------------|---------|---------|---------|---------|---------|---------|---------|
| At March 31, 2019 | \$4,600 | \$5,257 | \$5,914 | \$6,571 | \$7,228 | \$7,885 | \$8,542 |
| At December 31, 2018 | \$4,144 | \$4,736 | \$5,328 | \$5,920 | \$6,512 | \$7,104 | \$7,696 |

At March 31, 2019, Microsoft Corporation (Nasdaq:MSFT) was our largest single common stock holding with a fair value of \$296 million, or 4.6% of our publicly traded common stock portfolio and 1.7% of the total investment portfolio. Thirty-five holdings among nine different sectors each had a fair value greater than \$100 million.

Common Stock Portfolio Industry Sector Distribution

| Sector: | Percent of common stock portfolio | | | | | |
|------------------------|-----------------------------------|------------|----------|----------------------|------------|----------|
| | At March 31, 2019 | | | At December 31, 2018 | | |
| | Cincinnati | S&P 500 | Industry | Cincinnati | S&P 500 | Industry |
| | Financial | Weightings | | Financial | Weightings | |
| Information technology | 22.5 | % | 21.2 | % | 20.9 | % |
| Financial | 14.3 | | 12.7 | | 15.6 | 13.3 |
| Healthcare | 13.4 | | 14.6 | | 14.9 | 15.6 |
| Industrials | 13.2 | | 9.5 | | 12.5 | 9.2 |
| Consumer discretionary | 10.8 | | 10.2 | | 10.5 | 10.0 |
| Energy | 7.0 | | 5.4 | | 6.7 | 5.3 |
| Consumer staples | 5.9 | | 7.3 | | 5.6 | 7.4 |
| Materials | 4.7 | | 2.6 | | 4.9 | 2.7 |
| Telecomm services | 3.2 | | 10.1 | | 3.5 | 10.1 |
| Utilities | 2.6 | | 3.3 | | 2.7 | 3.3 |
| Real Estate | 2.4 | | 3.1 | | 2.2 | 3.0 |
| Total | 100.0 | % | 100.0 | % | 100.0 | % |

UNREALIZED INVESTMENT GAINS AND LOSSES

At March 31, 2019, unrealized investment gains before taxes for the fixed-maturity portfolio totaled \$320 million and unrealized investment losses amounted to \$32 million before taxes.

The \$288 million net unrealized gain position in our fixed-maturity portfolio at March 31, 2019, increased in the first three months of 2019, primarily due to a decrease in interest rates and a narrowing of corporate credit spreads. The net gain position for our current fixed-maturity holdings will naturally decline over time as individual securities mature. In addition, changes in interest rates can cause rapid, significant changes in fair values of fixed-maturity securities and the net gain position, as discussed in Quantitative and Qualitative Disclosures About Market Risk.

For federal income tax purposes, taxes on gains from appreciated investments generally are not due until securities are sold. We believe that the appreciated value of equity securities, compared with the cost of securities that is generally used as a tax basis, is a useful measure to help evaluate how fair value can change over time. On this basis, the net unrealized investment gains at March 31, 2019, consisted of a net gain position in our equity portfolio of \$3.190 billion. Events or factors such as economic growth or recession can affect the fair value and unrealized investment gains of our equity securities. The five largest holdings in our common stock portfolio were Microsoft Corporation (Nasdaq:MSFT), Apple Inc. (Nasdaq:AAPL), JP Morgan Chase & Co. (NYSE:JPM), Cisco Systems (Nasdaq:SCO) and BlackRock Inc. (NYSE:BLK), which had a combined fair value of \$1.182 billion.

Unrealized Investment Losses

We expect the number of fixed-maturity securities trading below amortized cost to fluctuate as interest rates rise or fall and credit spreads expand or contract due to prevailing economic conditions. Further, amortized costs for some securities are revised through OTTI recognized in prior periods. At March 31, 2019, 426 of the 3,746 fixed-maturity securities we owned had fair values below amortized cost, compared with 1,262 of the 3,606 securities we owned at year-end 2018. The 426 holdings with fair values below cost or amortized cost at March 31, 2019, represented 18.2% of the fair value of our fixed-maturity investment portfolio and \$32 million in unrealized losses.

420 of the 426 holdings had fair value between 90% and 100% of amortized cost at March 31, 2019. These primarily consist of securities whose current valuation is largely the result of interest rate factors. The fair value of these 420 securities was \$1.542 billion, and they accounted for \$29 million in unrealized losses.

6 of the 426 fixed-maturity holdings had fair value between 70% and 90% of amortized cost at March 31, 2019. We believe the six fixed-maturity securities will continue to pay interest and ultimately pay principal upon maturity. The issuers of these six securities have strong cash flow to service their debt and meet their contractual obligation to make principal payments. The fair value of these securities was \$14 million, and they accounted for \$3 million in unrealized losses.

