CINCINNATI FINANCIAL CORP
Form 10-Q
October 26, 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 September 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 October 20, 2017, there were 164,071,775 shares of common stock outstanding.

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

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Item 1. Financial Statements (unaudited)

Cincinnati Financial Corporation and Subsidiaries
Condensed Consolidated Balance Sheets

(Dollars in millions except per share data)	September 30, 2017	December 31, 2016
Assets		
Investments		
Fixed maturities, at fair value (amortized cost: 2017—$10,135; 2016—$9,799)	$ 10,540	$ 10,085
Equity securities, at fair value (cost: 2017—$3,264; 2016—$2,995)	6,025	5,334
Other invested assets	99	81
Total investments	16,664	15,500
Cash and cash equivalents	674	777
Investment income receivable	128	134
Finance receivable	56	51
Premiums receivable	1,640	1,533
Reinsurance recoverable	522	545
Prepaid reinsurance premiums	44	62
Deferred policy acquisition costs	676	637
Land, building and equipment, net, for company use (accumulated depreciation: 2017—$251; 2016—$237)	186	183
Other assets	204	198
Separate accounts	798	766
Total assets	$ 21,592	$ 20,386
Liabilities		
Insurance reserves		
Loss and loss expense reserves	$ 5,350	$ 5,085
Life policy and investment contract reserves	2,716	2,671
Unearned premiums	2,475	2,307
Other liabilities	800	786
Deferred income tax	1,087	865
Note payable	17	20
Long-term debt and capital lease obligations	826	826
Separate accounts	798	766
Total liabilities	14,069	13,326
Commitments and contingent liabilities (Note 12)		
Shareholders' Equity		
Common stock, par value—$2 per share; (authorized: 2017 and 2016—198.3 million shares; issued: 2017 and 2016—198.3 million shares)	397	397
Paid-in capital	1,256	1,252
Retained earnings	5,193	5,037
Accumulated other comprehensive income	2,047	1,693
Treasury stock at cost (2017—34.3 million shares and 2016—33.9 million shares)	(1,370)	(1,319)
Total shareholders' equity	7,523	7,060

Total liabilities and shareholders' equity	$ 21,592	$ 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues				
Earned premiums	$1,247	$1,191	$3,696	$3,518
Investment income, net of expenses	153	148	453	442
Realized investment gains and losses, net	7	56	156	161
Fee revenues	3	5	12	11
Other revenues	2	2	4	5
Total revenues	1,412	1,402	4,321	4,137
Benefits and Expenses				
Insurance losses and contract holders' benefits	874	753	2,581	2,298
Underwriting, acquisition and insurance expenses	393	380	1,157	1,106
Interest expense	13	13	39	39
Other operating expenses	3	3	11	10
Total benefits and expenses	1,283	1,149	3,788	3,453
Income Before Income Taxes	129	253	533	684
Provision for Income Taxes				
Current	27	60	98	173
Deferred	—	13	32	20
Total provision for income taxes	27	73	130	193
Net Income	$102	$180	$403	$491
Per Common Share				
Net income—basic	$0.62	$1.09	$2.45	$2.98
Net income—diluted	0.61	1.08	2.42	2.95

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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net Income	$102	$180	$403	$491
Other Comprehensive Income				
Change in unrealized gains on investments, net of tax of $66, $21, $189 and $224, respectively	123	41	352	417
Amortization of pension actuarial loss and prior service cost, net of tax of $1, $0, $1 and $1, respectively	—	—	1	1
Change in life deferred acquisition costs, life policy reserves and other, net of tax (benefit) of $(1), $0, $0 and $(4), respectively	(1)	(3)	1	(10)
Other comprehensive income	122	38	354	408
Comprehensive Income	$224	$218	$757	$899

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)	Nine months ended September 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)	(9)
Share-based compensation	19	18
Other	3	3
End of period	1,256	1,244
Retained Earnings		
Beginning of year	5,037	4,762
Net income	403	491
Dividends declared	(247)	(237)
End of period	5,193	5,016
Accumulated Other Comprehensive Income		
Beginning of year	1,693	1,344
Other comprehensive income	354	408
End of period	2,047	1,752
Treasury Stock		
Beginning of year	(1,319)	(1,308)
Share-based awards	22	29
Shares acquired - share repurchase authorization	(70)	(2)
Shares acquired - share-based compensation plans	(6)	(10)
Other	3	3
End of period	(1,370)	(1,288)
Total Shareholders' Equity	$7,523	$7,121
(In millions)		
Common Stock - Shares Outstanding		
Beginning of year	164.4	163.9
Share-based awards	0.7	0.8
Shares acquired - share repurchase authorization	(1.0)	—
Shares acquired - share-based compensation plans	(0.1)	(0.1)
Other	—	0.1
End of period	164.0	164.7

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)	Nine months ended September 30, 2017	2016
Cash Flows From Operating Activities		
Net income	$403	$491
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	40	34
Realized investment gains, net	(156)	(161)
Share-based compensation	19	18
Interest credited to contract holders'	36	36
Deferred income tax expense	32	20
Changes in:		
Investment income receivable	6	8
Premiums and reinsurance receivable	(66)	(111)
Deferred policy acquisition costs	(44)	(31)
Other assets	(34)	(32)
Loss and loss expense reserves	265	273
Life policy reserves	71	75
Unearned premiums	168	187
Other liabilities	(46)	11
Current income tax receivable/payable	52	17
Net cash provided by operating activities	746	835
Cash Flows From Investing Activities		
Sale of fixed maturities	20	15
Call or maturity of fixed maturities	815	1,160
Sale of equity securities	290	311
Purchase of fixed maturities	(1,155)	(1,465)
Purchase of equity securities	(399)	(396)
Investment in finance receivables	(21)	(13)
Collection of finance receivables	17	24
Investment in buildings and equipment, net	(14)	(9)
Change in other invested assets, net	(12)	(13)
Net cash used in investing activities	(459)	(386)
Cash Flows From Financing Activities		
Payment of cash dividends to shareholders	(239)	(229)
Shares acquired - share repurchase authorization	(70)	(2)
Payments of note payable	(3)	(15)
Proceeds from stock options exercised	10	17
Contract holders' funds deposited	60	71
Contract holders' funds withdrawn	(119)	(118)
Excess tax benefits on share-based compensation	—	4
Other	(29)	(21)
Net cash used in financing activities	(390)	(293)
Net change in cash and cash equivalents	(103)	156
Cash and cash equivalents at beginning of year	777	544

Cash and cash equivalents at end of period	$674	$700
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$26	$26
Income taxes paid	44	152
Noncash Activities		
Conversion of securities	$5	$4
Equipment acquired under capital lease obligations	10	18
Cashless exercise of stock options	6	10
Other assets and other liabilities	74	29

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 condensed or omitted.

Our September 30, 2017, 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 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 an immaterial amount for the three months ended September 30, 2017, and
$7 million for the nine months ended September 30, 2017, which reduced our current provision for income taxes in our results of operations. 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 $13 million and $11 million being included in financing activities for the nine months ended September 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 September 30, 2017, $1.795 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 will not 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 will not 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; however, it is not expected to have a material impact on our company's consolidated financial position, cash flows or results of operations.

