

CINCINNATI FINANCIAL CORP

Form 10-Q

April 28, 2015

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

(Mark one)

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

For the quarterly period ended March 31, 2015.

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

For the transition period from _____ to _____.

Commission file number 0-4604

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

Ohio	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.

Yes No

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

Yes No

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

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

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

Yes No

As of April 24, 2015, there were 164,358,202 shares of common stock outstanding.

CINCINNATI FINANCIAL CORPORATION
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2015

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Part I – Financial Information

Item 1. Financial Statements (unaudited)

Cincinnati Financial Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(Dollars in millions except per share data)

	March 31, 2015	December 31, 2014
Assets		
Investments		
Fixed maturities, at fair value (amortized cost: 2015—\$8,961; 2014—\$8,871)	\$9,596	\$9,460
Equity securities, at fair value (cost: 2015—\$2,748; 2014—\$2,728)	4,789	4,858
Short-term investments, at fair value (amortized cost: 2015—\$25; 2014—\$0)	25	—
Other invested assets	66	68
Total investments	14,476	14,386
Cash and cash equivalents	640	591
Investment income receivable	123	123
Finance receivable	70	75
Premiums receivable	1,433	1,405
Reinsurance recoverable	539	545
Prepaid reinsurance premiums	29	29
Deferred policy acquisition costs	571	578
Land, building and equipment, net, for company use (accumulated depreciation: 2015—\$452; 2014—\$446)	189	194
Other assets	63	75
Separate accounts	764	752
Total assets	\$18,897	\$18,753
Liabilities		
Insurance reserves		
Loss and loss expense reserves	\$4,623	\$4,485
Life policy and investment contract reserves	2,514	2,497
Unearned premiums	2,109	2,082
Other liabilities	581	648
Deferred income tax	824	840
Note payable	49	49
Long-term debt and capital lease obligations	825	827
Separate accounts	764	752
Total liabilities	12,289	12,180
Commitments and contingent liabilities (Note 12)	—	—
Shareholders' Equity		
Common stock, par value—\$2 per share; (authorized: 2014 and 2013—500 million shares; issued: 2015 and 2014—198.3 million shares)	397	397
Paid-in capital	1,210	1,214
Retained earnings	4,557	4,505
Accumulated other comprehensive income	1,716	1,744
Treasury stock at cost (2015— 34.0 million shares and 2014—34.6 million shares)	(1,272	) (1,287
Total shareholders' equity	6,608	6,573

Total liabilities and shareholders' equity	\$18,897	\$18,753
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Accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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Cincinnati Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Income
(Dollars in millions except per share data)

	Three months ended March 31,	
	2015	2014
Revenues		
Earned premiums	\$1,094	\$1,027
Investment income, net of expenses	139	135
Realized investment gains, net	47	22
Fee revenues	3	3
Other revenues	2	2
Total revenues	1,285	1,189
Benefits and Expenses		
Insurance losses and policyholder benefits	749	732
Underwriting, acquisition and insurance expenses	345	320
Interest expense	13	14
Other operating expenses	4	4
Total benefits and expenses	1,111	1,070
Income Before Income Taxes	174	119
Provision for Income Taxes		
Current	46	20
Deferred	—	8
Total provision for income taxes	46	28
Net Income	\$128	\$91
Per Common Share		
Net income—basic	\$0.78	\$0.56
Net income—diluted	0.77	0.55

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

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Cincinnati Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Dollars in millions)

	Three months ended March 31,		
	2015	2014	
Net Income	\$128	\$91	
Other Comprehensive (Loss) Income			
Change in unrealized gains on investments, net of tax of \$(15) and \$41, respectively	(28	) 76
Amortization of pension actuarial loss and prior service cost, net of tax of \$0 and \$0, respectively	1	(1)
Change in life deferred acquisition costs, life policy reserves and other, net of tax of \$0 and \$0, respectively	(1) (1)
Other comprehensive (loss) income, net of tax	(28	) 74
Comprehensive Income	\$100	\$165	

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

	Common Stock				Accumulated		Total	
	Outstanding	Amount	Paid-in	Retained	Other	Treasury	Share-	
	Shares		Capital	Earnings	Comprehensive	Stock	holders'	
					Income		Equity	
Balance December 31, 2013	163.1	\$397	\$1,191	\$4,268	\$1,504	\$(1,290)	\$6,070	
Net income	—	—	—	91	—	—	91	
Other comprehensive income, net	—	—	—	—	74	—	74	
Dividends declared	—	—	—	(72) —	—	(72)
Treasury stock acquired—share repurchase authorization	(0.1) —	—	—	—	(7) (7)
Other	0.5	—	—	—	—	12	12	
Balance March 31, 2014	163.5	\$397	\$1,191	\$4,287	\$1,578	\$(1,285)	\$6,168	
Balance December 31, 2014	163.7	\$397	\$1,214	\$4,505	\$1,744	\$(1,287)	\$6,573	
Net income	—	—	—	128	—	—	128	
Other comprehensive loss, net	—	—	—	—	(28) —	(28)
Dividends declared	—	—	—	(76) —	—	(76)
Treasury stock acquired—share repurchase authorization	—	—	—	—	—	—	—	
Other	0.6	—	(4	) —	—	15	11
Balance March 31, 2015	164.3	\$397	\$1,210	\$4,557	\$1,716	\$(1,272)	\$6,608	

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)

	Three months ended March 31,	
	2015	2014
Cash Flows From Operating Activities		
Net income	\$128	\$91
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14	13
Realized investment gains, net	(47)	(22)
Stock-based compensation	7	6
Interest credited to contract holders	12	10
Deferred income tax expense	—	8
Changes in:		
Investment income receivable	—	5
Premiums and reinsurance receivable	(22)	(50)
Deferred policy acquisition costs	2	(5)
Other assets	4	(5)
Loss and loss expense reserves	138	64
Life policy reserves	20	49
Unearned premiums	27	59
Other liabilities	(100)	(102)
Current income tax receivable/payable	32	8
Net cash provided by operating activities	215	129
Cash Flows From Investing Activities		
Sale of fixed maturities	13	24
Call or maturity of fixed maturities	267	252
Sale of equity securities	67	31
Purchase of fixed maturities	(348)	(236)
Purchase of equity securities	(67)	(33)
Purchase of short-term investments	(25)	—
Investment in finance receivables	(3)	(4)
Collection of finance receivables	8	7
Investment in buildings and equipment, net	(1)	(3)
Change in other invested assets, net	1	1
Net cash (used in) provided by investing activities	(88)	39
Cash Flows From Financing Activities		
Payment of cash dividends to shareholders	(71)	(67)
Purchase of treasury shares	—	(7)
Proceeds from stock options exercised	7	8
Contract holders' funds deposited	20	20
Contract holders' funds withdrawn	(33)	(32)
Excess tax benefits on stock-based compensation	3	—
Other	(4)	(2)
Net cash used in financing activities	(78)	(80)
Net change in cash and cash equivalents	49	88
Cash and cash equivalents at beginning of year	591	433
Cash and cash equivalents at end of period	\$640	\$521
Supplemental Disclosures of Cash Flow Information:		
Income taxes paid	\$11	\$11

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Noncash Activities:

Equipment acquired under capital lease obligations	\$3	\$5
Cashless exercise of stock options	5	4

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 — Accounting Policies

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

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

Our March 31, 2015, condensed consolidated financial statements are unaudited. Certain financial information that is included in annual financial statements prepared in accordance with GAAP is not required for interim reporting and has been condensed or omitted. We believe that we have made all adjustments, consisting only of normal recurring accruals, that are necessary for fair presentation. These condensed consolidated financial statements should be read in conjunction with our consolidated financial statements included in our 2014 Annual Report on Form 10-K. The results of operations for interim periods do not necessarily indicate results to be expected for the full year.

