CINCINNATI FINANCIAL CORP
Form 10-Q
August 02, 2017

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

(Mark one)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended June 30, 2017.

¨ 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

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.
þYes ¨ No

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

þ Large accelerated filer ¨ Accelerated filer ¨ Nonaccelerated filer ¨ Smaller reporting company
¨ Emerging growth company
(Do not check if a smaller reporting 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 þ No

As of July 28, 2017, there were 163,982,422 shares of common stock outstanding.

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2017

TABLE OF CONTENTS

Part I – Financial Information	3
Item 1. Financial Statements (unaudited)	3
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Income	4
Condensed Consolidated Statements of Comprehensive Income	5
Condensed Consolidated Statements of Shareholders' Equity	6
Condensed Consolidated Statements of Cash Flows	7
Notes to Condensed Consolidated Financial Statements (unaudited)	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Safe Harbor Statement	31
Corporate Financial Highlights	33
Financial Results	43
Liquidity and Capital Resources	58
Other Matters	62
Item 3. Quantitative and Qualitative Disclosures about Market Risk	62
Item 4. Controls and Procedures	71
Part II – Other Information	71
Item 1. Legal Proceedings	71
Item 1A. Risk Factors	71
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	71
Item 6. Exhibits	72

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)	June 30, 2017	December 31, 2016
Assets		
Investments		
Fixed maturities, at fair value (amortized cost: 2017—$10,106; 2016—$9,799)	$10,502	$ 10,085
Equity securities, at fair value (cost: 2017—$3,218; 2016—$2,995)	5,799	5,334
Other invested assets	93	81
Total investments	16,394	15,500
Cash and cash equivalents	606	777
Investment income receivable	130	134
Finance receivable	54	51
Premiums receivable	1,651	1,533
Reinsurance recoverable	532	545
Prepaid reinsurance premiums	48	62
Deferred policy acquisition costs	678	637
Land, building and equipment, net, for company use (accumulated depreciation: 2017—$245; 2016—$237)	184	183
Other assets	171	198
Separate accounts	790	766
Total assets	$21,238	$ 20,386
Liabilities		
Insurance reserves		
Loss and loss expense reserves	$5,281	$ 5,085
Life policy and investment contract reserves	2,702	2,671
Unearned premiums	2,461	2,307
Other liabilities	767	786
Deferred income tax	1,021	865
Note payable	17	20
Long-term debt and capital lease obligations	826	826
Separate accounts	790	766
Total liabilities	13,865	13,326
Commitments and contingent liabilities (Note 12)		
Shareholders' Equity		
Common stock, par value—$2 per share; (authorized: 2017 and 2016—500 million shares; issued: 2017 and 2016—198.3 million shares)	397	397
Paid-in capital	1,249	1,252
Retained earnings	5,174	5,037
Accumulated other comprehensive income	1,925	1,693
Treasury stock at cost (2017—34.4 million shares and 2016—33.9 million shares)	(1,372)	(1,319)
Total shareholders' equity	7,373	7,060
Total liabilities and shareholders' equity	$21,238	$ 20,386

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

Cincinnati Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Income

(Dollars in millions except per share data)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenues				
Earned premiums	$1,241	$1,173	$2,449	$2,327
Investment income, net of expenses	151	149	300	294
Realized investment gains and losses, net	(11)	44	149	105
Fee revenues	4	3	9	6
Other revenues	1	2	2	3
Total revenues	1,386	1,371	2,909	2,735
Benefits and Expenses				
Insurance losses and contract holders' benefits	854	821	1,707	1,545
Underwriting, acquisition and insurance expenses	387	366	764	726
Interest expense	13	13	26	26
Other operating expenses	4	5	8	7
Total benefits and expenses	1,258	1,205	2,505	2,304
Income Before Income Taxes	128	166	404	431
Provision (Benefit) for Income Taxes				
Current	31	48	71	113
Deferred	(3)	(5)	32	7
Total provision for income taxes	28	43	103	120
Net Income	$100	$123	$301	$311
Per Common Share				
Net income—basic	$0.61	$0.75	$1.83	$1.89
Net income—diluted	0.60	0.74	1.81	1.87

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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net Income	$100	$123	$301	$311
Other Comprehensive Income				
Change in unrealized gains and losses on investments, net of tax of $77, $103, $123 and $203, respectively	144	186	229	376
Amortization of pension actuarial gains and losses and prior service cost, net of tax of $0, $0, $0 and $1, respectively	—	1	1	1
Change in life deferred acquisition costs, life policy reserves and other, net of tax of $0, $(3), $1 and $(4), respectively	1	(4)	2	(7)
Other comprehensive income	145	183	232	370
Comprehensive Income	$245	$306	$533	$681

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)	Six months ended June 30,	
	2017	2016
Common Stock		
Beginning of year	$397	$397
Share-based awards	—	—
End of period	397	397
Paid-In Capital		
Beginning of year	1,252	1,232
Share-based awards	(18)	(10)
Share-based compensation	14	13
Other	1	2
End of period	1,249	1,237
Retained Earnings		
Beginning of year	5,037	4,762
Net income	301	311
Dividends declared	(164)	(158)
End of period	5,174	4,915
Accumulated Other Comprehensive Income		
Beginning of year	1,693	1,344
Other comprehensive income	232	370
End of period	1,925	1,714
Treasury Stock		
Beginning of year	(1,319)	(1,308)
Share-based awards	19	23
Shares acquired - share repurchase authorization	(70)	(2)
Shares acquired - share-based compensation plans	(4)	(7)
Other	2	2
End of period	(1,372)	(1,292)
Total Shareholders' Equity	$7,373	$6,971
(In millions)		
Common Stock - Shares Outstanding		
Beginning of year	164.4	163.9
Share-based awards	0.6	0.7
Shares acquired - share repurchase authorization	(1.0)	0.0
Shares acquired - share-based compensation plans	(0.1)	(0.1)
End of period	163.9	164.5