ASU 2017-09, 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	Gross unrealized losses	Fair value
At September 30, 2017				
Fixed maturity securities:				
Corporate	$ 5,514	$ 280	$ 11	$5,783
States, municipalities and political subdivisions	4,103	144	13	4,234
Commercial mortgage-backed	280	8	—	288
Government-sponsored enterprises	207	—	3	204
United States government	16	—	—	16
Foreign government	10	—	—	10
Convertibles and bonds with warrants attached	5	—	—	5
Subtotal	10,135	432	27	10,540
Equity securities:				
Common equities	3,084	2,762	38	5,808
Nonredeemable preferred equities	180	37	—	217
Subtotal	3,264	2,799	38	6,025
Total	$ 13,399	$ 3,231	$ 65	$16,565
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 September 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 September 30, 2017, and December 31, 2016. At September 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), Apple Inc. (Nasdaq:AAPL), Blackrock Inc. (Nasdaq:BLK), Microsoft Corporation (Nasdaq:MSFT), Johnson & Johnson (NYSE:JNJ) and 3M Company (NYSE:MMM), which had a combined gross unrealized gain of $864 million. At September 30, 2017, Apple Inc. was our largest single equity holding with a fair value of $216 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 September 30, 2017	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Fixed maturity securities:						
Corporate	$ 231	$ 4	$ 193	$ 7	$424	$ 11
States, municipalities and political subdivisions	508	8	122	5	630	13
Commercial mortgage-backed securities	43	—	3	—	46	—
Government-sponsored enterprises	152	3	43	—	195	3
United States government	7	—	—	—	7	—
Subtotal	941	15	361	12	1,302	27
Equity securities:						
Common equities	276	38	—	—	276	38
Subtotal	276	38	—	—	276	38
Total	$ 1,217	$ 53	$ 361	$ 12	$1,578	$ 65
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 September 30, 2017	Amortized cost	Fair value	% of fair value
Maturity dates:			
Due in one year or less	$ 674	$686	6.5 %
Due after one year through five years	2,668	2,803	26.6
Due after five years through ten years	3,853	4,009	38.0
Due after ten years	2,940	3,042	28.9
Total	$ 10,135	$10,540	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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Investment income:				
Interest	$112	$111	$334	$330
Dividends	43	39	124	117
Other	1	1	3	2
Total	156	151	461	449
Less investment expenses	3	3	8	7
Total	$153	$148	$453	$442
Realized investment gains and losses:				
Fixed maturities:				
Gross realized gains	$3	$10	$16	$17
Gross realized losses	—	—	—	(1)
Other-than-temporary impairments	—	—	(6)	(2)
Equity securities:				
Gross realized gains	1	47	160	147
Gross realized losses	—	—	(14)	(1)
Other-than-temporary impairments	—	—	(3)	—
Other	3	(1)	3	1
Total	$7	$56	$156	$161
Change in unrealized investment gains and losses:				
Fixed maturities	$9	$(20)	$119	$274
Equity securities	180	82	422	367
Income tax provision	(66)	(21)	(189)	(224)
Total	$123	$41	$352	$417

During the three months ended September 30, 2017, there were no equity securities and no fixed-maturity securities other-than-temporarily impaired. During the nine months ended September 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 nine months ended September 30, 2017 and 2016.

At September 30, 2017, 94 fixed-maturity investments with a total unrealized loss of $12 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 September 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 September 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 September 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	$ —	$ 5,782	$ 1	$5,783
States, municipalities and political subdivisions	—	4,229	5	4,234
Commercial mortgage-backed	—	288	—	288
Government-sponsored enterprises	—	204	—	204
United States government	16	—	—	16
Foreign government	—	10	—	10
Convertibles and bonds with warrants attached	—	5	—	5
Subtotal	16	10,518	6	10,540
Common equities, available for sale	5,808	—	—	5,808
Nonredeemable preferred equities, available for sale	—	217	—	217
Separate accounts taxable fixed maturities	—	783	—	783
Top Hat savings plan mutual funds and common equity (included in Other assets)	30	—	—	30
Total	$ 5,854	$ 11,518	$ 6	$17,378
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 September 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 September 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, July 1, 2017	$1	$ —	$ 5	$ —	$6
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, September 30, 2017	$1	$ —	$ 5	$ —	$6
Beginning balance, July 1, 2016	$52	$ 1	$ —	$ —	$53
Total gains or losses (realized/unrealized):					
Included in net income	—	—	—	—	—
Included in other comprehensive income	1	—	—	—	1
Purchases	—	—	—	—	—
Sales	(1)	—	—	—	(1)
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(10)	(1)	—	—	(11)
Ending balance, September 30, 2016	$42	$ —	$ —	$ —	$42

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

(Dollars in millions)	Asset fair value measurements using significant unobservable inputs				
	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, September 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	(1)	—	—	(2)	(3)
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(31)	(1)	—	—	(32)
Ending balance, September 30, 2016	$ 42	$ —	$ —	$ —	$ 42

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		September 30, 2017	December 31, 2016	September 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 September 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	—	503	—	503
6.125% senior notes, due 2034	—	459	—	459
Total	$ —	$ 1,013	$ —	$1,013
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 September 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 September 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 September 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	—	209	—	209
Total	$ —	$ 209	$ 846	$1,055
At December 31, 2016				
Deferred annuities	$ —	$ —	$ 839	$839
Structured settlements	—	206	—	206
Total	$ —	$ 206	$ 839	$1,045

Recorded reserves for the deferred annuities were $844 million and $861 million at September 30, 2017, and December 31, 2016, respectively. Recorded reserves for the structured settlements were $163 million and $170 million at September 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Gross loss and loss expense reserves, beginning of period	$5,213	$4,918	$5,035	$4,660
Less reinsurance recoverable	283	310	298	281
Net loss and loss expense reserves, beginning of period	4,930	4,608	4,737	4,379
Net incurred loss and loss expenses related to:				
Current accident year	835	730	2,493	2,261
Prior accident years	(20)	(40)	(96)	(151)
Total incurred	815	690	2,397	2,110
Net paid loss and loss expenses related to:				
Current accident year	411	374	969	848
Prior accident years	314	288	1,145	1,005
Total paid	725	662	2,114	1,853
Net loss and loss expense reserves, end of period	5,020	4,636	5,020	4,636
Plus reinsurance recoverable	280	301	280	301
Gross loss and loss expense reserves, end of period	$5,300	$4,937	$5,300	$4,937

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 $50 million at September 30, 2017, and $54 million at September 30, 2016, for certain life and health loss and loss expense reserves.

For the three months ended September 30, 2017, we experienced $20 million of favorable development on prior accident years, including $18 million of favorable development in commercial lines, $3 million of favorable development in excess and surplus lines and $1 million of adverse development in our reinsurance assumed operations. This included $6 million from favorable development of catastrophe losses for the three months ended September 30, 2017. For the three months ended September 30, 2017, we recognized favorable reserve development of $14 million for the workers' compensation line, $7 million for the commercial property line and $5 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 September 30, 2017, we recognized unfavorable reserve development of $8 million for the commercial auto line.

For the nine months ended September 30, 2017, we experienced $96 million of favorable development on prior accident years, including $55 million of favorable development in commercial lines, $13 million of favorable development in personal lines, $25 million of favorable development in excess and surplus lines and $3 million of favorable development in our reinsurance assumed operations. This included $20 million from favorable development of catastrophe losses for the nine months ended September 30, 2017. For the nine months ended September 30, 2017, we recognized favorable reserve development of $44 million for the workers' compensation line, $21 million for the commercial property line and $25 million for the other commercial lines due to reduced uncertainty of prior accident year loss and loss adjustment expense for these lines. For the nine months ended September 30, 2017, we recognized unfavorable reserve development of $27 million for the commercial auto line and $8 million for the commercial casualty line. The unfavorable reserve development for commercial casualty reflected higher large loss activity than prior year.

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

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

NOTE 5 – Life Policy and Investment Contract Reserves

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

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

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

This table summarizes our life policy and investment contract reserves:

(Dollars in millions)	September 30, 2017	December 31, 2016
Life policy reserves:		
Ordinary/traditional life	$ 1,063	$ 1,011
Other	46	45
Subtotal	1,109	1,056
Investment contract reserves:		
Deferred annuities	844	861
Universal life	594	578
Structured settlements	163	170
Other	6	6
Subtotal	1,607	1,615
Total life policy and investment contract reserves	$ 2,716	$ 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Property casualty:				
Deferred policy acquisition costs asset, beginning of period	$448	$412	$408	$388
Capitalized deferred policy acquisition costs	223	216	686	644
Amortized deferred policy acquisition costs	(220)	(207)	(643)	(611)
Deferred policy acquisition costs asset, end of period	$451	$421	$451	$421
Life:				
Deferred policy acquisition costs asset, beginning of period	$230	$212	$229	$228
Capitalized deferred policy acquisition costs	13	11	38	35
Amortized deferred policy acquisition costs	(17)	(15)	(37)	(37)
Amortized shadow deferred policy acquisition costs	(1)	(2)	(5)	(20)
Deferred policy acquisition costs asset, end of period	$225	$206	$225	$206
Consolidated:				
Deferred policy acquisition costs asset, beginning of period	$678	$624	$637	$616
Capitalized deferred policy acquisition costs	236	227	724	679
Amortized deferred policy acquisition costs	(237)	(222)	(680)	(648)
Amortized shadow deferred policy acquisition costs	(1)	(2)	(5)	(20)
Deferred policy acquisition costs asset, end of period	$676	$627	$676	$627