Pending Accounting Updates

ASU 2014-09 Revenue from Contracts with Customers

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

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

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

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

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

ASU 2015-03, Interest-Imputation of Interest

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

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NOTE 2 – Investments

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

(Dollars in millions)	Cost or amortized cost	Gross unrealized gains losses		Fair value
At March 31, 2015				
Fixed maturity securities:				
Corporate	\$5,152	\$449	\$8	\$5,593
States, municipalities and political subdivisions	3,289	183	2	3,470
Commercial mortgage-backed	269	16	—	285
Government-sponsored enterprises	227	—	3	224
Foreign government	10	—	—	10
Convertibles and bonds with warrants attached	7	—	—	7
United States government	7	—	—	7
Subtotal	8,961	648	13	9,596
Equity securities:				
Common equities	2,595	2,014	11	4,598
Nonredeemable preferred equities	153	38	—	191
Subtotal	2,748	2,052	11	4,789
Total	\$11,709	\$2,700	\$24	\$14,385
At December 31, 2014				
Fixed maturity securities:				
Corporate	\$5,117	\$420	\$11	\$5,526
States, municipalities and political subdivisions	3,267	178	2	3,443
Commercial mortgage-backed	250	9	—	259
Government-sponsored enterprises	213	—	5	208
Foreign government	10	—	—	10
Convertibles and bonds with warrants attached	7	—	—	7
United States government	7	—	—	7
Subtotal	8,871	607	18	9,460
Equity securities:				
Common equities	2,583	2,099	3	4,679
Nonredeemable preferred equities	145	35	1	179
Subtotal	2,728	2,134	4	4,858
Total	\$11,599	\$2,741	\$22	\$14,318

The net unrealized investment gains in our fixed-maturity portfolio are primarily the result of the continued low interest rate environment that increased the fair value of our fixed-maturity portfolio. At March 31, 2015, we had \$25 million of short-term investments, which consisted of commercial paper, that had no gross unrealized gains or losses. At December 31, 2014, we held no short-term investments. The seven largest unrealized investment gains in our common stock portfolio are from Exxon Mobil Corporation (NYSE:XOM), Honeywell International Incorporated (NYSE:HON), BlackRock Inc. (NYSE:BLK), Apple Inc. (Nasdaq:AAPL), The Procter & Gamble Company (NYSE:PG), RPM International (NYSE:RPM), and 3M Company (NYSE:MMM), which had a combined gross unrealized gain of \$605 million. At March 31, 2015, Apple Inc. was our largest single common stock holding with a fair value of 3.8 percent of our publicly traded common stock portfolio and 1.2 percent of the total investment portfolio.

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

(Dollars in millions)	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
At March 31, 2015						
Fixed maturity securities:						
Corporate	\$211	\$6	\$64	\$2	\$275	\$8
States, municipalities and political subdivisions	115	2	58	—	173	2
Commercial mortgage-backed	2	—	2	—	4	—
Government-sponsored enterprises	18	—	156	3	174	3
Subtotal	346	8	280	5	626	13
Equity securities:						
Common equities	168	11	—	—	168	11
Nonredeemable preferred equities	5	—	15	—	20	—
Subtotal	173	11	15	—	188	11
Total	\$519	\$19	\$295	\$5	\$814	\$24
At December 31, 2014						
Fixed maturity securities:						
Corporate	\$261	\$8	\$90	\$3	\$351	\$11
States, municipalities and political subdivisions	17	—	135	2	152	2
Commercial mortgage-backed	3	—	23	—	26	—
Government-sponsored enterprises	11	—	181	5	192	5
Subtotal	292	8	429	10	721	18
Equity securities:						
Common equities	85	3	—	—	85	3
Nonredeemable preferred equities	16	—	17	1	33	1
Subtotal	101	3	17	1	118	4
Total	\$393	\$11	\$446	\$11	\$839	\$22

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

(Dollars in millions)	Three months ended March 31,	
	2015	2014
Investment income:		
Interest	\$105	\$104
Dividends	36	32
Other	—	1
Total	141	137
Less investment expenses	2	2
Total	\$139	\$135
Realized investment gains and losses summary:		
Fixed maturities:		
Gross realized gains	\$3	\$2
Gross realized losses	—	(1
Other-than-temporary impairments	—	—
Equity securities:		
Gross realized gains	44	18
Gross realized losses	(1) —
Other-than-temporary impairments	—	(1
Other	1	4
Total	\$47	\$22
Change in unrealized investment gains and losses:		
Fixed maturities	\$46	\$88
Equity securities	(89	) 29
Less income taxes	15	(41
Total	\$(28	) \$76

During the three months ended March 31, 2015, there were no equity securities and no fixed-maturity securities other-than-temporarily impaired. There were no credit losses on fixed-maturity securities for which a portion of other-than-temporary impairment (OTTI) has been recognized in other comprehensive income for the three months ended March 31, 2015 and 2014. At March 31, 2015, 70 fixed-maturity investments with a total unrealized loss of \$5 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. Two equity investments with a total unrealized loss of less than \$1 million had been in an unrealized loss position for 12 months or more as of March 31, 2015. Of that total, no equity investments were trading below 70 percent of cost.

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

NOTE 3 – Fair Value Measurements

Fair Value Hierarchy

In accordance with accounting guidance for fair value measurements and disclosures, we categorized our financial instruments, based on the priority of the observable and market-based data for the valuation technique used, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices with readily available independent data in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable market inputs (Level 3). When various inputs for measurement fall within different levels of the fair value hierarchy, the lowest observable input that has a significant impact on fair value measurement is used. Our valuation techniques have not changed from those used at December 31, 2014, and ultimately management determines fair value. See our 2014 Annual Report on Form 10-K, Item 8, Note 3, Fair Value Measurements, Page 137, for information on characteristics and valuation techniques used in determining fair value.

Fair Value Disclosures for Assets

The following tables illustrate the fair value hierarchy for those assets measured at fair value on a recurring basis at March 31, 2015, and December 31, 2014. We do not have any material liabilities carried at fair value. There were no transfers between Level 1 and Level 2.

(In millions)

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
At March 31, 2015				
Fixed maturities, available for sale:				
Corporate	\$—	\$5,575	\$18	\$5,593
States, municipalities and political subdivisions	—	3,469	1	3,470
Commercial mortgage-backed	—	285	—	285
Government-sponsored enterprises	—	224	—	224
Foreign government	—	10	—	10
Convertibles and bonds with warrants attached	—	7	—	7
United States government	7	—	—	7
Subtotal	7	9,570	19	9,596
Common equities, available for sale	4,598	—	—	4,598
Nonredeemable preferred equities, available for sale	—	189	2	191
Short-term investments	—	25	—	25
Separate accounts taxable fixed maturities	—	725	—	725
Top Hat savings plan mutual funds and common equity (included in Other assets)	19	—	—	19
Total	\$4,624	\$10,509	\$21	\$15,154
At December 31, 2014				
Fixed maturities, available for sale:				
Corporate	\$—	\$5,508	\$18	\$5,526
States, municipalities and political subdivisions	—	3,443	—	3,443
Commercial mortgage-backed	—	259	—	259
Government-sponsored enterprises	—	208	—	208
Foreign government	—	10	—	10
Convertibles and bonds with warrants attached	—	7	—	7
United States government	7	—	—	7
Subtotal	7	9,435	18	9,460
Common equities, available for sale	4,679	—	—	4,679

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Nonredeemable preferred equities, available for sale	—	177	2	179
Separate accounts taxable fixed-maturities	—	731	—	731
Top Hat savings plan mutual funds and common equity (included in Other assets)	18	—	—	18
Total	\$4,704	\$10,343	\$20	\$15,067

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Each financial instrument that was deemed to have significant unobservable inputs when determining valuation is identified in the following tables by security type with a summary of changes in fair value as of March 31, 2015. 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. The quantitative detail of these unobservable inputs is neither provided nor reasonably available to us.

The following tables provide the change in Level 3 assets for the three months ended March 31:

(Dollars in millions)	Asset fair value measurements using significant unobservable inputs (Level 3)				
	Corporate fixed maturities	Commercial mortgage-backed fixed maturities	States, municipalities and political subdivisions fixed maturities	Nonredeemable preferred equities	Total
Beginning balance, January 1, 2015	\$18	\$—	\$—	\$2	\$20
Total gains or losses (realized/unrealized):					
Included in net income	—	—	—	—	—
Included in other comprehensive income	—	—	—	—	—
Purchases	—	—	—	—	—
Sales	—	—	—	—	—
Transfers into Level 3	—	—	1	—	1
Transfers out of Level 3	—	—	—	—	—
Ending balance, March 31, 2015	\$18	\$—	\$1	\$2	\$21
Beginning balance, January 1, 2014	\$2	\$—	\$—	\$2	\$4
Total gains or losses (realized/unrealized):					
Included in net income	—	—	—	—	—
Included in other comprehensive income	—	—	—	—	—
Purchases	—	—	—	—	—
Sales	—	—	—	—	—
Transfers into Level 3	6	5	—	—	11
Transfers out of Level 3	—	—	—	—	—
Ending balance, March 31, 2014	\$8	\$5	\$—	\$2	\$15

Additional disclosures for the Level 3 category are not material.