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

Cincinnati Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows

(Dollars in millions)	Six months ended June 30,	
	2017	2016
Cash Flows From Operating Activities		
Net income	$301	$311
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27	24
Realized investment gains, net	(149)	(105)
Share-based compensation	14	13
Interest credited to contract holders'	24	25
Deferred income tax expense	32	7
Changes in:		
Investment income receivable	4	3
Premiums and reinsurance receivable	(91)	(132)
Deferred policy acquisition costs	(45)	(26)
Other assets	(37)	(39)
Loss and loss expense reserves	196	252
Life policy reserves	50	50
Unearned premiums	154	148
Other liabilities	(82)	(33)
Current income tax receivable/payable	47	1
Net cash provided by operating activities	445	499
Cash Flows From Investing Activities		
Sale of fixed maturities	12	15
Call or maturity of fixed maturities	540	820
Sale of equity securities	288	208
Purchase of fixed maturities	(802)	(975)
Purchase of equity securities	(352)	(360)
Investment in finance receivables	(14)	(10)
Collection of finance receivables	11	15
Investment in buildings and equipment, net	(9)	(7)
Change in other invested assets, net	(7)	(13)
Net cash used in investing activities	(333)	(307)
Cash Flows From Financing Activities		
Payment of cash dividends to shareholders	(158)	(151)
Shares acquired - share repurchase authorization	(70)	(2)
Payments of note payable	(3)	(7)
Proceeds from stock options exercised	8	13
Contract holders' funds deposited	42	50
Contract holders' funds withdrawn	(83)	(77)
Excess tax benefits on share-based compensation	—	2
Other	(19)	(17)
Net cash used in financing activities	(283)	(189)
Net change in cash and cash equivalents	(171)	3
Cash and cash equivalents at beginning of year	777	544
Cash and cash equivalents at end of period	$606	$547

Supplemental Disclosures of Cash Flow Information:		
Interest paid	$26	$26
Income taxes paid	23	110
Noncash Activities		
Conversion of securities	$5	$3
Equipment acquired under capital lease obligations	6	12
Cashless exercise of stock options	4	7
Other assets and other liabilities	70	—

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 — Accounting Policies
The condensed consolidated financial statements include the accounts of Cincinnati Financial Corporation and its consolidated subsidiaries, each of which is wholly owned. These statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP). All intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Our actual results could differ from those estimates. 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 omitted.

Our June 30, 2017, condensed consolidated financial statements are unaudited. Certain financial information that is included in annual financial statements prepared in accordance with GAAP is not required for interim reporting and has been condensed or omitted. We believe that we have made all adjustments, consisting only of normal recurring accruals, that are necessary for fair presentation. These condensed consolidated financial statements should be read in conjunction with our consolidated financial statements included in our 2016 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 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting
In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-07, Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. ASU 2016-07 eliminates the requirement to retroactively adjust an investment, results of operations, and retained earnings once an investment qualifies for use of the equity method. It requires the equity method investor to add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting without retroactive adjustment. The effective date of ASU 2016-07 was for interim and annual reporting periods beginning after December 15, 2016, and was applied prospectively. The company adopted this ASU effective January 1, 2017, and it did not have a material impact on our company's consolidated financial position, cash flows or results of operations.

ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting
In March 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The effective date of ASU 2016-09 was for interim and annual reporting periods beginning after December 15, 2016. The recognition and classification of the excess tax benefit provisions were applied prospectively in the results of operations and statement of cash flows. This adoption resulted in excess tax benefits of $6 million, which reduced our current provision for income taxes in our results of operations for both the three and six months ended June 30, 2017, respectively. The statutory tax withholding classification, which are cash payments made to taxing authorities for shares withheld, were applied retrospectively and reclassified the statutory tax withholding requirements in the statement of cash flows from Other liabilities in operating activities to Other in financing activities. This statutory tax withholding reclassification resulted in $12 million and $9 million being included in financing activities for the six months ended June 30, 2017 and 2016, respectively. There were no

cumulative effect adjustments upon adoption of this ASU.

Pending Accounting Updates

ASU 2014-09 Revenue from Contracts with Customers
In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

Insurance contracts do not fall within the scope of this ASU. The effective date of ASU 2014-09 is for interim and annual reporting periods beginning after December 15, 2017. The ASU has not yet been adopted and will not have a material impact on our company’s financial position, cash flows or results of operations.

ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities
In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 revises the accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. Our results of operations will be impacted as changes in fair value of equity securities will be reported in net income instead of reported in other comprehensive income. The effective date of ASU 2016-01 is for interim and annual reporting periods beginning after December 15, 2017 and will be applied prospectively. The ASU has not yet been adopted. Had we adopted this ASU on June 30, 2017, $1.677 billion of after-tax unrealized gains on equity securities would have been reclassified from accumulated other comprehensive income to retained earnings. The actual amount reclassified upon adoption will vary depending on the future changes in fair value of our equity portfolio.

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

ASU 2016-13, 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 or results of operations.

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

ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Postretirement Benefit Costs. ASU 2017-07 provides guidance on how to present the components of net periodic benefit costs in the income statement for pension plans and other post-retirement benefit plans. The effective date of ASU 2017-07 is for interim and annual reporting periods beginning after December 15, 2017. The ASU has not yet been adopted; however, it is not expected to have a material impact on our company's

consolidated financial position, cash flows or results of operations.

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 ASU has not yet been adopted. Management is currently evaluating the impact on our company's consolidated financial position, cash flows or results of operations.

ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting
In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The amendment should be applied on a prospective basis. The effective date of ASU 2017-09 is for interim and annual reporting periods, beginning after December 15, 2017. The ASU has not yet been adopted; however, it will not have a material impact on our company's consolidated financial position, cash flows or results of operations upon adoption.

NOTE 2 – Investments

The following table provides cost or amortized cost, gross unrealized gains, gross unrealized losses and fair value for our fixed-maturity and equity securities:

(Dollars in millions)	Cost or amortized cost	Gross unrealized gains	losses	Fair value
At June 30, 2017				
Fixed maturity securities:				
Corporate	$ 5,530	$ 281	$ 14	$5,797
States, municipalities and political subdivisions	4,029	142	17	4,154
Commercial mortgage-backed	282	8	1	289
Government-sponsored enterprises	235	—	3	232
United States government	15	—	—	15
Foreign government	10	—	—	10
Convertibles and bonds with warrants attached	5	—	—	5
Subtotal	10,106	431	35	10,502
Equity securities:				
Common equities	3,038	2,559	16	5,581
Nonredeemable preferred equities	180	38	—	218
Subtotal	3,218	2,597	16	5,799
Total	$ 13,324	$ 3,028	$ 51	$16,301
At December 31, 2016				
Fixed maturity securities:				
Corporate	$ 5,555	$ 252	$ 26	$5,781
States, municipalities and political subdivisions	3,770	100	42	3,828
Commercial mortgage-backed	282	7	2	287
Government-sponsored enterprises	167	—	3	164
United States government	10	—	—	10
Foreign government	10	—	—	10
Convertibles and bonds with warrants attached	5	—	—	5
Subtotal	9,799	359	73	10,085
Equity securities:				
Common equities	2,812	2,320	9	5,123
Nonredeemable preferred equities	183	28	—	211
Subtotal	2,995	2,348	9	5,334
Total	$ 12,794	$ 2,707	$ 82	$15,419

The net unrealized investment gains in our fixed-maturity portfolio at June 30, 2017, 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 June 30, 2017 and December 31, 2016. At June 30, 2017, the seven largest unrealized investment gains in our common stock portfolio are from Honeywell International Incorporated (NYSE:HON), JP Morgan Chase & Co. (NYSE:JPM), Hasbro Inc. (Nasdaq:HAS), Blackrock Inc. (Nasdaq: BLK), Apple Inc. (Nasdaq:AAPL), Johnson & Johnson (NYSE:JNJ) and Microsoft Corporation (Nasdaq: MSFT), which had a combined gross unrealized gain of $829 million. At June 30, 2017, JP Morgan Chase & Co. was our largest single equity holding with a fair value of $206 million, which was 3.7 percent of our publicly traded common equities portfolio and 1.3 percent of the total investment portfolio.