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

NOTE 7 – Accumulated Other Comprehensive Income

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

(Dollars in millions)	Three months ended September 30,					
	2017			2016		
	Before tax	Income tax	Net	Before tax	Income tax	Net
Investments:						
AOCI, beginning of period	$2,977	$1,031	$1,946	$2,673	$925	$1,748
OCI before realized gains recognized in net income	193	67	126	119	41	78
Realized gains recognized in net income	(4)	(1)	(3)	(57)	(20)	(37)
OCI	189	66	123	62	21	41
AOCI, end of period	$3,166	$1,097	$2,069	$2,735	$946	$1,789
Pension obligations:						
AOCI, beginning of period	$(25)	$(8)	$(17)	$(40)	$(13)	$(27)
OCI excluding amortization recognized in net income	—	—	—	—	—	—
Amortization recognized in net income	1	1	—	—	—	—
OCI	1	1	—	—	—	—
AOCI, end of period	$(24)	$(7)	$(17)	$(40)	$(13)	$(27)
Life deferred acquisition costs, life policy reserves and other:						
AOCI, beginning of period	$(6)	$(2)	$(4)	$(10)	$(3)	$(7)
OCI before realized gains and losses recognized in net income	1	—	1	(4)	(1)	(3)
Realized gains and losses recognized in net income	(3)	(1)	(2)	1	1	—
OCI	(2)	(1)	(1)	(3)	—	(3)
AOCI, end of period	$(8)	$(3)	$(5)	$(13)	$(3)	$(10)
Summary of AOCI:						
AOCI, beginning of period	$2,946	$1,021	$1,925	$2,623	$909	$1,714
Investments OCI	189	66	123	62	21	41
Pension obligations OCI	1	1	—	—	—	—
Life deferred acquisition costs, life policy reserves and other OCI	(2)	(1)	(1)	(3)	—	(3)
Total OCI	188	66	122	59	21	38
AOCI, end of period	$3,134	$1,087	$2,047	$2,682	$930	$1,752

(Dollars in millions)	Nine months ended September 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	694	243	451	801	280	521
Realized gains recognized in net income	(153)	(54)	(99)	(160)	(56)	(104)
OCI	541	189	352	641	224	417
AOCI, end of period	$3,166	$1,097	$2,069	$2,735	$946	$1,789
Pension obligations:						
AOCI, beginning of period	$(26)	$(8)	$(18)	$(42)	$(14)	$(28)
OCI excluding amortization recognized in net income	—	—	—	—	—	—
Amortization recognized in net income	2	1	1	2	1	1
OCI	2	1	1	2	1	1
AOCI, end of period	$(24)	$(7)	$(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 and losses recognized in net income	4	1	3	(13)	(4)	(9)
Realized gains recognized in net income	(3)	(1)	(2)	(1)	—	(1)
OCI	1	—	1	(14)	(4)	(10)
AOCI, end of period	$(8)	$(3)	$(5)	$(13)	$(3)	$(10)
Summary of AOCI:						
AOCI, beginning of period	$2,590	$897	$1,693	$2,053	$709	$1,344
Investments OCI	541	189	352	641	224	417
Pension obligations OCI	2	1	1	2	1	1
Life deferred acquisition costs, life policy reserves and other OCI	1	—	1	(14)	(4)	(10)
Total OCI	544	190	354	629	221	408
AOCI, end of period	$3,134	$1,087	$2,047	$2,682	$930	$1,752

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 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 includes our net written consolidated property casualty insurance premiums on assumed and ceded business:

(Dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Direct written premiums	$1,221	$1,189	$3,712	$3,561
Assumed written premiums	26	23	101	86
Ceded written premiums	(39)	(37)	(103)	(131)
Net written premiums	$1,208	$1,175	$3,710	$3,516

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

(Dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Direct earned premiums	$1,195	$1,153	$3,547	$3,409
Assumed earned premiums	39	22	99	53
Ceded earned premiums	(43)	(42)	(123)	(119)
Earned premiums	$1,191	$1,133	$3,523	$3,343

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

(Dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Direct incurred loss and loss expenses	$760	$691	$2,318	$2,131
Assumed incurred loss and loss expenses	62	9	97	30
Ceded incurred loss and loss expenses	(7)	(10)	(18)	(51)
Incurred loss and loss expenses	$815	$690	$2,397	$2,110

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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Direct earned premiums	$72	$74	$223	$220
Ceded earned premiums	(16)	(16)	(50)	(45)
Earned premiums	$56	$58	$173	$175

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

(Dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Direct contract holders' benefits incurred	$73	$72	$236	$228
Ceded contract holders' benefits incurred	(14)	(9)	(52)	(40)
Contract holders' benefits incurred	$59	$63	$184	$188

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 September 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 September 30,				Nine months ended September 30,			
	2017		2016		2017		2016	
Tax at statutory rate:	$46	35.0 %	$88	35.0 %	$187	35.0 %	$239	35.0 %
Increase (decrease) resulting from:								
Tax-exempt income from municipal bonds	(9)	(7.0)	(8)	(3.2)	(27)	(5.1)	(25)	(3.7)
Dividend received exclusion	(8)	(6.2)	(8)	(3.2)	(25)	(4.7)	(24)	(3.5)
Other	(2)	(0.9)	1	0.3	(5)	(0.8)	3	0.4
Provision for income taxes	$27	20.9 %	$73	28.9 %	$130	24.4 %	$193	28.2 %

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 September 30, 2017, and $7 million and 1.3 percent, during the nine months ended September 30, 2017.

As of September 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income—basic and diluted	$102	$180	$403	$491
Denominator:				
Basic weighted-average common shares outstanding	164.0	164.6	164.3	164.5
Effect of share-based awards:				
Stock options	1.1	1.2	1.1	1.1
Nonvested shares	0.8	1.0	0.7	0.9
Diluted weighted-average shares	165.9	166.8	166.1	166.5
Earnings per share:				
Basic	$0.62	$1.09	$2.45	$2.98
Diluted	0.61	1.08	2.42	2.95
Number of anti-dilutive share-based awards	0.6	—	0.7	0.3

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 nine months ended September 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Service cost	$ 3	$ 3	$ 8	$ 8
Interest cost	4	4	11	11
Expected return on plan assets	(6)	(5)	(16)	(14)
Amortization of actuarial loss and prior service cost	1	0	2	2
Net periodic benefit cost	$ 2	$ 2	$ 5	$ 7

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 $4 million and $3 million to our 401(k) and Top Hat savings plans during the third quarter of 2017 and 2016 and contributions of $13 million and $11 million for the nine months of 2017 and 2016, respectively.

We contributed $5 million to our qualified pension plan during the first nine 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues:				
Commercial lines insurance				
Commercial casualty	$268	$265	$804	$785
Commercial property	225	217	674	646
Commercial auto	159	151	472	442
Workers' compensation	84	90	254	268
Other commercial	56	56	165	169
Commercial lines insurance premiums	792	779	2,369	2,310
Fee revenues	1	1	3	3
Total commercial lines insurance	793	780	2,372	2,313
Personal lines insurance				
Personal auto	148	137	433	403
Homeowner	131	122	384	362
Other personal	35	34	104	99
Personal lines insurance premiums	314	293	921	864
Fee revenues	1	1	4	3
Total personal lines insurance	315	294	925	867
Excess and surplus lines insurance	53	48	153	136
Fee revenues	—	1	1	1
Total excess and surplus lines insurance	53	49	154	137
Life insurance premiums	56	58	173	175
Fee revenues	1	2	4	4
Total life insurance	57	60	177	179
Investments				
Investment income, net of expenses	153	148	453	442
Realized investment gains and losses, net	7	56	156	161
Total investment revenue	160	204	609	603
Other				
Cincinnati Re insurance premiums	32	13	80	33
Other	2	2	4	5
Total other revenues	34	15	84	38
Total revenues	$1,412	$1,402	$4,321	$4,137
Income (loss) before income taxes:				
Insurance underwriting results				
Commercial lines insurance	$39	$72	$61	$148
Personal lines insurance	(9)	(8)	(48)	—
Excess and surplus lines insurance	13	20	50	42
Life insurance	(4)	(4)	—	(4)

Investments	136	181	539	536
Other	(46)	(8)	(69)	(38)
Total income before income taxes	$129	$253	$533	$684

Identifiable assets:	September 30, 2017	December 31, 2016
Property casualty insurance	$ 2,997	$ 2,967
Life insurance	1,424	1,366
Investments	16,693	15,569
Other	478	484
Total	$ 21,592	$ 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 September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Earned premiums	$1,247	$1,191	5	$3,696	$3,518	5
Investment income, net of expenses (pretax)	153	148	3	453	442	2
Realized investment gains and losses, net (pretax)	7	56	nm	156	161	(3)
Total revenues	1,412	1,402	1	4,321	4,137	4
Net income	102	180	(43)	403	491	(18)
Comprehensive income	224	218	3	757	899	(16)
Net income per share—diluted	0.61	1.08	(44)	2.42	2.95	(18)
Cash dividends declared per share	0.50	0.48	4	1.50	1.44	4
Diluted weighted average shares outstanding	165.9	166.8	(1)	166.1	166.5	0

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

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

Net income for third-quarter of 2017, compared with third-quarter 2016, decreased $78 million primarily due to a $51 million reduction in after-tax property casualty underwriting income and a $32 million decrease in after-tax net realized investment gains and losses. Catastrophe losses, mostly weather related, were $34 million more after taxes and unfavorably affected both net income and property casualty underwriting income. Third-quarter 2017 after-tax investment income in our investments segment results rose $5 million. Life insurance segment results on a pretax basis for the third quarter of 2017 were flat compared with the third quarter of 2016.