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

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

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

(Dollars in millions)	Book value		Principal amount	
	March 31,	December 31,	March 31,	December 31,

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Interest rate	Year of issue		2015	2014	2015	2014
6.900 %	1998	Senior debentures, due 2028	\$28	\$28	\$28	\$28
6.920 %	2005	Senior debentures, due 2028	391	391	391	391
6.125 %	2004	Senior notes, due 2034	372	372	374	374
		Total	\$791	\$791	\$793	\$793

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

(Dollars in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
At March 31, 2015				
Note payable	\$—	\$49	\$—	\$49
6.900% senior debentures, due 2028	—	35	—	35
6.920% senior debentures, due 2028	—	508	—	508
6.125% senior notes, due 2034	—	459	—	459
Total	\$—	\$1,051	\$—	\$1,051
At December 31, 2014				
Note payable	\$—	\$49	\$—	\$49
6.900% senior debentures, due 2028	—	34	—	34
6.920% senior debentures, due 2028	—	496	—	496
6.125% senior notes, due 2034	—	449	—	449
Total	\$—	\$1,028	\$—	\$1,028

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

(Dollars in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
At March 31, 2015				
Life policy loans	\$—	\$—	\$39	\$39
At December 31, 2014				
Life policy loans	\$—	\$—	\$39	\$39

Outstanding principal and interest for these life policy loans was \$30 million and \$31 million at March 31, 2015, and December 31, 2014, respectively.

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

(Dollars in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
At March 31, 2015				
Deferred annuities	\$—	\$—	\$909	\$909
Structured settlements	—	225	—	225
Total	\$—	\$225	\$909	\$1,134
At December 31, 2014				
Deferred annuities	\$—	\$—	\$897	\$897
Structured settlements	—	217	—	217
Total	\$—	\$217	\$897	\$1,114

Recorded reserves for the deferred annuities were \$863 million at March 31, 2015, and December 31, 2014. Recorded reserves for the structured settlements were \$181 million and \$182 million at March 31, 2015, and December 31, 2014, respectively.

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NOTE 4 – Property Casualty Loss and Loss Expenses

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

(Dollars in millions)	Three months ended March 31,	
	2015	2014
Gross loss and loss expense reserves, beginning of period	\$4,438	\$4,241
Less reinsurance recoverable	282	299
Net loss and loss expense reserves, beginning of period	4,156	3,942
Net incurred loss and loss expenses related to:		
Current accident year	711	705
Prior accident years	(22	) (29
Total incurred	689	676
Net paid loss and loss expenses related to:		
Current accident year	147	197
Prior accident years	399	387
Total paid	546	584
Net loss and loss expense reserves, end of period	4,299	4,034
Plus reinsurance recoverable	278	289
Gross loss and loss expense reserves, end of period	\$4,577	\$4,323

We use actuarial methods, models and judgment to estimate, as of a financial statement date, the property casualty loss and loss expense reserves required to pay for and settle all outstanding insured claims, including incurred but not reported (IBNR) claims, as of that date. The actuarial estimate is subject to review and adjustment by an inter-departmental committee that includes actuarial management that 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 \$46 million at March 31, 2015, and \$52 million at March 31, 2014, for certain life and health loss and loss expense reserves.

For the three months ended March 31, 2015, we experienced \$22 million of favorable development on prior accident years, including \$14 million of favorable development in commercial lines, \$3 million of favorable development in personal lines and \$5 million of favorable development in excess and surplus lines. This included \$11 million from favorable development of catastrophe losses for the three months ended March 31, 2015. We recognized favorable reserve development during the three months ended March 31, 2015, of \$15 million for the workers' compensation line, \$11 million for the commercial property line and \$7 million for the homeowner line due to reduced uncertainty of prior accident year loss and loss adjustment expense for these lines. Our commercial auto line developed unfavorably by \$11 million for the three months ended March 31, 2015, due to higher loss cost effects in recent accident years, resulting in an increase of our reserve estimate for claims that have not yet been settled.

For the three months ended March 31, 2014, we experienced \$29 million of favorable development on prior accident years, including \$3 million of favorable development in commercial lines, \$17 million of favorable development in personal lines and \$9 million of favorable development in excess and surplus lines. This included \$9 million from favorable development of catastrophe losses for the three months ended March 31, 2014.

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

This table summarizes our life policy and investment contract reserves:

(Dollars in millions)	March 31, 2015	December 31, 2014
Ordinary/traditional life	\$891	\$875
Deferred annuities	863	863
Universal life	533	530
Structured settlements	181	182
Other	46	47
Total life policy and investment contract reserves	\$2,514	\$2,497

NOTE 6 – Deferred Policy Acquisition Costs

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

(Dollars in millions)	Three months ended March 31,	
	2015	2014
Deferred policy acquisition costs asset, beginning of period	\$578	\$565
Capitalized deferred policy acquisition costs	207	206
Amortized deferred policy acquisition costs	(209	) (201
Amortized shadow deferred policy acquisition costs	(5	) (6
Deferred policy acquisition costs asset, end of period	\$571	\$564

No premium deficiencies were recorded in the condensed consolidated statements of income, as the sum of the anticipated loss and loss adjustment 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 March 31,					
	2015			2014		
	Before tax	Income tax	Net	Before tax	Income tax	Net
Investments:						
AOCI, beginning of period	\$2,719	\$942	\$1,777	\$2,335	\$808	\$1,527
OCI excluding realized gains recognized in net income	3	1	2	135	48	87
Realized gains recognized in net income	(46)	(16)	(30)	(18)	(7)	(11)
OCI	(43)	(15)	(28)	117	41	76
AOCI, end of period	\$2,676	\$927	\$1,749	\$2,452	\$849	\$1,603
Pension obligations:						
AOCI, beginning of period	\$(36)	\$(12)	\$(24)	\$(18)	\$(6)	\$(12)
OCI excluding amortization recognized in net income	—	—	—	(2)	—	(2)
Amortization recognized in net income	1	—	1	1	—	1
OCI	1	—	1	(1)	—	(1)
AOCI, end of period	\$(35)	\$(12)	\$(23)	\$(19)	\$(6)	\$(13)
Life deferred acquisition costs, life policy reserves and other:						
AOCI, beginning of period	\$(12)	\$(3)	\$(9)	\$(16)	\$(5)	\$(11)
OCI excluding realized gains recognized in net income	(1)	(1)	—	3	1	2
Realized gains recognized in net income	(1)	—	(1)	(4)	(1)	(3)
OCI	(2)	(1)	(1)	(1)	—	(1)
AOCI, end of period	\$(14)	\$(4)	\$(10)	\$(17)	\$(5)	\$(12)
Summary of AOCI:						
AOCI, beginning of period	\$2,671	\$927	\$1,744	\$2,301	\$797	\$1,504
Investments OCI	(43)	(15)	(28)	117	41	76
Pension obligations OCI	1	—	1	(1)	—	(1)
Life deferred acquisition costs, life policy reserves and other OCI	(2)	(1)	(1)	(1)	—	(1)
Total OCI	(44)	(16)	(28)	115	41	74
AOCI, end of period	\$2,627	\$911	\$1,716	\$2,416	\$838	\$1,578

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 policyholder benefits and underwriting, acquisition and insurance expenses in the condensed consolidated statements of income.

NOTE 8 – Reinsurance

Reinsurance mitigates the risk of highly uncertain exposures and reduces the maximum net loss that can arise from large risks or risks concentrated in areas of exposure. 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.

Primary components of our property casualty reinsurance program include a property per risk treaty, property excess treaty, casualty per occurrence treaty, casualty excess treaty, property catastrophe treaty and catastrophe bonds.

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

(Dollars in millions)	Three months ended March 31,	
	2015	2014
Direct earned premiums	\$1,076	\$1,019
Assumed earned premiums	2	3
Ceded earned premiums	(37	) (43
Earned premiums	\$1,041	\$979

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 March 31,	
	2015	2014
Direct incurred loss and loss expenses	\$691	\$677
Assumed incurred loss and loss expenses	(1	) 2
Ceded incurred loss and loss expenses	(1	) (3
Incurred loss and loss expenses	\$689	\$676

Our ceded incurred results generally vary with our catastrophe experience.