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

(Dollars in millions)	Less than 12 months		12 months or more		Total	
At June 30, 2017	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Fixed maturity securities:						
Corporate	$ 290	$ 8	$ 136	$ 6	$426	$ 14
States, municipalities and political subdivisions	665	17	2	—	667	17
Commercial mortgage-backed securities	53	1	3	—	56	1
Government-sponsored enterprises	190	3	—	—	190	3
United States government	7	—	—	—	7	—
Subtotal	1,205	29	141	6	1,346	35
Equity securities:						
Common equities	354	16	—	—	354	16
Subtotal	354	16	—	—	354	16
Total	$ 1,559	$ 45	$ 141	$ 6	$1,700	$ 51
At December 31, 2016						
Fixed maturity securities:						
Corporate	$ 733	$ 15	$ 189	$ 11	$922	$ 26
States, municipalities and political subdivisions	989	42	—	—	989	42
Commercial mortgage-backed	89	2	2	—	91	2
Government-sponsored enterprises	155	3	—	—	155	3
United States government	6	—	—	—	6	—
Subtotal	1,972	62	191	11	2,163	73
Equity securities:						
Common equities	103	9	—	—	103	9
Nonredeemable preferred equities	4	—	—	—	4	—
Subtotal	107	9	—	—	107	9
Total	$ 2,079	$ 71	$ 191	$ 11	$2,270	$ 82

Contractual maturity dates for fixed-maturity investments were:

(Dollars in millions) At June 30, 2017	Amortized cost	Fair value	% of fair value
Maturity dates:			
Due in one year or less	$ 699	$714	6.8 %
Due after one year through five years	2,690	2,830	26.9
Due after five years through ten years	3,822	3,970	37.8
Due after ten years	2,895	2,988	28.5
Total	$ 10,106	$10,502	100.0%

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

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

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Investment income:				
Interest	$111	$110	$222	$219
Dividends	42	41	81	78
Other	1	—	2	1
Total	154	151	305	298
Less investment expenses	3	2	5	4
Total	$151	$149	$300	$294
Realized investment gains and losses:				
Fixed maturities:				
Gross realized gains	$3	$4	$13	$7
Gross realized losses	—	—	—	(1)
Other-than-temporary impairments	(6)	—	(6)	(2)
Equity securities:				
Gross realized gains	6	38	159	100
Gross realized losses	(10)	—	(14)	(1)
Other-than-temporary impairments	(3)	—	(3)	—
Other	(1)	2	—	2
Total	$(11)	$44	$149	$105
Change in unrealized investment gains and losses:				
Fixed maturities	$76	$178	$110	$294
Equity securities	145	111	242	285
Income tax (provision) benefit	(77)	(103)	(123)	(203)
Total	$144	$186	$229	$376

During the three and six months ended June 30, 2017, there were five equity securities and one fixed-maturity security other-than-temporarily impaired. There were no credit losses on fixed-maturity securities for which a portion of other-than-temporary impairment (OTTI) has been recognized in other comprehensive income for the three and six months ended June 30, 2017 and 2016.

At June 30, 2017, 23 fixed-maturity investments with a total unrealized loss of $6 million had been in an unrealized loss position for 12 months or more. Of that total, no fixed-maturity investment had a fair value below 70 percent of amortized cost. At June 30, 2017, no equity investment had been in an unrealized loss position for 12 months or more. There were no equity investments with a fair value below 70 percent of amortized cost. At December 31, 2016, 32 fixed-maturity investments with a total unrealized loss of $11 million had been in an unrealized loss position for 12 months or more. Of that total, no fixed-maturity investments had fair values below 70 percent of amortized cost. There were no equity security investments in an unrealized loss position for 12 months or more as of December 31, 2016. There were no equity investments with a fair value below 70 percent of amortized cost at December 31, 2016.

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, 2016, and ultimately management determines fair value. See our 2016 Annual Report on Form 10-K, Item 8, Note 3, Fair Value Measurements, Page 132, 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 June 30, 2017, and December 31, 2016. We do not have any material liabilities carried at fair value. There were no transfers between Level 1 and Level 2.

(Dollars in millions) At June 30, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities, available for sale:				
Corporate	$ —	$ 5,796	$ 1	$5,797
States, municipalities and political subdivisions	—	4,149	5	4,154
Commercial mortgage-backed	—	289	—	289
Government-sponsored enterprises	—	232	—	232
United States government	15	—	—	15
Foreign government	—	10	—	10
Convertibles and bonds with warrants attached	—	5	—	5
Subtotal	15	10,481	6	10,502
Common equities, available for sale	5,581	—	—	5,581
Nonredeemable preferred equities, available for sale	—	218	—	218
Separate accounts taxable fixed maturities	—	770	—	770
Top Hat savings plan mutual funds and common equity (included in Other assets)	28	—	—	28
Total	$ 5,624	$ 11,469	$ 6	$17,099
At December 31, 2016				
Fixed maturities, available for sale:				
Corporate	$ —	$ 5,703	$ 78	$5,781
States, municipalities and political subdivisions	—	3,828	—	3,828
Commercial mortgage-backed	—	287	—	287
Government-sponsored enterprises	—	164	—	164
United States government	10	—	—	10
Foreign government	—	10	—	10
Convertibles and bonds with warrants attached	—	5	—	5
Subtotal	10	9,997	78	10,085
Common equities, available for sale	5,123	—	—	5,123
Nonredeemable preferred equities, available for sale	—	211	—	211
Separate accounts taxable fixed maturities	—	750	—	750
Top Hat savings plan mutual funds and common equity (included in Other assets)	24	—	—	24
Total	$ 5,157	$ 10,958	$ 78	$16,193

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 June 30, 2017. Total Level 3 assets continue to be less than 1 percent of financial assets measured at fair value in the condensed consolidated balance sheets. Assets presented in the table below were valued based primarily on broker/dealer quotes for which there is a lack of transparency as to inputs used to develop the valuations. Transfers 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 June 30:

(Dollars in millions)	Asset fair value measurements using significant unobservable inputs (Level 3)				
	Corporate fixed maturities	Taxable fixed maturities - separate accounts	States, municipalities and political subdivisions fixed maturities	Nonredeemable preferred equities	Total
Beginning balance, April 1, 2017	$ 1	$ —	$ —	$ —	$ 1
Total gains or losses (realized/unrealized):					
Included in net income	—	—	—	—	—
Included in other comprehensive income	—	—	—	—	—
Purchases	—	—	—	—	—
Sales	—	—	—	—	—
Transfers into Level 3	—	—	5	—	5
Transfers out of Level 3	—	—	—	—	—
Ending balance, June 30, 2017	$ 1	$ —	$ 5	$ —	$ 6
Beginning balance, April 1, 2016	$ 51	$ 1	$ —	$ 2	$ 54
Total gains or losses (realized/unrealized):					
Included in net income	—	—	—	—	—
Included in other comprehensive income	—	—	—	—	—
Purchases	17	—	—	—	17
Sales	—	—	—	(2)	(2)
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(16)	—	—	—	(16)
Ending balance, June 30, 2016	$ 52	$ 1	$ —	$ —	$ 53

The following table provides the change in Level 3 assets for the six months ended June 30:

(Dollars in millions)	Asset fair value measurements using significant unobservable inputs				
	Corporate fixed maturities	Taxable fixed maturities - separate accounts	States, municipalities and political subdivisions fixed maturities	Nonredeemable preferred equities	Total
Beginning balance, January 1, 2017	$ 78	$ —	$ —	$ —	$ 78
Total gains or losses (realized/unrealized):					
Included in net income	—	—	—	—	—
Included in other comprehensive income	—	—	—	—	—
Purchases	—	—	5	—	5
Sales	—	—	—	—	—
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(77)	—	—	—	(77)
Ending balance, June 30, 2017	$ 1	$ —	$ 5	$ —	$ 6
Beginning balance, January 1, 2016	$ 51	$ 1	$ —	$ 3	$ 55
Total gains or losses (realized/unrealized):					
Included in net income	—	—	—	—	—
Included in other comprehensive income	—	—	—	(1)	(1)
Purchases	22	—	—	—	22
Sales	—	—	—	(2)	(2)
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(21)	—	—	—	(21)
Ending balance, June 30, 2016	$ 52	$ 1	$ —	$ —	$ 53

Additional disclosures for the Level 3 category are not material.

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

The disclosures below are presented to provide 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		June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
6.900%	1998	Senior debentures, due 2028	$26	$ 26	$ 28	$ 28
6.920%	2005	Senior debentures, due 2028	391	391	391	391
6.125%	2004	Senior notes, due 2034	370	370	374	374
		Total	$787	$ 787	$ 793	$ 793

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

(Dollars in millions) At June 30, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Note payable	$ —	$ 17	$ —	$ 17
6.900% senior debentures, due 2028	—	34	—	34
6.920% senior debentures, due 2028	—	506	—	506
6.125% senior notes, due 2034	—	458	—	458
Total	$ —	$ 1,015	$ —	$ 1,015
At December 31, 2016				
Note payable	$ —	$ 20	$ —	$ 20
6.900% senior debentures, due 2028	—	33	—	33
6.920% senior debentures, due 2028	—	488	—	488
6.125% senior notes, due 2034	—	435	—	435
Total	$ —	$ 976	$ —	$ 976

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

(Dollars in millions) At June 30, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Life policy loans	$ —	$ —	$ 41	$ 41
At December 31, 2016				
Life policy loans	$ —	$ —	$ 40	$ 40

Outstanding principal and interest for these life policy loans totaled $31 million at June 30, 2017 and December 31, 2016.

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

(Dollars in millions) At June 30, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Deferred annuities	$ —	$ —	$ 846	$ 846
Structured settlements	—	206	—	206
Total	$ —	$ 206	$ 846	$ 1,052
At December 31, 2016				
Deferred annuities	$ —	$ —	$ 839	$ 839
Structured settlements	—	206	—	206
Total	$ —	$ 206	$ 839	$ 1,045

Recorded reserves for the deferred annuities were $851 million and $861 million at June 30, 2017, and December 31, 2016, respectively. Recorded reserves for the structured settlements were $164 million and $170 million at June 30, 2017, and December 31, 2016, respectively.

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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Gross loss and loss expense reserves, beginning of period	$5,128	$4,750	$5,035	$4,660
Less reinsurance recoverable	297	272	298	281
Net loss and loss expense reserves, beginning of period	4,831	4,478	4,737	4,379
Net incurred loss and loss expenses related to:				
Current accident year	832	808	1,658	1,531
Prior accident years	(38)	(49)	(76)	(111)
Total incurred	794	759	1,582	1,420
Net paid loss and loss expenses related to:				
Current accident year	373	328	558	474
Prior accident years	322	301	831	717
Total paid	695	629	1,389	1,191
Net loss and loss expense reserves, end of period	4,930	4,608	4,930	4,608
Plus reinsurance recoverable	283	310	283	310
Gross loss and loss expense reserves, end of period	$5,213	$4,918	$5,213	$4,918

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 $68 million at June 30, 2017, and $52 million at June 30, 2016, for certain life and health loss and loss expense reserves.

For the three months ended June 30, 2017, we experienced $38 million of favorable development on prior accident years, including $26 million of favorable development in commercial lines, $3 million of favorable development in personal lines and $9 million of favorable development in excess and surplus lines. This included $3 million from favorable development of catastrophe losses for the three months ended June 30, 2017. For the three months ended June 30, 2017, we recognized favorable reserve development of $12 million for the workers' compensation line, $7 million for the commercial casualty line, $5 million for the commercial property line and $11 million for the other commercial lines due to reduced uncertainty of prior accident year loss and loss adjustment expense for these lines. For the three months ended June 30, 2017, we recognized unfavorable reserve development of $9 million for the commercial auto line.

For the six months ended June 30, 2017, we experienced $76 million of favorable development on prior accident years, including $37 million of favorable development in commercial lines, $13 million of favorable development in personal lines, $22 million of favorable development in excess and surplus lines and $4 million of favorable development in our reinsurance assumed operations. This included $14 million from favorable development of catastrophe losses for the six months ended June 30, 2017. For the six months ended June 30, 2017, we recognized favorable reserve development of $31 million for the workers' compensation line, $15 million for the commercial property line and $19 million for the other commercial lines due to reduced uncertainty of prior accident year loss and loss adjustment expense for these lines. For the six months ended June 30, 2017, we recognized unfavorable reserve development of $20 million for the commercial auto line and $8 million for the commercial casualty line. Commercial auto developed unfavorably due to higher loss cost effects in recent accident years, resulting in an increase of our reserve estimate for claims that have not yet been settled. The unfavorable reserve development for commercial casualty reflected higher than usual large loss activity.