For the nine months ended September 30, 2017, net income decreased $88 million compared with the first nine months of 2016, reflecting a $101 million decrease in after-tax property casualty underwriting income and a decrease of $4 million in after-tax net realized investment gains. The property casualty underwriting income decrease included an unfavorable $48 million after-tax effect from higher catastrophe losses. After-tax investment income in our investments segment results for the first nine months of 2017 rose $10 million compared with the same period of 2016. Life insurance segment results on a pretax basis improved 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 nine 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 September 30, 2017	At December 31, 2016
Total investments	$ 16,664	$ 15,500
Total assets	21,592	20,386
Short-term debt	17	20
Long-term debt	787	787
Shareholders' equity	7,523	7,060
Book value per share	45.86	42.95
Debt-to-total-capital ratio	9.7 %	10.3 %

Total assets at September 30, 2017, increased 6 percent compared with year-end 2016, and included 8 percent growth in investments that reflected a combination of net purchases and higher fair values for many securities in our portfolio. Shareholders' equity increased 7 percent, and book value per share also increased 7 percent during the first nine 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 10.3 percent for the first nine 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 $2.91 increase in book value per share during the first nine months of 2017 contributed 6.8 percentage points to the value creation ratio, while dividends declared at $1.50 per share contributed 3.5 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Value creation ratio major components:				
Net income before net realized gains	1.3 %	2.1 %	4.3 %	6.0 %
Change in fixed-maturity securities, realized and unrealized gains	0.1	(0.1)	1.2	2.9
Change in equity securities, realized and unrealized gains	1.6	1.2	5.2	5.2
Other	0.1	0.0	(0.4)	(0.1)
Value creation ratio	3.1 %	3.2 %	10.3 %	14.0 %

(Dollars are per share)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Book value change per share:				
End of period book value	$45.86	$43.24	$45.86	$43.24
Less beginning of period book value	44.97	42.37	42.95	39.20
Change in book value	$0.89	$0.87	$2.91	$4.04
Change in book value:				
Net income before realized gains	$0.59	$0.87	$1.84	$2.34
Change in fixed-maturity securities, realized and unrealized gains	0.05	(0.04)	0.53	1.14
Change in equity securities, realized and unrealized gains	0.72	0.51	2.23	2.02
Dividend declared to shareholders	(0.50)	(0.48)	(1.50)	(1.44)
Other	0.03	0.01	(0.19)	(0.02)
Change in book value	$0.89	$0.87	$2.91	$4.04

(Dollars are per share)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Value creation ratio:				
End of period book value	$45.86	$43.24	$45.86	$43.24
Less beginning of period book value	44.97	42.37	42.95	39.20
Change in book value	0.89	0.87	2.91	4.04
Dividend declared to shareholders	0.50	0.48	1.50	1.44
Total value creation	$1.39	$1.35	$4.41	$5.48
Value creation ratio from change in book value*	2.0 %	2.1 %	6.8 %	10.3 %
Value creation ratio from dividends declared to shareholders**	1.1	1.1	3.5	3.7
Value creation ratio	3.1 %	3.2 %	10.3 %	14.0 %

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

DRIVERS OF LONG-TERM VALUE CREATION
Operating through The Cincinnati Insurance Company, Cincinnati Financial Corporation is one of the 25 largest property casualty insurers in the nation, based on 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 September 30, 2017, we actively marketed through agencies located in 42 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 nine months of 2017, our consolidated property casualty net written premium year-over-year growth was 6 percent, comparing favorably with the industry's 4.5 percent growth rate reported by A.M. Best for the first six months of 2017. For the five-year period 2012 through 2016, our growth rate was approximately double that of the industry.
- Combined ratio – We believe our underwriting philosophy and initiatives can generate a GAAP combined ratio over any five-year period that is consistently within the range of 95 percent to 100 percent. For the first nine months of 2017, our GAAP combined ratio was 99.1 percent and our statutory combined ratio was 98.3 percent, both including 9.9 percentage points of current accident year catastrophe losses partially offset by 2.7 percentage points of favorable loss reserve development on prior accident years. Our nine-month statutory combined ratio was lower than the 100.9 percent reported for the industry by A.M. Best for the first six months of 2017.
- Investment contribution – We believe our investment philosophy and initiatives can drive investment income growth and lead to a total return on our equity investment portfolio over a five-year period that exceeds the five-year return of the Standard & Poor's 500 Index. For the first nine months of 2017, pretax investment income was $453 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 nine months of 2017 experienced an estimated average price increase at percentages in the high-single-digit range, with the third quarter higher than the second quarter. Our personal auto policies that renewed during the first nine months of 2017 averaged an estimated price increase at percentages near the low end of 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 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 nine months of 2017, we appointed 86 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 nine months of 2017, we appointed 92 new agencies that meet that criteria.

As of September 30, 2017, a total of 1,704 agency relationships market our property casualty insurance products from 2,237 reporting locations.

We also continue to grow premiums through the disciplined expansion of Cincinnati Re. During the first nine months of 2017, Cincinnati Re contributed $48 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 September 30, 2017, we held $2.515 billion of our cash and invested assets at the parent-company level, of which $2.202 billion, or 87.6 percent, was invested in common stocks, and $234 million, or 9.3 percent, was cash or cash equivalents. Our debt-to-total-capital ratio of 9.7 percent remains well below our target limit. Another important indicator of financial strength is our ratio of property casualty net written premiums to statutory surplus, which was 1.0-to-1 for the 12 months ended September 30, 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 October 25, 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 September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Earned premiums	$1,191	$1,133	5	$3,523	$3,343	5
Fee revenues	2	3	(33)	8	7	14
Total revenues	1,193	1,136	5	3,531	3,350	5
Loss and loss expenses from:						
Current accident year before catastrophe losses	721	676	7	2,144	2,001	7
Current accident year catastrophe losses	114	54	111	349	260	34
Prior accident years before catastrophe losses	(14)	(42)	67	(76)	(146)	48
Prior accident years catastrophe losses	(6)	2	nm	(20)	(5)	(300)
Loss and loss expenses	815	690	18	2,397	2,110	14
Underwriting expenses	367	356	3	1,094	1,044	5
Underwriting profit	$11	$90	(88)	$40	$196	(80)
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year before catastrophe losses	60.4 %	59.8 %	0.6	60.8 %	59.9 %	0.9
Current accident year catastrophe losses	9.6	4.7	4.9	9.9	7.8	2.1
Prior accident years before catastrophe losses	(1.1)	(3.7)	2.6	(2.1)	(4.4)	2.3
Prior accident years catastrophe losses	(0.5)	0.2	(0.7)	(0.6)	(0.2)	(0.4)
Loss and loss expenses	68.4	61.0	7.4	68.0	63.1	4.9
Underwriting expenses	30.9	31.4	(0.5)	31.1	31.3	(0.2)
Combined ratio	99.3 %	92.4 %	6.9	99.1 %	94.4 %	4.7
Combined ratio	99.3 %	92.4 %	6.9	99.1 %	94.4 %	4.7
Contribution from catastrophe losses and prior years reserve development	8.0	1.2	6.8	7.2	3.2	4.0
Combined ratio before catastrophe losses and prior years reserve development	91.3 %	91.2 %	0.1	91.9 %	91.2 %	0.7

Our consolidated property casualty insurance operations generated an underwriting profit of $11 million and $40 million for the three and nine months ended September 30, 2017. The three-month decrease of $79 million, compared with the same period of 2016, was largely due to an increase of $52 million in losses from natural catastrophes that were mostly weather related. The nine-month decrease of $156 million, compared with the first nine months of 2016, included an increase of $74 million in losses from natural catastrophes. Both 2017 periods also experienced lower amounts of favorable reserve development on prior accident years. 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, net loss and loss expense reserves at September 30, 2017, were $284 million higher than at year-end 2016, including $123 million for the incurred but not reported (IBNR) portion. The $284 million reserve increase raised year-end 2016 net loss and loss expense reserves by 6 percent.