There were no fixed-maturity securities with a fair value below 70% of amortized cost at March 31, 2019.

The table below reviews fair values and unrealized losses by investment category and by the overall duration of the securities' continuous unrealized loss position.

| (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 March 31, 2019 | | | | | | |
| Fixed maturity securities: | | | | | | |
| Corporate | \$343 | \$ 5 | \$685 | \$ 20 | \$1,028 | \$ 25 |
| States, municipalities and political subdivisions | 10 | — | 237 | 3 | 247 | 3 |
| Government-sponsored enterprises | 7 | — | 204 | 3 | 211 | 3 |
| Commercial mortgage-backed securities | 2 | — | 45 | 1 | 47 | 1 |
| United States government | — | — | 23 | — | 23 | — |
| Total | \$362 | \$ 5 | \$1,194 | \$ 27 | \$1,556 | \$ 32 |
| At December 31, 2018 | | | | | | |
| Fixed maturity securities: | | | | | | |
| Corporate | \$2,082 | \$ 51 | \$501 | \$ 36 | \$2,583 | \$ 87 |
| States, municipalities and political subdivisions | 823 | 18 | 340 | 13 | 1,163 | 31 |
| Government-sponsored enterprises | 49 | 1 | 211 | 6 | 260 | 7 |
| Commercial mortgage-backed | 77 | — | 64 | 2 | 141 | 2 |
| United States government | — | — | 33 | 1 | 33 | 1 |
| Total | \$3,031 | \$ 70 | \$1,149 | \$ 58 | \$4,180 | \$ 128 |

At March 31, 2019, 358 fixed-maturity securities with a total unrealized loss of \$27 million had been in an unrealized loss position for 12 months or more. Of that total, no fixed-maturity securities had a fair value below 70% of amortized cost; six fixed-maturity securities with a fair value of \$14 million had a fair value from 70% to less than 90% of amortized cost and accounted for \$3 million in unrealized losses; and 352 fixed-maturity securities with a fair value of \$1.180 billion had fair values from 90% to less than 100% of amortized cost and accounted for \$24 million in unrealized losses.

At March 31, 2019, applying our invested asset impairment policy, we determined that the total of \$27 million, for securities in an unrealized loss position for 12 months or more in the table above, was not other-than-temporarily impaired.

During the first three months of 2019, no securities were written down through an impairment charge. Similarly, OTTI resulted in no noncash charges for the three months ended March 31, 2018.

During full-year 2018, we wrote down one security and recorded \$5 million in OTTI charges. At December 31, 2018, 400 fixed-maturity investments with a total unrealized loss of \$58 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% of amortized cost.

The following table summarizes the investment portfolio by severity of decline:

| (Dollars in millions) | Number of issues | Cost or amortized cost | Fair value | Gross unrealized gain (loss) | Gross investment income |
|--|------------------|------------------------|------------|------------------------------|-------------------------|
| At March 31, 2019 | | | | | |
| Taxable fixed maturities: | | | | | |
| Fair valued below 70% of amortized cost | — | \$ — | \$ — | \$ — | \$ — |
| Fair valued at 70% to less than 100% of amortized cost | 333 | 1,401 | 1,372 | (29) | 13 |
| Fair valued at 100% and above of amortized cost | 1,409 | 5,608 | 5,795 | 187 | 66 |
| Investment income on securities sold in current year | — | — | — | — | 2 |
| Total | 1,742 | 7,009 | 7,167 | 158 | 81 |
| Tax-exempt fixed maturities: | | | | | |
| Fair valued below 70% of amortized cost | — | — | — | — | — |
| Fair valued at 70% to less than 100% of amortized cost | 93 | 187 | 184 | (3) | 1 |
| Fair valued at 100% and above of amortized cost | 1,911 | 3,538 | 3,671 | 133 | 29 |
| Investment income on securities sold in current year | — | — | — | — | — |
| Total | 2,004 | 3,725 | 3,855 | 130 | 30 |
| Fixed-maturities summary: | | | | | |
| Fair valued below 70% of cost or amortized cost | — | — | — | — | — |
| Fair valued at 70% to less than 100% of cost or amortized cost | 426 | 1,588 | 1,556 | (32) | 14 |
| Fair valued at 100% and above of cost or amortized cost | 3,320 | 9,146 | 9,466 | 320 | 95 |
| Investment income on securities sold in current year | — | — | — | — | 2 |
| Total | 3,746 | \$ 10,734 | \$ 11,022 | \$ 288 | \$ 111 |

At December 31, 2018

Fixed-maturities summary:

| | | | | | |
|--|-------|-----------|-----------|-------|--------|
| Fair valued below 70% of cost or amortized cost | — | \$ — | \$ — | \$ — | \$ — |
| Fair valued at 70% to less than 100% of cost or amortized cost | 1,262 | 4,308 | 4,180 | (128) | 147 |
| Fair valued at 100% and above of cost or amortized cost | 2,344 | 6,335 | 6,509 | 174 | 269 |
| Investment income on securities sold in current year | — | — | — | — | 28 |
| Total | 3,606 | \$ 10,643 | \$ 10,689 | \$ 46 | \$ 444 |

See our 2018 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Asset Impairment, Page 58.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures – The company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)).