For the three months ended June 30, 2016, we experienced $49 million of favorable development on prior accident years, including $58 million of favorable development in commercial lines, $10 million of adverse development in personal lines and $1 million of favorable development in excess and surplus lines. We recognized favorable reserve development during the three months ended June 30, 2016, of $23 million for the workers' compensation line, $20 million for commercial casualty line, $15 million for the other commercial lines and $14 million for the commercial property line due to reduced uncertainty of prior accident year loss and loss adjustment expenses for these lines. Our personal auto line developed unfavorably by $14 million for the three months ended June 30, 2016, largely due to $8 million of adverse development for accident year 2015. Our commercial auto line developed unfavorably by $13 million for the three months ended June 30, 2016, due to higher loss cost effects in recent accident years, resulting in an increase of our reserve estimate for claims that have not yet been settled.

For the six months ended June 30, 2016, we experienced $111 million of favorable development on prior accident years, including $87 million of favorable development in commercial lines, $8 million of favorable development in personal lines, $15 million of favorable development in excess and surplus lines, and $1 million of favorable development in our reinsurance assumed operations. This included $7 million from favorable development of catastrophe losses for the six months ended June 30, 2016. We recognized favorable reserve development during the six months ended June 30, 2016, of $35 million for the workers' compensation line, $23 million for the commercial casualty line, $22 million for the commercial property line and $28 million for the other commercial lines due to reduced uncertainty of prior accident year loss and loss adjustment expenses for these lines. Our commercial auto line developed unfavorably by $21 million for the six months ended June 30, 2016, due to higher loss cost effects in recent accident years, resulting in an increase of our reserve estimate for claims that have not yet been settled. Our personal auto line developed unfavorably by $6 million for the six months ended June 30, 2016 for accident years prior to 2015.

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)	June 30, 2017	December 31, 2016
Life policy reserves:		
Ordinary/traditional life	$ 1,045	$ 1,011
Other	46	45
Subtotal	1,091	1,056
Investment contract reserves:		
Deferred annuities	851	861
Universal life	590	578
Structured settlements	164	170
Other	6	6
Subtotal	1,611	1,615
Total life policy and investment contract reserves	$ 2,702	$ 2,671

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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Property casualty:				
Deferred policy acquisition costs asset, beginning of period	$428	$397	$408	$388
Capitalized deferred policy acquisition costs	237	218	463	428
Amortized deferred policy acquisition costs	(217)	(203)	(423)	(404)
Deferred policy acquisition costs asset, end of period	$448	$412	$448	$412
Life:				
Deferred policy acquisition costs asset, beginning of period	$232	$221	$229	$228
Capitalized deferred policy acquisition costs	12	12	25	24
Amortized deferred policy acquisition costs	(12)	(11)	(20)	(22)
Amortized shadow deferred policy acquisition costs	(2)	(10)	(4)	(18)
Deferred policy acquisition costs asset, end of period	$230	$212	$230	$212
Consolidated:				
Deferred policy acquisition costs asset, beginning of period	$660	$618	$637	$616
Capitalized deferred policy acquisition costs	249	230	488	452
Amortized deferred policy acquisition costs	(229)	(214)	(443)	(426)
Amortized shadow deferred policy acquisition costs	(2)	(10)	(4)	(18)
Deferred policy acquisition costs asset, end of period	$678	$624	$678	$624

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

NOTE 7 – Accumulated Other Comprehensive Income

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

(Dollars in millions)	Three months ended June 30,					
	2017			2016		
	Before tax	Income tax	Net	Before tax	Income tax	Net
Investments:						
AOCI, beginning of period	$2,756	$954	$1,802	$2,384	$822	$1,562
OCI before realized gains recognized in net income	211	74	137	331	118	213
Realized gains and losses recognized in net income	10	3	7	(42)	(15)	(27)
OCI	221	77	144	289	103	186
AOCI, end of period	$2,977	$1,031	$1,946	$2,673	$925	$1,748
Pension obligations:						
AOCI, beginning of period	$(25)	$(8)	$(17)	$(41)	$(13)	$(28)
OCI excluding amortization recognized in net income	—	—	—	—	—	—
Amortization recognized in net income	—	—	—	1	—	1
OCI	—	—	—	1	—	1
AOCI, end of period	$(25)	$(8)	$(17)	$(40)	$(13)	$(27)
Life deferred acquisition costs, life policy reserves and other:						
AOCI, beginning of period	$(7)	$(2)	$(5)	$(3)	$—	$(3)
OCI before realized gains recognized in net income	—	(1)	1	(5)	(2)	(3)
Realized gains and losses recognized in net income	1	1	—	(2)	(1)	(1)
OCI	1	—	1	(7)	(3)	(4)
AOCI, end of period	$(6)	$(2)	$(4)	$(10)	$(3)	$(7)
Summary of AOCI:						
AOCI, beginning of period	$2,724	$944	$1,780	$2,340	$809	$1,531
Investments OCI	221	77	144	289	103	186
Pension obligations OCI	—	—	—	1	—	1
Life deferred acquisition costs, life policy reserves and other OCI	1	—	1	(7)	(3)	(4)
Total OCI	222	77	145	283	100	183
AOCI, end of period	$2,946	$1,021	$1,925	$2,623	$909	$1,714

(Dollars in millions)	Six months ended June 30,					
	2017			2016		
	Before tax	Income tax	Net	Before tax	Income tax	Net
Investments:						
AOCI, beginning of period	$2,625	$908	$1,717	$2,094	$722	$1,372
OCI before realized gains recognized in net income	501	176	325	682	239	443
Realized gains recognized in net income	(149)	(53)	(96)	(103)	(36)	(67)
OCI	352	123	229	579	203	376
AOCI, end of period	$2,977	$1,031	$1,946	$2,673	$925	$1,748
Pension obligations:						
AOCI, beginning of period	$(26)	$(8)	$(18)	$(42)	$(14)	$(28)
OCI excluding amortization recognized in net income	—	—	—	—	—	—
Amortization recognized in net income	1	—	1	2	1	1
OCI	1	—	1	2	1	1
AOCI, end of period	$(25)	$(8)	$(17)	$(40)	$(13)	$(27)
Life deferred acquisition costs, life policy reserves and other:						
AOCI, beginning of period	$(9)	$(3)	$(6)	$1	$1	$—
OCI before realized gains recognized in net income	3	1	2	(9)	(3)	(6)
Realized gains recognized in net income	—	—	—	(2)	(1)	(1)
OCI	3	1	2	(11)	(4)	(7)
AOCI, end of period	$(6)	$(2)	$(4)	$(10)	$(3)	$(7)
Summary of AOCI:						
AOCI, beginning of period	$2,590	$897	$1,693	$2,053	$709	$1,344
Investments OCI	352	123	229	579	203	376
Pension obligations OCI	1	—	1	2	1	1
Life deferred acquisition costs, life policy reserves and other OCI	3	1	2	(11)	(4)	(7)
Total OCI	356	124	232	570	200	370
AOCI, end of period	$2,946	$1,021	$1,925	$2,623	$909	$1,714