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 percent. A combined ratio above 100 percent indicates that an insurance company’s losses and expenses exceeded premiums.

Our consolidated property casualty combined ratio for the third quarter of 2017 rose 6.9 percentage points, compared with the same period of 2016, including 4.2 points from higher catastrophe losses and loss expenses. For the first nine months of 2017, compared with the same period of 2016, our consolidated property casualty combined ratio rose 4.7 percentage points, including 1.7 points from higher catastrophe losses and loss expenses.

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 2.7 percentage points in the first nine months of 2017, compared with 4.6 percentage points in the same period of 2016. 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 rose in the first nine months of 2017. That 60.8 percent ratio increased 0.9 percentage points compared with the 59.9 percent accident year 2016 ratio measured as of September 30, 2016, including an increase of 0.7 percentage points in the ratio for large losses of $1 million or more per claim, discussed below.

The underwriting expense ratio for the third quarter and first nine months of 2017 decreased, compared with the same periods of 2016. Strategic investments that include enhancement of underwriting expertise were offset by the favorable effects of higher earned premiums and ongoing expense management efforts.

Consolidated Property Casualty Insurance Premiums

(Dollars in millions)	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Agency renewal written premiums	$1,064	$1,036	3	$3,211	$3,121	3
Agency new business written premiums	157	149	5	475	417	14
Cincinnati Re net written premiums	24	21	14	104	56	86
Other written premiums	(37)	(31)	(19)	(80)	(78)	(3)
Net written premiums	1,208	1,175	3	3,710	3,516	6
Unearned premium change	(17)	(42)	60	(187)	(173)	(8)
Earned premiums	$1,191	$1,133	5	$3,523	$3,343	5

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 2017, are discussed in more detail by segment below in Financial Results.

Consolidated property casualty net written premiums for the three and nine months ended September 30, 2017, grew $33 million and $194 million compared with the same periods of 2016. Each of our property casualty segments continued to grow during the third quarter and first nine months of 2017. 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 rose $8 million and $58 million for the third quarter and first nine months of 2017, compared with the same periods of 2016. New business written premiums in the first nine months of 2017 were higher than the same period of 2016 for each of our property casualty insurance segments. New agency appointments during 2016 and 2017 produced a $44 million increase in standard lines new business for the first nine months of 2017 compared with the same period of 2016. 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 increased $3 million and $48 million for the third quarter and first nine months of 2017, compared with the same periods of 2016. 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 nine months of 2017, earned premiums for Cincinnati Re totaled $80 million, compared with $33 million earned in the same period a year ago.

Other written premiums include premiums ceded to reinsurers as part of our reinsurance ceded program. Those ceded premium totals for the third quarter and first nine months of 2017 were substantially similar to the same periods of 2016.

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 9.1 and 9.3 percentage points to the combined ratio in the third quarter and first nine months of 2017, respectively, compared with 4.9 and 7.6 percentage points in the same periods of 2016. 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. Aggregate losses from 10 events between January 23 and September 30, 2017, which occurred within the specific geographic locations included in the severe convective storm portion of our coverage, totaled $135 million, after our per occurrence deductible. 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.

Consolidated Property Casualty Insurance Catastrophe Losses and Loss Expenses Incurred

(Dollars in millions, net of reinsurance)		Three months ended September 30,					Nine months ended September 30,				
		Comm. lines	Pers. lines	E&S lines	Cin. Re	Total	Comm. lines	Pers. lines	E&S lines	Cin. Re	Total
Dates	Region										
2017											
Feb. 28-Mar. 1	Midwest, South	$(2)	$1	$ —	$—	$(1)	$19	$23	$ 1	$—	$43
Mar. 6-9	Midwest, Northeast, South	—	—	—	—	—	25	11	—	—	36
Mar. 21-22	South	(3)	1	—	—	(2)	19	10	—	—	29
Apr. 4-6	Midwest, South	1	2	—	—	3	8	14	—	—	22
Apr. 28-May 1	Midwest, Northeast, South	1	—	—	—	1	5	5	—	—	10
May 8-11	Midwest, South, West	—	—	—	—	—	14	—	—	—	14
May 15-18	Midwest, Northeast, South	—	2	—	—	2	3	9	—	—	12
Jun. 11	Midwest	—	2	—	—	2	4	14	—	—	18
Jun. 16-19	Midwest, Northeast, South	—	1	—	—	1	7	4	—	—	11
Jun. 27-29	Midwest	16	—	—		16	18	1	—	—	19
Aug. 25-Sep. 1	South	4	3	—	12	19	4	3	—	12	19
Sep. 6-12	International, South	14	21	1	25	61	14	21	1	25	61
All other 2017 catastrophes		2	4	—	6	12	31	18	—	6	55
Development on 2016 and prior catastrophes		(4)	(2)	—	—	(6)	(15)	(4)	—	(1)	(20)
Calendar year incurred total		$29	$35	$ 1	$43	$108	$156	$129	$ 2	$42	$329
2016											
Apr. 2-3	Midwest, Northeast, South	$—	$—	$ —	$—	$—	$6	$6	$ —	$—	$12
Apr. 10-15	South	—	—	—	—	—	55	—	1	—	56
Apr. 25-28	Midwest, South	—	—	—	—	—	8	4	—	—	12
Apr. 29-May 3	Midwest, South	1	1	—	—	2	19	8	—	—	27
May 7-10	Midwest, South, West	3	5	—	—	8	17	11	—	—	28
May 11-12	Midwest, South	(1)	1	—	—	—	10	2	—	—	12
May 21-28	Midwest, South, West	1	—	—	—	1	12	3	—	—	15
Jul. 28-29	West	11	—	—	—	11	11	—	—	—	11
Sep. 19-23	Midwest	1	10	—	—	11	1	10	—	—	11
All other 2016 catastrophes		11	10	—	—	21	47	28	1	—	76
Development on 2015 and prior catastrophes		4	(2)	—	—	2	(2)	(3)	—	—	(5)
Calendar year incurred total		$31	$25	$ —	$—	$56	$184	$69	$ 2	$—	$255

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 September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Current accident year losses greater than $5 million	$6	$10	(40)	$34	$33	3
Current accident year losses $1 million - $5 million	75	46	63	152	122	25
Large loss prior accident year reserve development	4	1	300	42	4	nm
Total large losses incurred	85	57	49	228	159	43
Losses incurred but not reported	(9)	(7)	29	(6)	100	nm
Other losses excluding catastrophe losses	499	467	7	1,453	1,269	14
Catastrophe losses	104	53	96	319	249	28
Total losses incurred	$679	$570	19	$1,994	$1,777	12
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year losses greater than $5 million	0.5 %	0.9 %	(0.4)	1.0 %	1.0 %	0.0
Current accident year losses $1 million - $5 million	6.4	4.1	2.3	4.3	3.6	0.7
Large loss prior accident year reserve development	0.3	0.2	0.1	1.2	0.1	1.1
Total large loss ratio	7.2	5.2	2.0	6.5	4.7	1.8
Losses incurred but not reported	(0.7)	(0.7)	0.0	(0.2)	3.0	(3.2)
Other losses excluding catastrophe losses	41.7	41.3	0.4	41.2	38.1	3.1
Catastrophe losses	8.8	4.7	4.1	9.1	7.4	1.7
Total loss ratio	57.0 %	50.5 %	6.5	56.6 %	53.2 %	3.4

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 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 third-quarter 2017 property casualty total large losses incurred of $85 million, net of reinsurance, were higher than the $51 million quarterly average during full-year 2016 and higher than the $57 million experienced for the third quarter of 2016. The ratio for these large losses was 2.0 percentage points higher compared with last year's third quarter. The third-quarter 2017 amount of total large losses incurred helped contribute to the increase in the nine-month 2017 total large loss ratio, compared with 2016, in addition to a first-half 2017 ratio that was 1.5 points higher than the first half of 2016. We believe results for the three-month and nine-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.