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The company's management, with the participation of the company's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures as of March 31, 2019. Based upon that evaluation, the company's chief executive officer and chief financial officer concluded that the design and operation of the company's disclosure controls and procedures provided reasonable assurance that the disclosure controls and procedures are effective to ensure:

that information required to be disclosed in the company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and

that such information is accumulated and communicated to the company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures.

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Changes in Internal Control over Financial Reporting – During the three months ended March 31, 2019, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. On February 28, 2019, we completed the acquisition of MSP. MSP's existing disclosure controls and procedures supported our financial reporting as of March 31, 2019. In conducting our evaluation of the effectiveness of our internal control over financial reporting, we have elected to exclude MSP from our evaluation as permitted under SEC rules. We are currently in the process of evaluating and integrating MSP's internal controls over financial reporting with ours. We expect to complete this integration by December 31, 2019.

Part II – Other Information

Item 1. Legal Proceedings

Neither the company nor any of our subsidiaries are involved in any litigation believed to be material other than ordinary, routine litigation incidental to the nature of our business.

Item 1A. Risk Factors

Our risk factors have not changed materially since they were described in our 2018 Annual Report on Form 10-K filed February 22, 2019, and are incorporated herein by reference, except we no longer have risks or uncertainties associated with the timely or successful completion of the acquisition of MSP Underwriting Limited. This transaction was completed as reported on Form 8-K filed February 28, 2019.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We did not sell any of our shares that were not registered under the Securities Act during the first three months of 2019. Our repurchase program was expanded on October 22, 2007, to increase our repurchase authorization to approximately 13 million shares. Our repurchase program does not have an expiration date. On January 26, 2018, an additional 15 million shares were authorized, resulting in 15,476,785 shares available for purchase under our programs at March 31, 2019.

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|---------------------|----------------------------------|------------------------------|--|--|
| January 1-31, 2019 | — | \$ — | — | 15,476,785 |
| February 1-28, 2019 | — | — | — | 15,476,785 |
| March 1-31, 2019 | — | — | — | 15,476,785 |
| Totals | — | — | — | |

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Item 6. Exhibits

| Exhibit No. | Exhibit Description |
|-------------|---|
| 3.1 | <u>Amended and Restated Articles of Incorporation of Cincinnati Financial Corporation (incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, Exhibit 3.1)</u> |
| 3.2 | <u>Amended and Restated Code of Regulations of Cincinnati Financial Corporation, as of May 5, 2018 (incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, Exhibit 3.2)</u> |
| 10.1 | <u>Third Amendment of the Amended and Restated Credit Agreement by and among Cincinnati Financial Corporation, CFC Investment Company, PNC Bank, N.A., as Administrative Agent, PNC Capital Markets, LLC, as Sole Bookrunner and Joint Lead Arranger, Fifth Third Bank, N.A. as Joint Lead Arranger and Syndication Agent, The Huntington National Bank and U.S. Bank, N.A. as Documentation Agents, dated February 4, 2019 (incorporated by reference to Exhibit 10.2 filed with the company's Current Report on Form 8-K dated February 6, 2019)</u> |
| 10.2 | <u>Fourth Amendment of the Amended and Restated Credit Agreement by and among Cincinnati Financial Corporation, CFC Investment Company, PNC Bank, N.A., as Administrative Agent, PNC Capital Markets, LLC, as Sole Bookrunner and Joint Lead Arranger, Fifth Third Bank, N.A. as Joint Lead Arranger and Syndication Agent, The Huntington National Bank and U.S. Bank, N.A. as Documentation Agents, dated February 26, 2019 (incorporated by reference to Exhibit 10.6 filed with the company's Current Report on Form 8-K dated February 28, 2019)</u> |
| 10.3 | <u>Letter of Credit Facility Agreement by and between Cincinnati Financial Corporation, as Borrower, and The Bank of Nova Scotia, as Bank, dated February 25, 2019 (incorporated by reference to Exhibit 10.1 filed with the company's Current Report on Form 8-K dated February 28, 2019)</u> |
| 31A | <u>Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002 – Chief Executive Officer</u> |
| 31B | <u>Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002 – Chief Financial Officer</u> |
| 32 | <u>Certification pursuant to Section 906 of the Sarbanes Oxley Act of 2002</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CINCINNATI FINANCIAL CORPORATION

Date: April 24, 2019

/S/ Michael J. Sewell

Michael J. Sewell, CPA

Chief Financial Officer, Senior Vice President and Treasurer

(Principal Accounting Officer)

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