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

NOTE 8 – Reinsurance

Primary components of our property casualty reinsurance assumed operations include involuntary and voluntary assumed 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 includes our net written consolidated property casualty insurance premiums on assumed and ceded business:

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Direct written premiums	$1,265	$1,211	$2,491	$2,372
Assumed written premiums	42	42	75	63
Ceded written premiums	(36)	(59)	(64)	(94)
Net written premiums	$1,271	$1,194	$2,502	$2,341

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

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Direct earned premiums	$1,189	$1,137	$2,352	$2,256
Assumed earned premiums	33	16	60	31
Ceded earned premiums	(41)	(39)	(80)	(77)
Earned premiums	$1,181	$1,114	$2,332	$2,210

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

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Direct incurred loss and loss expenses	$770	$792	$1,558	$1,440
Assumed incurred loss and loss expenses	20	11	35	21
Ceded incurred loss and loss expenses	4	(44)	(11)	(41)
Incurred loss and loss expenses	$794	$759	$1,582	$1,420

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.

Our condensed consolidated statements of income include earned life insurance premiums on ceded business:
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Direct earned premiums	$77	$75	$151	$146
Ceded earned premiums	(17)	(16)	(34)	(29)
Earned premiums	$60	$59	$117	$117

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

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Direct contract holders' benefits incurred	$87	$80	$163	$156
Ceded contract holders' benefits incurred	(27)	(18)	(38)	(31)
Contract holders' benefits incurred	$60	$62	$125	$125

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

NOTE 9 – Income Taxes

As of June 30, 2017, and December 31, 2016, we had no liability for unrecognized tax benefits.

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

(Dollars in millions)	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
Tax at statutory rate:	$44	35.0 %	$58	35.0 %	$141	35.0 %	$151	35.0 %
Increase (decrease) resulting from:								
Tax-exempt income from municipal bonds	(9)	(7.0)	(8)	(4.8)	(18)	(4.5)	(17)	(3.9)
Dividend received exclusion	(9)	(7.0)	(8)	(4.8)	(17)	(4.2)	(16)	(3.7)
Other	2	0.9	1	0.5	(3)	(0.8)	2	0.4
Provision for income taxes	$28	21.9 %	$43	25.9 %	$103	25.5 %	$120	27.8 %

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

Included in Other above is the adoption of ASU 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which decreased both the provision for income taxes and the effective income tax rate by an immaterial amount during the three months ended June 30, 2017 and $6 million and 1.5 percent, during the six months ended June 30, 2017.

As of June 30, 2017, we had no operating or capital loss carry forwards.

NOTE 10 – Net Income Per Common Share

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

(In millions except per share data)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income—basic and diluted	$100	$123	$301	$311
Denominator:				
Basic weighted-average common shares outstanding	164.3	164.5	164.4	164.4
Effect of share-based awards:				
Stock options	1.0	1.1	1.1	1.1
Nonvested shares	0.7	0.9	0.7	0.8
Diluted weighted-average shares	166.0	166.5	166.2	166.3
Earnings per share:				
Basic	$0.61	$0.75	$1.83	$1.89
Diluted	0.60	0.74	1.81	1.87
Number of anti-dilutive share-based awards	0.6	0.3	0.7	0.4

The sources of dilution of our common shares are certain equity-based awards. See our 2016 Annual Report on Form 10-K, Item 8, Note 17, Share-Based Associate Compensation Plans, Page 160, for information about equity-based awards. The above table shows the number of anti-dilutive share-based awards for the three and six months ended June 30, 2017 and 2016. We did not include these share-based awards in the computation of net income per common share (diluted) because their exercise would have anti-dilutive effects.

NOTE 11 – Employee Retirement Benefits

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

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Service cost	$2	$ 2	$5	$ 5
Interest cost	4	4	7	7
Expected return on plan assets	(5)	(4)	(10)	(9)
Amortization of actuarial loss and prior service cost	—	1	1	2
Net periodic benefit cost	$1	$ 3	$3	$ 5

See our 2016 Annual Report on Form 10-K, Item 8, Note 13, Employee Retirement Benefits, Page 155, for information on our retirement benefits. We made matching contributions totaling $3 million and $4 million to our 401(k) and Top Hat savings plans during the second quarter of 2017 and 2016 and contributions of $9 million and $8 million for the first half of 2017 and 2016, respectively.

We contributed $5 million to our qualified pension plan during the first six months of 2017.

NOTE 12 – Commitments and Contingent Liabilities

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

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

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

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 and Cincinnati Re, our reinsurance assumed operations. See our 2016 Annual Report on Form 10-K, Item 8, Note 18, Segment Information, Page 163, for a description of revenue, income or loss before income taxes and identifiable assets for each of the five segments.

Segment information is summarized in the following table:

(Dollars in millions)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Revenues:				
Commercial lines insurance				
Commercial casualty	$271	$263	$536	$520
Commercial property	226	215	449	429
Commercial auto	158	147	313	291
Workers' compensation	86	89	170	178
Other commercial	55	57	109	113
Commercial lines insurance premiums	796	771	1,577	1,531
Fee revenues	1	1	2	2
Total commercial lines insurance	797	772	1,579	1,533
Personal lines insurance				
Personal auto	144	135	285	266
Homeowner	128	121	253	240
Other personal	35	32	69	65
Personal lines insurance premiums	307	288	607	571
Fee revenues	1	1	3	2
Total personal lines insurance	308	289	610	573
Excess and surplus lines insurance	52	45	100	88
Fee revenues	1	—	1	—
Total excess and surplus lines insurance	53	45	101	88
Life insurance premiums	60	59	117	117
Fee revenues	1	1	3	2
Total life insurance	61	60	120	119
Investments				
Investment income, net of expenses	151	149	300	294
Realized investment gains and losses, net	(11)	44	149	105
Total investment revenue	140	193	449	399
Other				
Cincinnati Re insurance premiums	26	10	48	20
Other	1	2	2	3
Total other revenues	27	12	50	23
Total revenues	$1,386	$1,371	$2,909	$2,735
Income (loss) before income taxes:				
Insurance underwriting results				
Commercial lines insurance	$24	$26	$22	$76
Personal lines insurance	(24)	(20)	(39)	8
Excess and surplus lines insurance	19	5	37	22
Life insurance	4	1	4	—
Investments	117	171	403	355