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

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

(Dollars in millions)	Three months ended March 31,	
	2015	2014
Direct earned premiums	\$65	\$62
Ceded earned premiums	(12	) (14
Earned premiums	\$53	\$48

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

(Dollars in millions)	Three months ended March 31,	
	2015	2014
Direct contract holders' benefits incurred	\$72	\$80
Ceded contract holders' benefits incurred	(12	) (24
Contract holders' benefits incurred	\$60	\$56

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

NOTE 9 – Income Taxes

As of March 31, 2015, and December 31, 2014, 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 March 31,					
	2015		2014			
Tax at statutory rate:	\$61	35.0	%	\$42	35.0	%
Increase (decrease) resulting from:						
Tax-exempt income from municipal bonds	(8	) (4.6	)	(8	) (6.7)
Dividend received exclusion	(8	) (4.6	)	(7	) (5.9)
Other	1	0.6		1	1.1	
Provision for income taxes	\$46	26.4	%	\$28	23.5	%

The provision for federal income taxes is based upon filing a consolidated income tax return for the company and its subsidiaries. As of March 31, 2015, 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 March 31,	
	2015	2014
Numerator:		
Net income—basic and diluted	\$128	\$91
Denominator:		
Basic weighted-average common shares outstanding	164.0	163.4
Effect of stock-based awards:		
Stock options	1.0	1.0
Nonvested shares	0.6	0.6
Diluted weighted-average shares	165.6	165.0
Earnings per share:		
Basic	\$0.78	\$0.56
Diluted	0.77	0.55
Number of anti-dilutive share-based awards	0.7	0.7

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The sources of dilution of our common shares are certain equity-based awards. See our 2014 Annual Report on Form 10-K, Item 8, Note 17, Share-Based Associate Compensation Plans, Page 154, for information about equity-based awards. The above table shows the number of anti-dilutive share-based awards for the three months ended March 31, 2015 and 2014. 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 March 31,	
	2015	2014
Service cost	\$3	\$2
Interest cost	3	4
Expected return on plan assets	(4	) (4
Amortization of actuarial loss and prior service cost	1	1
Net periodic benefit cost	\$3	\$3

See our 2014 Annual Report on Form 10-K, Item 8, Note 13, Employee Retirement Benefits, Page 148, for information on our retirement benefits. We made matching contributions totaling \$4 million to our 401(k) and Top Hat savings plans during both the first quarters of 2015 and 2014.

We contributed \$5 million to our qualified pension plan during the first quarter of 2015. We do not anticipate further contributions to our qualified pension plan during the remainder of 2015.

NOTE 12 – Commitments and Contingent Liabilities

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

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

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

consolidated results of operations or cash flows. Based on our most recent review, our estimate for any other matters for which the risk of loss is not probable, but more than remote, is less than \$1 million.

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NOTE 13 – Segment Information

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

• Commercial lines insurance

• Personal lines insurance

• Excess and surplus lines insurance

• Life insurance

• Investments

We report as Other the noninvestment operations of the parent company and its noninsurer subsidiary, CFC Investment Company. See our 2014 Annual Report on Form 10-K, Item 8, Note 18, Segment Information, Page 157, for a description of revenue, income or loss before income taxes and identifiable assets for each of the five segments.

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Segment information is summarized in the following table:

(Dollars in millions)	Three months ended March 31,	
	2015	2014
Revenues:		
Commercial lines insurance		
Commercial casualty	\$244	\$224
Commercial property	196	171
Commercial auto	136	126
Workers' compensation	93	92
Other commercial	64	79
Commercial lines insurance premiums	733	692
Fee revenues	1	1
Total commercial lines insurance	734	693
Personal lines insurance		
Personal auto	123	116
Homeowner	114	109
Other personal	31	29
Personal lines insurance premiums	268	254
Fee revenues	1	—
Total personal lines insurance	269	254
Excess and surplus lines insurance	40	33
Life insurance premiums	53	48
Separate account investment management fees	1	2
Total life insurance	54	50
Investments		
Investment income, net of expenses	139	135
Realized investment gains, net	47	22
Total investment revenue	186	157
Other	2	2
Total revenues	\$1,285	\$1,189
Income (loss) before income taxes:		
Insurance underwriting results		
Commercial lines insurance	\$26	\$2
Personal lines insurance	(3)	(7)
Excess and surplus lines insurance	4	4
Life insurance	(3)	—
Investments	165	136
Other	(15)	(16)
Total income before income taxes	\$174	\$119
Identifiable assets:	March 31,	December 31,
	2015	2014
Property casualty insurance	\$2,711	\$2,656
Life insurance	1,306	1,316

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Investments	14,544	14,441
Other	336	340
Total	\$18,897	\$18,753

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

The following discussion highlights significant factors influencing the 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 2014 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 2014 Annual Report on Form 10-K, Item 1A, Risk Factors, Page 33.

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

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

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- Inability to defer policy acquisition costs for any business segment if pricing and loss trends would lead management to conclude that segment could not achieve sustainable profitability
- Inability of our subsidiaries to pay dividends consistent with current or past levels
- Events or conditions that could weaken or harm the company's relationships with its independent agencies and hamper opportunities to add new agencies, resulting in limitations on the company's opportunities for growth, such as:
 - Downgrades of the company's financial strength ratings
 - Concerns that doing business with the company is too difficult
 - Perceptions that the company's level of service, particularly claims service, is no longer a distinguishing characteristic in the marketplace
- Inability or unwillingness to nimbly develop and introduce coverage product updates and innovations that our competitors offer and consumers expect to find in the marketplace
- Actions of insurance departments, state attorneys general or other regulatory agencies, including a change to a federal system of regulation from a state-based system, that:
 - Impose new obligations on us that increase our expenses or change the assumptions underlying our critical accounting estimates
 - Place the insurance industry under greater regulatory scrutiny or result in new statutes, rules and regulations
 - Restrict our ability to exit or reduce writings of unprofitable coverages or lines of business
 - Add assessments for guaranty funds, other insurance related assessments or mandatory reinsurance arrangements; or that impair our ability to recover such assessments through future surcharges or other rate changes
 - Increase our provision for federal income taxes due to changes in tax law
 - Increase our other expenses
 - Limit our ability to set fair, adequate and reasonable rates
 - Place us at a disadvantage in the marketplace
 - Restrict our ability to execute our business model, including the way we compensate agents
- Adverse outcomes from litigation or administrative proceedings
- Events or actions, including unauthorized intentional circumvention of controls, that reduce the company's future ability to maintain effective internal control over financial reporting under the Sarbanes-Oxley Act of 2002
- Unforeseen departure of certain executive officers or other key employees due to retirement, health or other causes that could interrupt progress toward important strategic goals or diminish the effectiveness of certain longstanding relationships with insurance agents and others
- Events, such as an epidemic, natural catastrophe or terrorism, that could hamper our ability to assemble our workforce at our headquarters location

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

CORPORATE FINANCIAL HIGHLIGHTS

Net Income and Comprehensive Income Data
(Dollars in millions except per share data)

	Three months ended March 31,		
	2015	2014	% Change
Net income and comprehensive income data:			
Earned premiums	\$1,094	\$1,027	7
Investment income, net of expenses (pretax)	139	135	3
Realized investment gains, net (pretax)	47	22	114
Total revenues	1,285	1,189	8
Net income	128	91	41
Comprehensive income	100	165	(39)
Net income—diluted	0.77	0.55	40
Cash dividends declared	0.46	0.44	5
Diluted weighted average shares outstanding	165.6	165.0	0

Revenues rose for the first quarter of 2015 compared with the first quarter of 2014, primarily due to growth in earned premiums. Premium and investment revenue trends are discussed further in the respective sections of Financial Results.

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

Net income for the first quarter of 2015 compared with the first quarter of 2014 increased \$37 million, including an increase in property casualty underwriting income of \$18 million after taxes. Lower catastrophe losses, mostly weather related, accounted for \$29 million of both increases. First-quarter 2015 after-tax net realized investment gains and losses were \$17 million higher than the same quarter a year ago. After-tax investment income in our investment segment results for the first quarter of 2015 rose \$3 million compared with the same quarter of 2014. Life insurance segment results on a pretax basis were \$3 million lower.