FINANCIAL RESULTS

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

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

COMMERCIAL LINES INSURANCE RESULTS

(Dollars in millions)	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Earned premiums	$792	$779	2	$2,369	$2,310	3
Fee revenues	1	1	0	3	3	0
Total revenues	793	780	2	2,372	2,313	3
Loss and loss expenses from:						
Current accident year before catastrophe losses	486	460	6	1,439	1,357	6
Current accident year catastrophe losses	33	27	22	171	186	(8)
Prior accident years before catastrophe losses	(14)	(35)	60	(40)	(116)	66
Prior accident years catastrophe losses	(4)	4	nm	(15)	(2)	(650)
Loss and loss expenses	501	456	10	1,555	1,425	9
Underwriting expenses	253	252	0	756	740	2
Underwriting profit	$39	$72	(46)	$61	$148	(59)
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year before catastrophe losses	61.3 %	59.1 %	2.2	60.7 %	58.7 %	2.0
Current accident year catastrophe losses	4.3	3.5	0.8	7.2	8.1	(0.9)
Prior accident years before catastrophe losses	(1.8)	(4.5)	2.7	(1.6)	(5.0)	3.4
Prior accident years catastrophe losses	(0.5)	0.4	(0.9)	(0.6)	(0.1)	(0.5)
Loss and loss expenses	63.3	58.5	4.8	65.7	61.7	4.0
Underwriting expenses	31.9	32.3	(0.4)	31.9	32.0	(0.1)
Combined ratio	95.2 %	90.8 %	4.4	97.6 %	93.7 %	3.9
Combined ratio	95.2 %	90.8 %	4.4	97.6 %	93.7 %	3.9
Contribution from catastrophe losses and prior years reserve development	2.0	(0.6)	2.6	5.0	3.0	2.0
Combined ratio before catastrophe losses and prior years reserve development	93.2 %	91.4 %	1.8	92.6 %	90.7 %	1.9

Overview

Performance highlights for the commercial lines segment include:

- Premiums – Earned premiums and net written premiums for the commercial lines segment grew during the third quarter and first nine months of 2017, in part due to renewal premium growth that continued to reflect price increases and a higher level of insured exposures. Higher new business written premiums also contributed to the increase in net written premiums for the nine months ended September 30, 2017. The table below analyzes the primary components of premiums. We continue using predictive analytics tools to improve pricing precision and segmentation while also 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 grew 1 percent during third-quarter 2017 and 2 percent during the nine months ended September 30, 2017, compared with the same periods of 2016. The growth reflected price increases and improving economic conditions. During the third quarter of 2017, our overall standard commercial lines policies continued to average estimated renewal price increases at percentages in the low-single-digit range, similar to the second quarter of 2017. 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, in turn 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 period being measured. Therefore, the change in average commercial lines renewal pricing we report 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 third quarter of 2017, we estimate that our average percentage price increase for commercial auto continued in the high-single-digit range, higher in that range than second-quarter 2017. 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 near the low end of 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 our commercial casualty and workers' compensation lines 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 nine months of 2017 contributed $54 million to net written premiums.

New business written premiums for commercial lines decreased $2 million during the third quarter of 2017 and increased $20 million during the first nine months of 2017, compared with the same periods of 2016. The third-quarter total reflected a modest decrease for each major line of business in our commercial lines insurance segment except commercial property. The nine-month 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 are 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, ceded premium totals for the third quarter and first nine months of 2017 were similar to the same periods of 2016.

Commercial Lines Insurance Premiums

(Dollars in millions)	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Agency renewal written premiums	$707	$698	1	$2,208	$2,174	2
Agency new business written premiums	99	101	(2)	301	281	7
Other written premiums	(28)	(22)	(27)	(53)	(54)	2
Net written premiums	778	777	0	2,456	2,401	2
Unearned premium change	14	2	nm	(87)	(91)	4
Earned premiums	$792	$779	2	$2,369	$2,310	3

- Combined ratio – The commercial lines combined ratio rose 4.4 percentage points for the third quarter and 3.9 points for the first nine months of 2017, compared with the same periods a year ago, largely due to lower amounts of favorable reserve development on prior accident years, discussed below. In addition, the current accident year loss and loss expenses ratio increased for our commercial casualty line of business, which represents approximately one-third of premiums for our commercial lines insurance segment. Commercial casualty paid losses and loss expenses for the third quarter of 2017 were higher than any quarter since the beginning of 2015, in part due to an increase in large losses discussed below. Although the ratio for our commercial casualty case incurred losses was approximately 2 percentage points better than the first half of 2017, it remained approximately 4 points worse than the average for the prior two years. After considering these trends, we maintained our consistently prudent approach to setting reserves with IBNR reserves that resulted in no favorable development on third-quarter 2017 commercial casualty prior accident year reserves and a nine-month commercial casualty current accident year loss and loss

expenses ratio approximately 2 percentage points higher than full-year 2016.
The commercial lines ratio for current accident year loss and loss expenses before catastrophe losses rose in the first nine months of 2017. That 60.7 percent ratio increased 2.0 percentage points compared with the 58.7 percent accident year 2016 ratio measured as of September 30, 2016, including an increase of 0.5 percentage points in the ratio for large losses of $1 million or more per claim, discussed below.

Catastrophe losses and loss expenses accounted for 3.8 and 6.6 percentage points of the combined ratio for the third quarter and first nine months of 2017, compared with 3.9 and 8.0 percentage points for the same periods a year ago. The 10-year annual average for that catastrophe measure through 2016 for the commercial lines segment was 4.8 percentage points, and the five-year annual average was 5.2 percentage points.

Commercial auto, representing 19 percent of 2016 earned premiums for our commercial lines insurance segment, was the only major line of business in that segment with a third-quarter 2017 total loss and loss expense ratio before catastrophe losses significantly higher than we desired. As discussed above, during the first nine months of 2017, our commercial auto policies experienced average renewal price increases at percentages in the high-single-digit range, with the third quarter higher than the second quarter. We believe pricing and risk selection actions we are taking will help improve future profitability. Further segmentation of policies as they renew should also help improve profitability, as we seek more adequate pricing on individual policies that need it based on analytics and underwriter judgment. As an example, for our 2016 commercial auto policies that we determined have relatively weaker pricing, representing approximately one-third of commercial auto renewal written premiums, we obtained 2016 percentage price increases that averaged in the high-single digits. We also continued to improve premium rate classification and the use of other rating variables in risk selection and pricing.

The net effect of reserve development on prior accident years during the third quarter and first nine months of 2017 was favorable for commercial lines overall by $18 million and $55 million compared with $31 million and $118 million for the same periods in 2016. For the first nine months of 2017, our workers' compensation line of business was the largest contributor to the total commercial lines net favorable reserve development on prior accident years, followed by other commercial lines, which was largely attributable to director and officer liability insurance. Commercial property also contributed to the total commercial lines net favorable reserve development. Those contributions were partially offset by unfavorable reserve development for our commercial auto and commercial casualty lines of business. The unfavorable reserve development for commercial casualty reflected higher than usual large loss activity for the first and third quarters of 2017. The net favorable reserve development recognized during the first nine months of 2017 for our commercial lines insurance segment was largely for accident year 2016 and accident years prior to 2014, and was primarily due to lower-than-anticipated loss emergence on known claims. Reserve estimates are inherently uncertain as described in our 2016 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 48.

The commercial lines underwriting expense ratio for the third quarter and first nine months of 2017 decreased, compared with the same periods of 2016, as earned premiums increased at a faster pace than underwriting expenses.