Other	(12)	(17)	(23)	(30)
Total income before income taxes	$128	$166	$404	$431

Identifiable assets:	June 30, 2017	December 31, 2016
Property casualty insurance	$3,042	$ 2,967
Life insurance	1,427	1,366
Investments	16,431	15,569
Other	338	484
Total	$21,238	$ 20,386

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 2016 Annual Report on Form 10-K. Unless otherwise noted, the industry data is prepared by A.M. Best Co., a leading insurance industry statistical, analytical and financial strength rating organization. Information from A.M. Best is presented on a statutory basis. When we provide our results on a comparable statutory basis, we label it as such; all other company data is presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

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

SAFE HARBOR STATEMENT

This is our “Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995. Our business is subject to certain risks and uncertainties that may cause actual results to differ materially from those suggested by the forward-looking statements in this report. Some of those risks and uncertainties are discussed in our 2016 Annual Report on Form 10-K, Item 1A, Risk Factors, Page 29.

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
- Recession or other economic conditions resulting in lower demand for insurance products or increased payment delinquencies
- Difficulties with technology or data security breaches, including cyberattacks, that could negatively affect our ability to conduct business and our relationships with agents, policyholders and others
- Disruption of the insurance market caused by technology innovations such as driverless cars that could decrease consumer demand for insurance products
- Delays, inadequate data developed internally or from third parties, or performance inadequacies from ongoing development and implementation of underwriting and pricing methods, including telematics and other usage-based insurance methods, or technology projects and enhancements expected to increase our pricing accuracy, underwriting profit and competitiveness
- Increased competition that could result in a significant reduction in the company’s premium volume

- Changing consumer insurance-buying habits and consolidation of independent insurance agencies that could alter our competitive advantages

- 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 June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Earned premiums	$1,241	$1,173	6	$2,449	$2,327	5
Investment income, net of expenses (pretax)	151	149	1	300	294	2
Realized investment gains and losses, net (pretax)	(11)	44	nm	149	105	42
Total revenues	1,386	1,371	1	2,909	2,735	6
Net income	100	123	(19)	301	311	(3)
Comprehensive income	245	306	(20)	533	681	(22)
Net income per share—diluted	0.60	0.74	(19)	1.81	1.87	(3)
Cash dividends declared per share	0.50	0.48	4	1.00	0.96	4
Diluted weighted average shares outstanding	166.0	166.5	0	166.2	166.3	0

Total revenues increased slightly for the second quarter of 2017, compared with the same period of 2016, as higher earned premiums offset a reduction in realized investment gains. For the first six months of 2017, compared with the same period a year ago, total revenues also rose, primarily due to higher earned premiums and an increase in realized investment gains. Premium and investment revenue trends are discussed further in the respective sections of Financial Results.

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

Net income for the second quarter of 2017, compared with second-quarter 2016, decreased $23 million due to a $35 million reduction in after-tax net realized investment gains and losses that offset an improvement of $8 million in after-tax property casualty underwriting income. Catastrophe losses, mostly weather related, were $33 million less after taxes and favorably affected both net income and property casualty underwriting income. Life insurance segment income on a pretax basis for the second quarter of 2017 increased $3 million compared with second-quarter 2016.

For the six months ended June 30, 2017, net income decreased $10 million compared with the first six months of 2016, reflecting a $50 million decrease in after-tax property casualty underwriting income that offset a $28 million increase in after-tax net realized investment gains. The property casualty underwriting income decrease included an unfavorable $14 million after-tax effect from higher catastrophe losses. After-tax investment income in our investment segment results for the first six months of 2017 rose $5 million compared with the same period of 2016. Life insurance segment results on a pretax basis increased by $4 million.

Performance by segment is discussed below in Financial Results. As discussed in our 2016 Annual Report on Form 10-K, Item 7, Factors Influencing Our Future Performance, Page 47, there are several reasons that our performance during 2017 may be below our long-term targets. In that annual report, as part of Financial Results, we also discussed the full-year 2017 outlook for each reporting segment.

The board of directors is committed to rewarding shareholders directly through cash dividends and through share repurchase authorizations. Through 2016, the company had increased the annual cash dividend rate for 56 consecutive years, a record we believe is matched by only seven other publicly traded companies. In January 2017, the board of directors increased the regular quarterly dividend to 50 cents per share, setting the stage for our 57th consecutive year of increasing cash dividends. During the first six months of 2017, cash dividends declared by the company increased slightly more than 4 percent compared with the same period of 2016. Our board regularly evaluates relevant factors in decisions related to dividends and share repurchases.

The 2017 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.

Balance Sheet Data and Performance Measures

(In millions except share data)	At June 30,	At December 31,
	2017	2016
Total investments	$16,394	$15,500
Total assets	21,238	20,386
Short-term debt	17	20
Long-term debt	787	787
Shareholders' equity	7,373	7,060
Book value per share	44.97	42.95
Debt-to-total-capital ratio	9.8 %	10.3 %

Total assets at June 30, 2017, increased 4 percent compared with year-end 2016, and included 6 percent growth in investments that reflected a combination of net purchases and higher fair values for many securities in our portfolio. Shareholders’ equity increased 4 percent, and book value per share increased 5 percent during the first six months of 2017. Our debt-to-total-capital ratio (capital is the sum of debt plus shareholders’ equity) was lower than at year-end 2016.

Our value creation ratio is a non-GAAP measure defined below and is our primary performance metric. That ratio was 7.0 percent for the first six months of 2017, and was less than the same period in 2016 primarily due to less net income before net realized gains and less overall net gains from our investment portfolio. The $2.02 increase in book value per share during the first six months of 2017 contributed 4.7 percentage points to the value creation ratio, while dividends declared at $1.00 per share contributed 2.3 points. Value creation ratio trends in total and by major components, along with a reconciliation of the non-GAAP measure to comparable GAAP measures, are shown in the tables below.