Performance by segment is discussed below in Financial Results. As discussed in our 2014 Annual Report on Form 10-K, Item 7, Factors Influencing Our Future Performance, Page 50, there are several reasons that our performance during 2015 may be below our long-term targets. In that annual report, as part of Financial Results, we also discussed the full-year 2015 outlook for each reporting segment.

The board of directors is committed to rewarding shareholders directly through cash dividends and through share repurchase authorizations. Through 2014, the company had increased the indicated annual cash dividend rate for 54 consecutive years, a record we believe was matched by only eight other publicly traded companies. In January 2015, the board of directors increased the second-quarter dividend to 46 cents per share, setting the stage for our 55th consecutive year of increasing cash dividends. During the first three months of 2015, cash dividends declared by the company increased approximately 5 percent compared with the same period of 2014. Our board regularly evaluates relevant factors in decisions related to dividends and share repurchases. The 2015 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 March 31, 2015	At December 31, 2014		
Balance sheet data:				
Total investments	\$14,476	\$14,386		
Total assets	18,897	18,753		
Short-term debt	49	49		
Long-term debt	791	791		
Shareholders' equity	6,608	6,573		
Book value per share	40.22	40.14		
Debt-to-total-capital ratio	11.3	% 11.3		%

Total assets at March 31, 2015, increased 1 percent compared with year-end 2014, primarily due to growth in invested assets largely driven by net purchases of securities. Shareholders' equity rose 1 percent, and book value per share rose less than 1 percent during the first three months of 2015. Our debt-to-total-capital ratio (capital is the sum of debt plus shareholders' equity) matched year-end 2014. The value creation ratio, a non-GAAP measure defined below, was lower for the first three months of 2015, compared with the same period in 2014, primarily due to lower net gains from our investment portfolio. The \$0.08 increase in book value per share during the first three months of 2015 contributed 0.2 percentage points to the value creation ratio, while dividends declared at \$0.46 per share contributed 1.1 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 March 31, 2015	Three months ended March 31, 2014		
Value creation ratio major components:				
Net income before net realized gains	1.4	% 1.3		%
Change in realized and unrealized gains, fixed-maturity securities	0.5	0.9		
Change in realized and unrealized gains, equity securities	(0.4	) 0.5		
Other	(0.2	) (0.1))
Value creation ratio	1.3	% 2.6		%

(Dollars are per share)

	Three months ended March 31, 2015	Three months ended March 31, 2014
Book value change per share:		
End of period book value	\$40.22	\$37.73
Less beginning of period book value	40.14	37.21
Change in book value	\$0.08	\$0.52

Change in book value:

Net income before realized gains	\$0.59	\$0.47		
Change in realized and unrealized gains, fixed-maturity securities	0.19	0.35		
Change in realized and unrealized gains, equity securities	(0.18	) 0.19		
Dividend declared to shareholders	(0.46	) (0.44))
Other	(0.06	) (0.05))
Change in book value	\$0.08	\$0.52		

(Dollars are per share)	Three months ended March 31,			
	2015	2014		
Value creation ratio:				
End of period book value	\$40.22	\$37.73		
Less beginning of period book value	40.14	37.21		
Change in book value	0.08	0.52		
Dividend declared to shareholders	0.46	0.44		
Total value creation	\$0.54	\$0.96		
Value creation ratio from change in book value*	0.2	% 1.4		%
Value creation ratio from dividends declared to shareholders**	1.1	1.2		
Value creation ratio	1.3	% 2.6		%

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

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

PROGRESS TOWARD 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 2014 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 in 39 states as discussed in our 2014 Annual Report on Form 10-K, Item 1, Our Business and Our Strategy, Page 5.

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. We believe that this forward-looking view has consistently benefited our policyholders, agents, shareholders and associates.

To measure our long-term progress in creating shareholder value, we have defined a value creation metric that we believe captures the contribution of our insurance operations, the success of our investment strategy and the importance we place on paying cash dividends to shareholders. This measure, our value creation ratio (VCR), is made up of two primary components: (1) our rate of growth in book value per share plus (2) the ratio of dividends declared per share to beginning book value per share. As discussed in our 2014 Annual Report on Form 10-K, Item 7, Executive Summary, Page 45, for the period 2013 through 2017, an annual VCR averaging 10 percent to 13 percent is our primary performance target. Management believes this non-GAAP measure is a meaningful indicator of our long-term progress in creating shareholder value and is a useful supplement to GAAP information.

Performance Drivers

When looking at our long-term objectives, we see three performance drivers:

Premium growth – We believe our agency relationships and initiatives can lead to a property casualty written premium growth rate over any five-year period that exceeds the industry average. For the first three months of 2015, our total property casualty net written premium year-over-year growth was 3 percent, in line with A.M. Best's February 2015 projection of approximately 3 percent full-year growth for the industry. For the five-year period 2010 through 2014, our growth rate was approximately double that of the industry. The industry's growth rate excludes its mortgage and financial guaranty lines of business. Our premium growth initiatives are discussed below in Highlights of Our Strategies and Supporting Initiatives.

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 three months of 2015, our GAAP combined ratio was 97.5 percent and our statutory combined ratio was 96.1 percent, both including

5.2 percentage points of current accident year catastrophe losses partially offset by 2.2 percentage points of favorable loss reserve development on prior accident years. As of February 2015, A.M. Best forecasted the industry's full-year 2015 statutory combined ratio at approximately 99 percent, including approximately 5 percentage points of catastrophe losses and a favorable impact of approximately 2 percentage

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points from prior accident year reserve releases. The industry's ratio again excludes its mortgage and financial guaranty lines of business.

Investment contribution – We believe our investment philosophy and initiatives can drive investment income growth and lead to a total return on our equity investment portfolio over a five-year period that exceeds the five-year return of the Standard & Poor's 500 Index. For the first three months of 2015, pretax investment income was \$139 million, up 3 percent compared with the same period in 2014. 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 the company 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 2014 Annual Report on Form 10-K, Item 1, Our Business and Our Strategy, Page 5. We believe that the successful implementation of the initiatives below will help us: better serve our independent agent customers and their clients; reduce variability in our financial results; grow earnings and book value over the long term; and helps us navigate challenging economic, market or industry pricing cycles.

Improve insurance profitability – Implementation of these initiatives is intended to enhance underwriting expertise and knowledge, thereby increasing our ability to manage our business and to gain efficiencies. Better profit margins can arise from additional information and more focused action on underperforming product lines, as well as pricing capabilities we are expanding through the use of technology and analytics. Refining internal processes and developing additional performance metrics can help us be more efficient and effective. These initiatives also support 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.

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 agencies grow and increase our share of their business. Diversified growth also may reduce variability of losses from weather-related catastrophes.

Below we discuss key initiatives supporting these strategies, along with an assessment of our progress.

Improve Insurance Profitability

The main initiatives to improve our insurance profitability include:

Enhance underwriting expertise and knowledge – We continue efforts to increase our use of information and to develop our skills for improved underwriting performance. Expanded capabilities include streamlining and optimizing data to improve accuracy, timeliness and ease of use, which leads to more granular, segmented pricing. We also continue to use predictive analytics and to develop other business tools, such as building out our data warehouse used in our property casualty and life insurance operations.

Ongoing efforts to expand our pricing precision include enhancement of analytics and predictive modeling tools to better align individual insurance policy pricing to risk attributes. This helps us to further segment policies in order to identify and retain those we believe are more adequately priced, while seeking more aggressive renewal terms and conditions on policies that we believe have relatively weaker pricing. As we seek to remain competitive on the most desirable business and rapidly adapt to changes in market conditions, further integration of analytics and predictive modeling with our policy administration systems is intended to better target profitability and support discussion of pricing impacts with agency personnel.

In our commercial auto line of business, pricing precision is an ongoing focus. We are taking action by improving premium rate classification and using other rating variables in risk selection and pricing, plus further automating collection of key rating variables. Progress during the first quarter of 2015 included implementation of an enhanced process to verify vehicle identification numbers. In addition, our commercial auto policies that renewed during the first quarter of 2015 experienced an estimated average price percentage increase in the mid-single-digit range.

In our personal auto line of business, rate increases that apply pricing precision variables continued to be implemented during the first quarter of 2015 for the majority of states where we market personal lines products. On average, our personal auto policies experienced a percentage rate increase during the first quarter of 2015 estimated near the low end of the mid-single-digit range.