Commercial Lines Insurance Losses Incurred by Size

(Dollars in millions, net of reinsurance)	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Current accident year losses greater than $5 million	$6	$10	(40)	$34	$33	3
Current accident year losses $1 million - $5 million	56	34	65	115	103	12
Large loss prior accident year reserve development	1	5	(80)	37	8	nm
Total large losses incurred	63	49	29	186	144	29
Losses incurred but not reported	1	4	(75)	17	70	(76)
Other losses excluding catastrophe losses	313	287	9	911	786	16
Catastrophe losses	27	28	(4)	149	179	(17)
Total losses incurred	$404	$368	10	$1,263	$1,179	7
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year losses greater than $5 million	0.8 %	1.3 %	(0.5)	1.5 %	1.4 %	0.1
Current accident year losses $1 million - $5 million	7.2	4.4	2.8	4.8	4.4	0.4
Large loss prior accident year reserve development	0.1	0.8	(0.7)	1.6	0.4	1.2
Total large loss ratio	8.1	6.5	1.6	7.9	6.2	1.7
Losses incurred but not reported	—	0.4	(0.4)	0.7	3.0	(2.3)
Other losses excluding catastrophe losses	39.6	36.7	2.9	38.4	34.1	4.3
Catastrophe losses	3.4	3.7	(0.3)	6.3	7.8	(1.5)
Total loss ratio	51.1 %	47.3 %	3.8	53.3 %	51.1 %	2.2

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 third-quarter 2017 commercial lines total large losses incurred of $63 million, net of reinsurance, were higher than the quarterly average of $48 million during full-year 2016 and higher than the $49 million total large losses incurred for the third quarter of 2016. The rise in commercial lines large losses for the third-quarter and first nine months of 2017 was largely due to our commercial casualty and commercial property lines of business. The third-quarter 2017 ratio for commercial lines total large losses was 1.6 percentage points higher compared with last year’s third-quarter ratio. The third-quarter 2017 amount of total large losses incurred helped contribute to the increase in the nine-month 2017 total large loss ratio, compared with 2016, in addition to a first-half 2017 ratio that was 1.6 points higher than the first half of 2016. We believe results for the three- and nine-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 September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Earned premiums	$314	$293	7	$921	$864	7
Fee revenues	1	1	0	4	3	33
Total revenues	315	294	7	925	867	7
Loss and loss expenses from:						
Current accident year before catastrophe losses	196	186	5	586	546	7
Current accident year catastrophe losses	37	27	37	133	72	85
Prior accident years before catastrophe losses	2	6	(67)	(9)	(1)	(800)
Prior accident years catastrophe losses	(2)	(2)	0	(4)	(3)	(33)
Loss and loss expenses	233	217	7	706	614	15
Underwriting expenses	91	85	7	267	253	6
Underwriting loss	$(9)	$(8)	13	$(48)	$—	nm
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year before catastrophe losses	62.2 %	63.7 %	(1.5)	63.6 %	63.2 %	0.4
Current accident year catastrophe losses	11.7	8.9	2.8	14.5	8.3	6.2
Prior accident years before catastrophe losses	0.7	2.1	(1.4)	(1.0)	(0.1)	(0.9)
Prior accident years catastrophe losses	(0.6)	(0.5)	(0.1)	(0.5)	(0.3)	(0.2)
Loss and loss expenses	74.0	74.2	(0.2)	76.6	71.1	5.5
Underwriting expenses	29.1	29.2	(0.1)	29.0	29.3	(0.3)
Combined ratio	103.1 %	103.4 %	(0.3)	105.6 %	100.4 %	5.2
Combined ratio	103.1 %	103.4 %	(0.3)	105.6 %	100.4 %	5.2
Contribution from catastrophe losses and prior years reserve development	11.8	10.5	1.3	13.0	7.9	5.1
Combined ratio before catastrophe losses and prior years reserve development	91.3 %	92.9 %	(1.6)	92.6 %	92.5 %	0.1

Overview

Performance highlights for the personal lines segment include:

- Premiums – Personal lines earned premiums and net written premiums for the third quarter and first nine months of 2017 continued to grow, reflecting increases in renewal written premiums and new business written premiums from agencies that represent us. Price increases and a high level of policy retention were the main drivers of renewal premium growth. The table below analyzes the primary components of premiums.

Agency renewal written premiums increased 5 percent for both the third quarter and first nine months of 2017, largely reflecting rate increases. We estimate that premium rates for our personal auto line of business increased at average percentages near the low end of the high-single-digit range during the first nine months of 2017. For our homeowner line of business, we estimate that premium rates for the first nine months of 2017 increased at average percentages near the low end of 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 grew $11 million or 34 percent during the third quarter and $31 million or 34 percent during the first nine months of 2017, compared with the same periods of 2016. That growth included approximately $9 million for the third quarter, and $22 million for the first nine months of 2017, from high net worth clients of our agencies. Personal lines new business written premiums from our high net worth policies totaled approximately $16 million for the third quarter and $42 million for the first nine months of 2017. The primary factors driving growth in the middle market portion included recent-year expansion into new states and other additional marketing efforts directed toward agencies. Marketing efforts included assisting agencies with processing qualified policies expiring from other insurance companies, sometimes referred to as

"book rolls". Similar to recent years, such processing has not materially contributed to 2017 increases or decreases in personal lines new business written premiums.
Other written premiums include premiums ceded to reinsurers as part of our reinsurance ceded program. For our personal lines insurance segment, ceded premium totals for the third quarter and first nine months of 2017 were similar to the same periods of 2016.
We continue to implement strategies discussed in our 2016 Annual Report on Form 10-K, Item 1, Strategic Initiatives, Page 13, to enhance our responsiveness to marketplace changes and to help achieve our long-term 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 September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Agency renewal written premiums	$318	$303	5	$881	$841	5
Agency new business written premiums	43	32	34	122	91	34
Other written premiums	(6)	(6)	0	(18)	(17)	(6)
Net written premiums	355	329	8	985	915	8
Unearned premium change	(41)	(36)	(14)	(64)	(51)	(25)
Earned premiums	$314	$293	7	$921	$864	7

- Combined ratio – Our personal lines combined ratio for the third quarter of 2017 decreased 0.3 percentage points, compared with the same period a year ago. For the first nine months of 2017, compared with the same period of 2016, it rose 5.2 percentage points, driven by an increase of 6.0 percentage points in the ratio for weather-related natural catastrophe losses and loss expenses.

The personal lines ratio for current accident year loss and loss expenses before catastrophe losses rose in the first nine months of 2017. That 63.6 percent ratio increased 0.4 percentage points compared with the 63.2 percent accident year 2016 ratio measured as of September 30, 2016, including an increase of 2.2 percentage points in the ratio for large losses of $1 million or more per claim, discussed below.
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.
Personal auto, representing 47 percent of 2016 earned premiums for our personal lines insurance segment, was the only major line of business in that segment with a third-quarter 2017 total loss and loss expense ratio before catastrophe losses significantly higher than we desired. As discussed above, during the first nine months of 2017, our personal auto policies experienced average renewal price increases at percentages near the low end of the high-single-digit range. We believe rate increases and other actions to improve pricing precision and reduce loss costs will improve future profitability.
Catastrophe losses and loss expenses accounted for 11.1 and 14.0 percentage points of the combined ratio for the third quarter and first nine months of 2017, compared with 8.4 and 8.0 percentage points for the same periods of 2016. The 10-year annual average catastrophe loss ratio through 2016 for the personal lines segment was 10.7 percentage points, and the five-year annual average was 9.3 percentage points.
The net effect of reserve development on prior accident years during the third quarter of 2017 was unfavorable for personal lines overall by less than $1 million, compared with an unfavorable $4 million for the same period in 2016. For the first nine months of 2017, total personal lines net reserve development was favorable by $13 million,

compared with a favorable $4 million for the same period in 2016. Our homeowner and other personal lines of business were the largest contributors to the nine-month 2017 total personal lines net favorable reserve development on prior accident years, followed by personal auto. 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 2016 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 48.

The underwriting expense ratio decreased slightly for the third quarter and first nine months of 2017, compared with the same periods of 2016, as earned premiums increased at a faster pace than underwriting expenses.

Personal Lines Insurance Losses Incurred by Size

(Dollars in millions, net of reinsurance)	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Current accident year losses greater than $5 million	$—	$—	nm	$—	$—	nm
Current accident year losses $1 million - $5 million	19	10	90	37	16	131
Large loss prior accident year reserve development	3	(3)	nm	4	(4)	nm
Total large losses incurred	22	7	nm	41	12	242
Losses incurred but not reported	(17)	(9)	89	(19)	25	nm
Other losses excluding catastrophe losses	164	168	(2)	472	442	7
Catastrophe losses	34	25	36	127	68	87
Total losses incurred	$203	$191	6	$621	$547	14
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year losses greater than $5 million	— %	— %	0.0	— %	— %	0.0
Current accident year losses $1 million - $5 million	6.0	3.5	2.5	4.0	1.8	2.2
Large loss prior accident year reserve development	1.0	(1.1)	2.1	0.4	(0.4)	0.8
Total large loss ratio	7.0	2.4	4.6	4.4	1.4	3.0
Losses incurred but not reported	(5.3)	(3.2)	(2.1)	(2.1)	2.9	(5.0)
Other losses excluding catastrophe losses	52.1	57.7	(5.6)	51.3	51.2	0.1
Catastrophe losses	10.8	8.2	2.6	13.8	7.8	6.0
Total loss ratio	64.6 %	65.1 %	(0.5)	67.4 %	63.3 %	4.1

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 third quarter of 2017, the personal lines total large loss ratio, net of reinsurance, was 4.6 percentage points higher than last year's third quarter. The rise in personal lines large losses for the third-quarter and first nine months of 2017 was largely due to our homeowner line of business. The third-quarter 2017 amount of total large losses incurred helped contribute to the increase in the nine-month 2017 total large loss ratio, compared with 2016, in addition to a first-half 2017 ratio that was 2.2 points higher than the first half of 2016. We believe results for the three-month and nine-month periods largely reflected normal fluctuations in loss patterns and normal variability in large case reserves for claims above $1 million.