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Value creation ratio major components:				
Net income before net realized gains	1.5 %	1.4 %	2.9 %	3.8 %
Change in fixed-maturity securities, realized and unrealized gains	0.7	1.8	1.1	3.0
Change in equity securities, realized and unrealized gains	1.2	1.4	3.5	3.9
Other	(0.2)	0.0	(0.5)	(0.2)
Value creation ratio	3.2 %	4.6 %	7.0 %	10.5 %

(Dollars are per share)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Book value change per share:				
End of period book value	$44.97	$42.37	$44.97	$42.37
Less beginning of period book value	44.07	40.96	42.95	39.20
Change in book value	$0.90	$1.41	$2.02	$3.17
Change in book value:				
Net income before realized gains	$0.65	$0.58	$1.25	$1.48
Change in fixed-maturity securities, realized and unrealized gains	0.29	0.72	0.47	1.18
Change in equity securities, realized and unrealized gains	0.54	0.59	1.51	1.52
Dividend declared to shareholders	(0.50)	(0.48)	(1.00)	(0.96)
Other	(0.08)	0.00	(0.21)	(0.05)
Change in book value	$0.90	$1.41	$2.02	$3.17

(Dollars are per share)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Value creation ratio:				
End of period book value	$44.97	$42.37	$44.97	$42.37
Less beginning of period book value	44.07	40.96	42.95	39.20
Change in book value	0.90	1.41	2.02	3.17
Dividend declared to shareholders	0.50	0.48	1.00	0.96
Total value creation	$1.40	$1.89	$3.02	$4.13
Value creation ratio from change in book value*	2.1 %	3.4 %	4.7 %	8.1 %
Value creation ratio from dividends declared to shareholders**	1.1	1.2	2.3	2.4
Value creation ratio	3.2 %	4.6 %	7.0 %	10.5 %

*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 2016 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 2016 Annual Report on Form 10-K, Item 1, Our Business and Our Strategy, Page 5. At June 30, 2017, we actively marketed through agencies located in 41 states. We maintain a long-term perspective that guides us in addressing immediate challenges or opportunities while focusing on the major decisions that best position our company for success through all market cycles.

To measure our long-term progress in creating shareholder value, our value creation ratio is our primary financial performance target. As discussed in our 2016 Annual Report on Form 10-K, Item 7, Executive Summary, Page 43, management believes this non-GAAP measure is a meaningful indicator of our long-term progress in creating shareholder value, is a useful supplement to GAAP information and has three primary performance drivers:

- Premium growth – We believe our agency relationships and initiatives can lead to a property casualty written premium growth rate over any five-year period that exceeds the industry average. For the first six months of 2017, our consolidated property casualty net written premium year-over-year growth was 7 percent, comparing favorably with A.M. Best's January 2017 projection of approximately 3 percent full-year growth for the industry. For the five-year period 2012 through 2016, our growth rate was approximately double that of the industry. The industry's growth rate excludes its mortgage and financial guaranty lines of business.
- Combined ratio – We believe our underwriting philosophy and initiatives can generate a GAAP combined ratio over any five-year period that is consistently within the range of 95 percent to 100 percent. For the first six months of 2017, our GAAP combined ratio was 99.0 percent and our statutory combined ratio was 97.9 percent, both including 10.1 percentage points of current accident year catastrophe losses partially offset by 3.3 percentage points of favorable loss reserve development on prior accident years. As of January 2017, A.M. Best projected the industry's full-year 2017 statutory combined ratio at approximately 100 percent, including approximately 5 percentage points of catastrophe losses and a favorable effect of approximately 2 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 six months of 2017, pretax investment income was $300 million, up 2 percent compared with the same period in 2016. We believe our investment portfolio mix provides an appropriate balance of income stability and growth with capital appreciation potential.

Highlights of Our Strategy and Supporting Initiatives

Management has worked to identify a strategy that can lead to long-term success, with concurrence by the board of directors. Our strategy is intended to position us to compete successfully in the markets we have targeted while appropriately managing risk. Further description of our long-term, proven strategy can be found in our 2016 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 2017, 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 six months of 2017 experienced an estimated average price percentage increase near the high end of in the mid-single-digit range, with the second quarter higher than the first quarter. Our personal auto policies that renewed during the first six months of 2017 also averaged an estimated price percentage increase near the high end of the mid-single-digit range.

- Drive premium growth – Implementation of these initiatives is intended to further penetrate each market we serve through our independent agencies. Strategies aimed at specific market opportunities, along with service enhancements, can help our agents grow and increase our share of their business. Premium growth initiatives also include expansion of Cincinnati Re[SM] – our reinsurance assumed operation. 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 2017, we are planning approximately 100 appointments of independent agencies that offer most or all of our property casualty insurance products. During the first six months of 2017, we appointed 66 new agencies that meet that criteria.

We also plan to appoint additional agencies that focus on high net worth personal lines clients. In 2017, we are targeting the appointment of approximately 100 agencies that market only personal lines products for us. During the first six months of 2017, we appointed 64 new agencies that meet that criteria.

As of June 30, 2017, a total of 1,675 agency relationships market our property casualty insurance products from 2,203 reporting locations.

We also continue to grow premiums through the disciplined expansion of Cincinnati Re. During the first six months of 2017, Cincinnati Re contributed $45 million of growth in consolidated property casualty insurance net written premiums.

Financial Strength

An important part of our long-term strategy is financial strength, which is described in our 2016 Annual Report on Form 10-K, Item 1, Our Business and Our Strategy, Financial Strength, Page 7. One aspect of our financial strength is prudent use of reinsurance ceded to help manage financial performance variability due to catastrophe loss experience. A description of how we use reinsurance ceded is included in our 2016 Annual Report on Form 10-K, Item 7, Liquidity and Capital Resources, 2017 Reinsurance Ceded Programs, Page 101. Another aspect of our financial strength is our investment portfolio, which remains well-diversified as discussed in this quarterly report in Item 3, Quantitative and Qualitative Disclosures About Market Risk. Our strong parent-company liquidity and financial strength increase our flexibility to maintain a cash dividend through all periods and to continue to invest in and expand our insurance operations.

At June 30, 2017, we held $2.290 billion of our cash and invested assets at the parent-company level, of which $2.110 billion, or 92.1 percent, was invested in common stocks, and $95 million, or 4.1 percent, was cash or cash equivalents. Our debt-to-total-capital ratio of 9.8 percent remains well below our target limit. Another important indicator of financial strength is our ratio of property casualty net written premiums to statutory surplus, which was 1.0-to-1 for the 12 months ended June 30, 2017, matching year-end 2016.

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 August 1, 2017, 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
Fitch Ratings fitchratings.com	A+	Strong	5 of 21	A+	Strong	5 of 21	-	-	-	Stable
Moody's Investors Service moodys.com	A1	Good	5 of 21	-	-	-	-	-	-	Stable
S&P Global Ratings spratings.com	A+	Strong	5 of 21	A+	Strong	5 of 21	-	-	-	Stable

CONSOLIDATED PROPERTY CASUALTY INSURANCE HIGHLIGHTS

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

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Earned premiums	$1,181	$1,114	6	$2,332	$2,210	6
Fee revenues	3	2	50	6	4	50
Total reve						