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Improve internal processes – Refining our processes reduces internal costs and allows us to focus more resources on serving our agencies. We continue to improve our workflow tools, increasing our efficiency, providing additional operational reporting metrics and making it easier for agencies to do business with us. We also seek other ways to improve the satisfaction of our agencies' clients through deployment of user-friendly services for policyholders. An important initiative for 2015 is to ramp up operations for our customer care center for small commercial business policies. Using the services of our customer care center reduces our agents' administrative load and frees up time and resources to spend growing their businesses. Progress during the first three months of 2015 included adding to the number of participating agencies. As of early April, a total of 50 agencies participated.

We measure the overall success of our strategy to improve property casualty insurance profitability primarily through our GAAP combined ratio, which we believe can be consistently within the range of 95 percent to 100 percent for any five-year period. We also compare our statutory combined ratio to the industry average to gauge our progress, as discussed in the Performance Drivers section above.

In addition, we expect these initiatives to contribute to our rank as the No. 1 or No. 2 carrier, based on premium volume, in agencies that have represented us for at least five years. Based on 2013 premiums, we again earned that rank in nearly 75 percent of the agencies that have represented Cincinnati Insurance for more than five years. We are working to increase the percentage of agencies where we achieve that rank.

Drive Premium Growth

Primary initiatives to drive premium growth include:

Expansion of our marketing and service capabilities – We continue to enhance our generalist approach to allow our appointed agencies to better compete in the marketplace by providing services their clients want. Expansion initiatives include ongoing development and coordination of targeted marketing programs, including those focused on franchises, professional and trade associations and risk purchasing groups. Another important initiative for 2015 is to expand marketing and enhance products and services to independent agents serving high net worth personal lines clients. We also plan to continue adding field marketing representatives for increased agency support in targeted areas. Progress during the first three months of 2015 included expanding our excess and surplus lines field underwriting presence by adding another field underwriter to better support agencies.

New agency appointments – We continue to appoint new agencies to develop additional points of distribution, focusing on areas where our property casualty insurance market share is less than 1 percent while also considering economic and catastrophe risk factors. For 2015, we plan to appoint approximately 100 independent agencies. During the first three months of 2015, we appointed 23 new agencies that write, in aggregate, approximately \$740 million in property casualty premiums annually with various insurance carriers for an average of approximately \$32 million per agency. As of March 31, 2015, a total of 1,475 agency relationships market our property casualty insurance products from 1,891 reporting locations. During the first three months of 2015, our life insurance company also appointed 27 independent life insurance agencies that do not represent our property casualty insurance companies.

We seek to build a close, long-term relationship with each agency we appoint. We carefully evaluate the marketing reach of each new appointment to ensure the territory can support both current and new agencies. Our 133 commercial lines field marketing territories are staffed by marketing representatives averaging approximately 20 years of industry experience and 10 years as a Cincinnati Insurance field marketing representative. Teams of field associates for each territory work together, providing local expertise with support from headquarters associates. This agent-centered business model helps us better understand the accounts we underwrite and creates marketing advantages for our agents. Unique Cincinnati-style service supports our agents as they grow their businesses and attract more clients in their communities. As a result, we generally have earned a 10 percent share of a property casualty agency's business within 10 years of its appointment.

We measure the overall success of our strategy to drive premium growth primarily through changes in net written premiums, as discussed in the Performance Drivers section above. In addition to tracking our progress toward our year-end 2015 consolidated annual direct written premiums target of \$5 billion, we believe we can grow faster than

the industry average over any five-year period.

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Financial Strength

An important part of our long-term strategy is financial strength, which is described in our 2014 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 to help manage financial performance variability due to catastrophe loss experience. A description of how we use reinsurance is included in our 2014 Annual Report on Form 10-K, Item 7, Liquidity and Capital Resources, 2015 Reinsurance Programs, Page 106. Another aspect of our financial strength is our investment portfolio, which remains well-diversified as discussed in this quarterly report Item 3, Quantitative and Qualitative Disclosures About Market Risk. We continue to maintain strong parent-company liquidity and financial strength that increase our flexibility to maintain our cash dividend through all periods and to continue to invest in and expand our insurance operations.

At March 31, 2015, we held \$1.855 billion of our cash and invested assets at the parent-company level, of which \$1.657 billion, or 89.3 percent, was invested in common stocks, and \$67 million, or 3.6 percent, was cash or cash equivalents. Our debt-to-total-capital ratio at 11.3 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 0.9-to-1 for the 12 months ended March 31, 2015, unchanged from year-end 2014.

Our financial strength ratings assigned by independent ratings 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 may be subject to revision or withdrawal at any time by the rating agency, and 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.

As of April 27, 2015, our insurer financial strength ratings were:

Insurer Financial Strength Ratings

Rating Agency	Standard Market Property Casualty Insurance Subsidiaries			Life Insurance Subsidiary		Excess and Surplus Lines Insurance Subsidiary			Date of Most Recent Affirmation or Action	
	Rating	Property Casualty	Rating Tier	Life Insurance Subsidiary	Rating Tier	Excess and Surplus Lines Insurance Subsidiary	Rating Tier			
A.M. Best Co. ambest.com	A+	Superior	2 of 16	A	Excellent	3 of 16	A	Excellent	3 of 16	Stable outlook (12/12/14)
Fitch Ratings fitchratings.com	A+	Strong	5 of 21	A+	Strong	5 of 21	-	-	-	Stable outlook (11/18/14)
Moody's Investors Service moodys.com	A1	Good	5 of 21	-	-	-	-	-	-	Stable outlook (04/30/13)
Standard & Poor's Ratings Services spratings.com	A	Strong	6 of 21	A	Strong	6 of 21	-	-	-	Positive outlook (06/18/14)

All of our insurance subsidiaries continue to be highly rated. No ratings agency actions to our insurer financial strength ratings occurred during the first quarter of 2015.

FINANCIAL RESULTS

Consolidated results reflect the operating results of each of our five segments along with the parent company 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

We report as Other the noninvestment operations of the parent company and its noninsurer subsidiary, CFC Investment Company. See Item 1, Note 13, Segment Information, for discussion of the calculations of segment data. Results of operations for each of the five segments are discussed below.

CONSOLIDATED PROPERTY CASUALTY INSURANCE RESULTS

Consolidated property casualty insurance results include premiums and expenses for our standard market insurance (commercial lines and personal lines segments) as well as our excess and surplus lines operations.

(Dollars in millions)

	Three months ended March 31,		
	2015	2014	% Change
Earned premiums	\$1,041	\$979	6
Fee revenues	2	1	100
Total revenues	1,043	980	6
Loss and loss expenses from:			
Current accident year before catastrophe losses	657	609	8
Current accident year catastrophe losses	54	96	(44)
Prior accident years before catastrophe losses	(11)	(20)	45
Prior accident years catastrophe losses	(11)	(9)	(22)
Loss and loss expenses	689	676	2
Underwriting expenses	327	305	7
Underwriting profit (loss)	\$27	\$(1)	nm
			Pt.
Ratios as a percent of earned premiums:			Change
Current accident year before catastrophe losses	63.1	% 62.3	% 0.8
Current accident year catastrophe losses	5.2	9.9	(4.7)
Prior accident years before catastrophe losses	(1.1)	(2.1)	1.0
Prior accident years catastrophe losses	(1.1)	(1.0)	(0.1)
Loss and loss expenses	66.1	69.1	(3.0)
Underwriting expenses	31.4	31.2	0.2
Combined ratio	97.5	% 100.3	% (2.8)
Combined ratio	97.5	% 100.3	% (2.8)
Contribution from catastrophe losses and prior years reserve development	3.0	6.8	(3.8)
Combined ratio before catastrophe losses and prior years reserve development	94.5	% 93.5	% 1.0

Our consolidated property casualty insurance operations generated an underwriting profit of \$27 million for the first quarter of 2015. The improvement of \$28 million, compared with first-quarter 2014, was driven by a decrease of \$44 million in losses from weather-related natural catastrophes and \$28 million of weather-related losses not identified as

part of designated catastrophe events for the property casualty industry, typically referred to as noncatastrophe weather losses. The favorable effects of less weather-related losses in aggregate were partially offset by an underwriting profit reduction for our auto lines of business. That reduction was approximately \$23 million before

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catastrophe effects, largely due to strengthening of auto reserves. 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 our commercial auto line of business, we continued to experience a rising trend in paid losses and loss expenses, so we increased our actuarial best estimate of commercial auto ultimate loss and loss expense ratios at the end of the first quarter of 2015, relative to year-end 2014. We have experienced a similar rising trend for our personal auto line of business and also increased its actuarial best estimate of ultimate loss and loss expense ratios. Auto lines net loss and loss expense reserves at March 31, 2015, were \$31 million higher than at year-end 2014, reflecting strengthening of those reserves.