EXCESS AND SURPLUS LINES INSURANCE RESULTS

(Dollars in millions)	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Earned premiums	$53	$48	10	$153	$136	13
Fee revenues	—	1	nm	1	1	0
Total revenues	53	49	8	154	137	12
Loss and loss expenses from:						
Current accident year before catastrophe losses	26	27	(4)	81	80	1
Current accident year catastrophe losses	1	—	nm	2	2	0
Prior accident years before catastrophe losses	(3)	(12)	(75)	(25)	(27)	7
Prior accident years catastrophe losses	—	—	0	—	—	0
Loss and loss expenses	24	15	60	58	55	5
Underwriting expenses	16	14	14	46	40	15
Underwriting profit	$13	$20	(35)	$50	$42	19
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year before catastrophe losses	49.1 %	57.2 %	(8.1)	52.8 %	58.9 %	(6.1)
Current accident year catastrophe losses	1.7	0.2	1.5	1.3	1.3	0.0
Prior accident years before catastrophe losses	(4.7)	(25.5)	20.8	(15.9)	(19.6)	3.7
Prior accident years catastrophe losses	(0.3)	0.0	(0.3)	(0.1)	(0.1)	0.0
Loss and loss expenses	45.8	31.9	13.9	38.1	40.5	(2.4)
Underwriting expenses	29.0	29.4	(0.4)	29.9	29.4	0.5
Combined ratio	74.8 %	61.3 %	13.5	68.0 %	69.9 %	(1.9)
Combined ratio	74.8 %	61.3 %	13.5	68.0 %	69.9 %	(1.9)
Contribution from catastrophe losses and prior years reserve development	(3.3)	(25.3)	22.0	(14.7)	(18.4)	3.7
Combined ratio before catastrophe losses and prior years reserve development	78.1 %	86.6 %	(8.5)	82.7 %	88.3 %	(5.6)

Overview

Performance highlights for the excess and surplus lines segment include:

- Premiums – Excess and surplus lines net written premiums continued to grow, primarily due to increases in renewal written premiums, during the third quarter and first nine months of 2017.

Renewal written premiums rose 11 percent and 15 percent for the three and nine months ended September 30, 2017, compared with the same periods of 2016, reflecting the opportunity to renew many accounts for the first time, as well as higher renewal pricing. For the first nine months of 2017, 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 16 percent for the first nine months of 2017, compared with the same period of 2016, reflecting an increase in our marketing efforts as we continued to carefully underwrite each policy in a highly competitive market. 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 September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Agency renewal written premiums	$39	$35	11	$122	$106	15
Agency new business written premiums	15	16	(6)	52	45	16
Other written premiums	(3)	(3)	0	(9)	(7)	(29)
Net written premiums	51	48	6	165	144	15
Unearned premium change	2	—	nm	(12)	(8)	(50)
Earned premiums	$53	$48	10	$153	$136	13

- Combined ratio – The excess and surplus lines combined ratio increased by 13.5 percentage points for the third quarter of 2017, compared with the same period of 2016, primarily due to less favorable reserve development on prior accident years. For the first nine months of 2017, the combined ratio improved by 1.9 percentage points, compared with the first nine months of 2016, driven by a lower ratio for current accident year losses and loss expenses before catastrophe losses.

The excess and surplus lines ratio for current accident year loss and loss expenses before catastrophe losses improved in the first nine months of 2017. That 52.8 percent ratio decreased 6.1 percentage points compared with the 58.9 percent accident year 2016 ratio measured as of September 30, 2016, including a decrease of 2.3 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 5.0 percent and 16.0 percent for the third quarter and first nine months of 2017, compared with 25.5 percent and 19.7 percent for the same periods of 2016. Approximately two-thirds of the net favorable reserve development recognized during the first nine months of 2017 was attributable to accident years 2015 and 2014. 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 2016 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 48.

The underwriting expense ratio for the third quarter of 2017 decreased, compared with the same period of 2016, reflecting higher earned premiums, ongoing expense management efforts and a lower level of profit-sharing commissions for agencies. For the first nine months of 2017, the underwriting expense ratio increased, compared with the same period of 2016, primarily due to strategic investments that include enhancement of underwriting expertise, such as upgrades to systems used in underwriting or billing excess and surplus lines insurance policies.

Excess and Surplus Lines Insurance Losses Incurred by Size

(Dollars in millions, net of reinsurance)	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Current accident year losses greater than $5 million	$—	$—	nm	$—	$—	nm
Current accident year losses $1 million - $5 million	—	2	(100)	—	3	(100)
Large loss prior accident year reserve development	—	(1)	nm	1	—	nm
Total large losses incurred	—	1	(100)	1	3	(67)
Losses incurred but not reported	7	(2)	nm	(4)	5	nm
Other losses excluding catastrophe losses	8	11	(27)	35	25	40
Catastrophe losses	1	—	nm	2	2	—
Total losses incurred	$16	$10	60	$34	$35	(3)
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year losses greater than $5 million	— %	— %	0.0	— %	— %	0.0
Current accident year losses $1 million - $5 million	—	4.4	(4.4)	—	2.3	(2.3)
Large loss prior accident year reserve development	(0.3)	(2.0)	1.7	0.6	(0.3)	0.9
Total large loss ratio	(0.3)	2.4	(2.7)	0.6	2.0	(1.4)
Losses incurred but not reported	13.8	(2.9)	16.7	(2.4)	4.1	(6.5)
Other losses excluding catastrophe losses	15.3	21.8	(6.5)	23.1	18.4	4.7
Catastrophe losses	1.3	0.1	1.2	1.1	1.1	0.0
Total loss ratio	30.1 %	21.4 %	8.7	22.4 %	25.6 %	(3.2)

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 third quarter of 2017, the excess and surplus lines total ratio for large losses, net of reinsurance, was 2.7 percentage points lower than last year's third quarter. The third-quarter 2017 amount of total large losses incurred helped contribute to the decrease in the nine-month 2017 total large loss ratio, compared with 2016, in addition to a first-half 2017 ratio that was 0.7 points lower than the first half of 2016. We believe results for the three-month and nine-month periods 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 September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Earned premiums	$56	$58	(3)	$173	$175	(1)
Fee revenues	1	2	(50)	4	4	0
Total revenues	57	60	(5)	177	179	(1)
Contract holders' benefits incurred	59	63	(6)	184	188	(2)
Investment interest credited to contract holders'	(24)	(23)	(4)	(70)	(67)	(4)
Underwriting expenses incurred	26	24	8	63	62	2
Total benefits and expenses	61	64	(5)	177	183	(3)
Life insurance segment loss	$(4)	$(4)	0	$—	$(4)	nm

Overview

Performance highlights for the life insurance segment include:

- Revenues – Revenues decreased for the nine months ended September 30, 2017, primarily due to lower earned premiums from universal life and other life insurance products, partially offset by higher earned premiums from term life insurance, our largest life insurance product line. The decline in universal life insurance premiums was attributable to the unlocking of actuarial assumptions that slowed amortization of unearned front-end loads.

Net in-force life insurance policy face amounts increased to $60.094 billion at September 30, 2017, from $56.808 billion at year-end 2016.

Fixed annuity deposits received for the three and nine months ended September 30, 2017, were $6 million and $23 million compared with $10 million and $36 million for same periods of 2016. 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 September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Term life insurance	$39	$ 37	5	$118	$112	5
Universal life insurance	7	13	(46)	28	34	(18)
Other life insurance, annuity and disability income products	10	8	25	27	29	(7)
Net earned premiums	$56	$ 58	(3)	$173	$175	(1)