For all property casualty lines of business in aggregate, net loss and loss expense reserves at March 31, 2015, were \$143 million higher than at year-end 2014. For lines other than auto, the increase generally reflected either rising insured exposures, reflected in part by rising earned premiums, or maintaining our year-end 2014 actuarial best estimate of ultimate loss and loss expense ratios by increasing reserves where paid loss and loss expenses decreased. For example, first-quarter 2015 paid amounts for our commercial casualty line of business decreased by \$13 million from first-quarter 2014. That line's actuarial best estimate for ultimate loss and loss expense ratios, for all accident years in aggregate, stayed at levels consistent with our estimates at the end of 2014 as we increased reserves to help offset the effect of the lower paid amounts.

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 first quarter of 2015 improved 2.8 percentage points compared with the first quarter of 2014. The ratio for catastrophe losses and loss expenses was 4.8 percentage points lower for first-quarter 2015, driving the improvement. Noncatastrophe weather-related losses were 3.1 points lower for the three-month 2015 period, further contributing to the improved first-quarter 2015 combined ratio. The favorable ratio effects from less weather-related losses in aggregate were partially offset by an increase of 2.8 percentage points from lower underwriting profit before catastrophe effects in our auto lines of business.

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, lowered the combined ratio by 2.2 percentage points in the first three months of 2015, compared with 3.1 percentage points in the same period of 2014. 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 three months of 2015. The 63.1 percent ratio for the first three months of 2015 increased 0.8 percentage points compared with the 62.3 percent accident year 2014 ratio measured as of March 31, 2014. The effects of lower current accident year underwriting profit before catastrophes for our auto lines of business, plus large losses of \$1 million or more per claim, discussed below, offset the favorable effects of lower noncatastrophe weather-related losses and overall higher pricing, net of normal loss cost inflation. The lower underwriting profit before catastrophes for our auto lines accounted for 0.9 percentage points of the 0.8 point total increase.

The underwriting expense ratio increased slightly for the first three months of 2015, compared with the same period of 2014. Strategic investments to enhance underwriting expertise, such as personal lines staff additions to support high net worth market expansion, plus an increase in premium taxes and related fees, offset the favorable effects of higher

earned premiums and ongoing expense management efforts.

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Consolidated Property Casualty Insurance Premiums
(Dollars in millions)

	Three months ended March 31,		
	2015	2014	% Change
Agency renewal written premiums	\$983	\$956	3
Agency new business written premiums	116	123	(6)
Other written premiums	(33)	(42)	21
Net written premiums	1,066	1,037	3
Unearned premium change	(25)	(58)	57
Earned premiums	\$1,041	\$979	6

The trends in net written premiums and earned premiums summarized in the table above largely reflect the effects of price increases.

Consolidated property casualty net written premiums for the three months ended March 31, 2015, grew \$29 million compared with the same period of 2014. Each of our property casualty segments continued to grow during the first three months of 2015. 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. We discuss current initiatives in the Highlights of Our Strategy and Supporting Initiatives section of this quarterly report. The main drivers of trends for 2015 are discussed in more detail by segment below in Financial Results.

Consolidated property casualty agency new business written premiums for the three months ended March 31, 2015, decreased \$7 million compared with the same period of 2014. New business written premiums were lower than the year-ago periods for our commercial lines segment and higher for both our personal lines insurance and our excess and surplus lines insurance segments. New agency appointments during 2014 and 2015 produced a \$6 million increase in standard lines new business for the first three months of 2015 compared with the same period in 2014. 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.

Other written premiums include premiums ceded to our reinsurers as part of our reinsurance program. A decrease in first-quarter 2015 ceded premiums, compared with the same period of 2014, contributed \$6 million to net written premium growth for the three months ended March 31, 2015.

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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 4.1 percentage points to the combined ratio in the first three months of 2015, compared with 8.9 percentage points in the same period of 2014. Some of those losses were applicable to loss deductible provisions of our collateralized reinsurance funded through catastrophe bonds. For our collateralized reinsurance arrangement effective January 18, 2014, aggregate losses applicable through March 31, 2015, were \$17 million for the specific geographic locations included in the severe convective storm portion of that coverage. If aggregate losses after deductibles exceed \$160 million during an annual coverage period, we can recover the excess through funds that collateralize the catastrophe bonds. The following table shows 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.

Catastrophe Losses and Loss Expenses Incurred
(Dollars in millions, net of reinsurance)

Dates	Event	Region	Three months ended March 31,			
			Comm. lines	Pers. lines	E&S lines	Total
2015						
Feb. 16-27	Freezing, ice, snow, wind	Midwest, Northeast, South	\$32	\$10	\$—	\$42
All other 2015 catastrophes			7	5	—	12
Development on 2014 and prior catastrophes			(9)	(2)	—	(11)
Calendar year incurred total			\$30	\$13	\$—	\$43
2014						
Jan. 5-8	Freezing, ice, snow, wind	Midwest, Northeast, South	\$51	\$24	\$1	\$76
All other 2014 catastrophes			11	9	—	20
Development on 2013 and prior catastrophes			(3)	(6)	—	(9)
Calendar year incurred total			\$59	\$27	\$1	\$87

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

Consolidated Property Casualty Insurance Losses by Size
(Dollars in millions, net of reinsurance)

	Three months ended March 31,		
	2015	2014	% Change
Current accident year losses greater than \$5,000,000	\$12	\$—	nm
Current accident year losses \$1,000,000-\$5,000,000	37	23	61
Large loss prior accident year reserve development	15	10	50
Total large losses incurred	64	33	94
Losses incurred but not reported	43	21	105
Other losses excluding catastrophe losses	418	427	(2)
Catastrophe losses	42	86	(51)
Total losses incurred	\$567	\$567	0
Ratios as a percent of earned premiums:			
Current accident year losses greater than \$5,000,000	1.0	% —	% 1.0
Current accident year losses \$1,000,000-\$5,000,000	3.6	2.3	1.3
Large loss prior accident year reserve development	1.4	1.1	0.3
Total large loss ratio	6.0	3.4	2.6
Losses incurred but not reported	4.2	2.2	2.0

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Other losses excluding catastrophe losses	40.1	43.6	(3.5)
Catastrophe losses	4.1	8.7	(4.6)
Total loss ratio	54.4	% 57.9	% (3.5)

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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 first-quarter 2015 property casualty total large losses incurred of \$64 million, net of reinsurance, were higher than the \$52 million quarterly average during 2014 and also were higher than the \$33 million for the first quarter of 2014. The ratio for these large losses and case reserve increases was 2.6 percentage points higher compared with last year's first quarter. We believe results for the three-month period largely reflected normal fluctuations in loss patterns and normal variability in large case reserves for claims above \$1 million. Losses by size are discussed in further detail in results of operations by property casualty insurance segment.

COMMERCIAL LINES INSURANCE RESULTS

(Dollars in millions)

	Three months ended March 31,		
	2015	2014	% Change
Earned premiums	\$733	\$692	6
Fee revenues	1	1	0
Total revenues	734	693	6
Loss and loss expenses from:			
Current accident year before catastrophe losses	449	410	10
Current accident year catastrophe losses	39	62	(37)
Prior accident years before catastrophe losses	(5)	—	nm
Prior accident years catastrophe losses	(9)	(3)	(200)
Loss and loss expenses	474	469	1
Underwriting expenses	234	222	5
Underwriting profit	\$26	\$2	nm
Ratios as a percent of earned premiums:			Pt. Change
Current accident year before catastrophe losses	61.3	% 59.4	% 1.9
Current accident year catastrophe losses	5.3	8.9	(3.6)
Prior accident years before catastrophe losses	(0.6)	0.0	(0.6)
Prior accident years catastrophe losses	(1.3)	(0.4)	(0.9)
Loss and loss expenses	64.7	67.9	(3.2)
Underwriting expenses	31.9	32.0	(0.1)
Combined ratio	96.6	% 99.9	% (3.3)
Combined ratio	96.6	% 99.9	% (3.3)
Contribution from catastrophe losses and prior years reserve development	3.4	8.5	(5.1)
Combined ratio before catastrophe losses and prior years reserve development	93.2	% 91.4	% 1.8

Overview

Performance highlights for the commercial lines segment include:

- Premiums – Earned premiums for the commercial lines segment rose during the first three months of 2015, primarily due to renewal premium growth that continued to reflect price increases. Lower new business written premiums partially offset that growth. The premiums table below analyzes the primary components of earned premiums. We continue to use 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 rose 2 percent for the three months ended March 31, 2015, reflecting price increases and improving economic conditions. We measure average changes in commercial lines renewal

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pricing as the rate of change, on a percentage basis, 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. During the first quarter of 2015, our overall standard commercial lines policies continued to average estimated renewal price increases at percentages in the low-single-digit range, near the middle of that range. In 2015, we have been further segmenting 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. As a result, the average change in commercial lines renewal pricing was somewhat lower than in early 2014.

Our average overall commercial lines renewal pricing change includes the flat pricing effect of 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 average commercial lines renewal pricing change we report reflects this blend of three-year policies that did not expire and other policies that did expire during the measurement period. For only those commercial lines policies that did expire and were then renewed during the first quarter of 2015, we estimate that the average price increase for our smaller commercial property policies was again in the high-single-digit range. The first-quarter 2015 average price change for other major commercial lines included: commercial auto again averaged percentage increases in the mid-single-digit range; and commercial casualty and workers' compensation both again averaged increases in the low-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. Net written premiums from audits during the first three months of 2015 netted \$17 million. Audits contributed \$4 million of the \$12 million net increase in net written premiums for the first three months of 2015, compared with the same period a year ago. The \$41 million increase in earned premiums during the first three months of 2015, compared with 2014, included an increase from audit premiums of \$6 million.

New business written premiums for commercial lines decreased \$11 million during the first three months of 2015, compared with the same period last year. The decrease reflected underwriting and pricing discipline in a competitive market environment.

Other written premiums include premiums ceded to our reinsurers as part of our reinsurance program. A decrease in ceded premiums contributed \$5 million to net written premium growth for the first three months of 2015, compared with the same period of 2014.

Commercial Lines Insurance Premiums
(Dollars in millions)

	Three months ended March 31,		
	2015	2014	% Change
Agency renewal written premiums	\$730	\$713	2
Agency new business written premiums	79	90	(12)
Other written premiums	(26)	(32)	19
Net written premiums	783	771	2
Unearned premium change	(50)	(79)	37
Earned premiums	\$733	\$692	6

Combined ratio – The commercial lines combined ratio for the first quarter of 2015 improved 3.3 percentage points compared with the first quarter of 2014. The ratio for catastrophe losses and loss expenses was 4.5 percentage points lower in 2015, driving the improvement. The three-month 2015 combined ratio also reflected a decrease of 2.3 percentage points for noncatastrophe weather-related losses and more favorable overall reserve development on prior accident years. Lower underwriting profit before catastrophes for our commercial auto line of business, largely due to strengthening reserves, increased the first-quarter 2015 ratio by 2.7 percentage points.

Catastrophe losses and loss expenses accounted for 4.0 percentage points of the combined ratio for the three months ended March 31, 2015, compared with 8.5 percentage points for the same period a year ago. The 10-year annual average catastrophe loss impact through 2014 for the commercial lines segment is 4.5 percentage points, and the five-year annual average is 5.9 percentage points. The first-quarter 2015 ratio for

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noncatastrophe weather-related losses, at 2.8 percent, compared favorably to 5.1 percent for the same period a year ago.

The net effect of reserve development on prior accident years during the first three months of 2015 was favorable for commercial lines overall by \$14 million compared with \$3 million for the same period in 2014. For the three months ended March 31, 2015, 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 commercial property. Those contributions were partially offset by unfavorable development for our commercial auto line of business. The remaining commercial lines of business experienced immaterial amounts of development. The net favorable reserve development recognized during the first three months of 2015 for commercial lines was driven approximately half each by accident years 2013 and 2012, and was primarily due to lower-than-anticipated loss emergence on known claims. Accident year 2014 developed unfavorably, primarily due to reserve increases for our commercial auto line of business. Reserve estimates are inherently uncertain as described in our 2014 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 51.

The commercial lines underwriting expense ratio decreased slightly for the first three months of 2015, compared with the same period of 2014, primarily due to higher earned premiums and ongoing expense management efforts.

Underwriting results and related measures for the combined ratio are summarized in the first table of Commercial Lines Insurance Results. The tables and discussion below provide additional details for certain primary drivers of underwriting results.

Commercial Lines Insurance Losses by Size

(Dollars in millions, net of reinsurance)

	Three months ended March 31,		
	2015	2014	% Change
Current accident year losses greater than \$5,000,000	\$12	\$—	nm
Current accident year losses \$1,000,000-\$5,000,000	24	18	33
Large loss prior accident year reserve development	15	10	50
Total large losses incurred	51	28	82
Losses incurred but not reported	31	22	nm
Other losses excluding catastrophe losses	272	282	(4)
Catastrophe losses	29	58	(50)
Total losses incurred	\$383	\$390	(2)

Ratios as a percent of earned premiums:

			Pt. Change
Current accident year losses greater than \$5,000,000	1.6	% —	% 1.6
Current accident year losses \$1,000,000-\$5,000,000	3.3	2.6	0.7
Large loss prior accident year reserve development	2.0	1.4	0.6
Total large loss ratio	6.9	4.0	2.9
Losses incurred but not reported	4.3	3.2	1.1
Other losses excluding catastrophe losses	37.1	40.6	(3.5)
Catastrophe losses	4.0	8.3	(4.3)
Total loss ratio	52.3	% 56.1	% (3.8)

We continue to monitor new losses and case reserve increases greater than \$1 million for trends in factors such as initial reserve levels, loss cost inflation and claim settlement expenses. Our analysis continues to indicate no unexpected concentration of these large losses and case reserve increases by risk category, geographic region, policy inception, agency or field marketing territory. The first-quarter 2015 commercial lines total large losses incurred of \$51 million, net of reinsurance, were higher than both the \$47 million quarterly average during 2014 and the \$28 million total large losses incurred for the first quarter of 2014. The ratio for these large losses and case reserve increases was 2.9 percentage points higher compared with last year's first-quarter ratio. We believe results for the

three-month period largely reflected normal fluctuations in loss patterns and normal variability in large case reserves for claims above \$1 million.

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Commercial Lines of Business Analysis

Approximately 95 percent of our commercial lines premiums relate to accounts with coverages from more than one of our business lines. As a result, we believe that our commercial lines business is best measured and evaluated on a segment basis. However, we provide line-of-business data to summarize premium and loss trends separately for each line. The ratios shown in the table below are components of loss and loss expenses as a percentage of earned premiums.

(Dollars in millions)	Three months ended March 31,		
	2015	2014	% Change
Commercial casualty:			
Written premiums	\$266	\$258	3
Earned premiums	244	224	9
Current accident year before catastrophe losses	59.2	% 56.3	%
Current accident year catastrophe losses	—	—	
Prior accident years before catastrophe losses	1.1	3.6	
Prior accident years catastrophe losses	—	—	
Total loss and loss expenses ratio	60.3	% 59.9	%
Commercial property:			
Written premiums	\$206	\$193	7
Earned premiums	196	171	15
Current accident year before catastrophe losses	53.6	% 53.4	%
Current accident year catastrophe losses	16.7	27.7	
Prior accident years before catastrophe losses	(1.9	) (0.6)
Prior accident years catastrophe losses	(3.8	) (0.9)
Total loss and loss expenses ratio	64.6	% 79.6	%
Commercial auto:			
Written premiums	\$149	\$145	3
Earned premiums	136	126	8
Current accident year before catastrophe losses	72.3	% 68.0	%
Current accident year catastrophe losses	—	—	
Prior accident years before catastrophe losses	8.6	(0.2)
Prior accident years catastrophe losses	(0.1	) (0.2)
Total loss and loss expenses ratio	80.8	% 67.6	%
Workers' compensation:			
Written premiums	\$104	\$106	(2
Earned premiums	93	92	1
Current accident year before catastrophe losses	71.5	% 76.8	%