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 June 30, 2018.

☐ 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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
☑Yes ☐ No

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

☑ Large accelerated filer ☐ Accelerated filer ☐ Nonaccelerated filer ☐ Smaller reporting company
☐ Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
☐Yes ☑ No

As of July 20, 2018, there were 162,652,281 shares of common stock outstanding.

CINCINNATI FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2018

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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)	June 30, 2018	December 31, 2017
Assets		
Investments		
Fixed maturities, at fair value (amortized cost: 2018—$10,552; 2017—$10,314)	**$ 10,636**	$ 10,699
Equity securities, at fair value (cost: 2018—$3,198; 2017—$3,094)	**6,200**	6,249
Other invested assets	**108**	103
Total investments	**16,944**	17,051
Cash and cash equivalents	**521**	657
Investment income receivable	**130**	134
Finance receivable	**66**	61
Premiums receivable	**1,733**	1,589
Reinsurance recoverable	**420**	432
Prepaid reinsurance premiums	**39**	42
Deferred policy acquisition costs	**728**	670
Land, building and equipment, net, for company use (accumulated depreciation: 2018—$264; 2017—$253)	**188**	185
Other assets	**199**	216
Separate accounts	**792**	806
Total assets	**$ 21,760**	$ 21,843
Liabilities		
Insurance reserves		
Loss and loss expense reserves	**$ 5,468**	$ 5,273
Life policy and investment contract reserves	**2,760**	2,729
Unearned premiums	**2,578**	2,404
Other liabilities	**707**	792
Deferred income tax	**650**	745
Note payable	**61**	24
Long-term debt and capital lease obligations	**828**	827
Separate accounts	**792**	806
Total liabilities	**13,844**	13,600
Commitments and contingent liabilities (Note 12)		
Shareholders' Equity		
Common stock, par value—$2 per share; (authorized: 2018 and 2017—500 million shares; issued: 2018 and 2017—198.3 million shares)	**397**	397
Paid-in capital	**1,266**	1,265
Retained earnings	**7,696**	5,180
Accumulated other comprehensive income	**55**	2,788
Treasury stock at cost (2018—35.7 million shares and 2017—34.4 million shares)	**(1,498)**	(1,387)
Total shareholders' equity	**7,916**	8,243
Total liabilities and shareholders' equity	**$ 21,760**	$ 21,843

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

Cincinnati Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Income

(Dollars in millions, except per share data)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenues				
Earned premiums	**$ 1,294**	$ 1,241	**$ 2,554**	$ 2,449
Investment income, net of expenses	**154**	151	**304**	300
Investment gains and losses, net	**105**	(11)	**(86)**	149
Fee revenues	**4**	4	**8**	9
Other revenues	**1**	1	**2**	2
Total revenues	**1,558**	1,386	**2,782**	2,909
Benefits and Expenses				
Insurance losses and contract holders' benefits	**883**	854	**1,737**	1,707
Underwriting, acquisition and insurance expenses	**395**	387	**798**	764
Interest expense	**13**	13	**26**	26
Other operating expenses	**3**	4	**7**	8
Total benefits and expenses	**1,294**	1,258	**2,568**	2,505
Income Before Income Taxes	**264**	128	**214**	404
Provision (Benefit) for Income Taxes				
Current	**33**	31	**61**	71
Deferred	**14**	(3)	**(33)**	32
Total provision for income taxes	**47**	28	**28**	103
Net Income	**$ 217**	$ 100	**$ 186**	$ 301
Per Common Share				
Net income—basic	**$ 1.33**	$ 0.61	**$ 1.13**	$ 1.83
Net income—diluted	**1.32**	0.60	**1.12**	1.81

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

Cincinnati Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Net Income	**$ 217**	$ 100	**$ 186**	$ 301
Other Comprehensive Income (Loss)				
Change in unrealized gains on investments, net of tax (benefit) of ($18), $77, ($64) and $123, respectively	**(62)**	144	**(237)**	229
Amortization of pension actuarial loss and prior service cost, net of tax of $0, $0, $0 and $0, respectively	**1**	—	**1**	1
Change in life deferred acquisition costs, life policy reserves and other, net of tax of $1, $0, $2 and $1, respectively	**1**	1	**6**	2
Other comprehensive income (loss)	**(60)**	145	**(230)**	232
Comprehensive Income (Loss)	**$ 157**	$ 245	**$ (44)**	$ 533

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

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

(Dollars in millions)	Six months ended June 30, 2018	2017
Common Stock		
Beginning of year	**$ 397**	$ 397
Share-based awards	**—**	—
End of period	**397**	397
Paid-In Capital		
Beginning of year	**1,265**	1,252
Share-based awards	**(17)**	(18)
Share-based compensation	**16**	14
Other	**2**	1
End of period	**1,266**	1,249
Retained Earnings		
Beginning of year	**5,180**	5,037
Cumulative effect of change in accounting for equity securities as of January 1, 2018	**2,503**	—
Adjusted beginning of year	**7,683**	5,037
Net income	**186**	301
Dividends declared	**(173)**	(164)
End of period	**7,696**	5,174
Accumulated Other Comprehensive Income		
Beginning of year	**2,788**	1,693
Cumulative effect of change in accounting for equity securities as of January 1, 2018	**(2,503)**	—
Adjusted beginning of year	**285**	1,693
Other comprehensive income (loss)	**(230)**	232
End of period	**55**	1,925
Treasury Stock		
Beginning of year	**(1,387)**	(1,319)
Share-based awards	**16**	19
Shares acquired - share repurchase authorization	**(125)**	(70)
Shares acquired - share-based compensation plans	**(3)**	(4)
Other	**1**	2
End of period	**(1,498)**	(1,372)
Total Shareholders' Equity	**$ 7,916**	$ 7,373

(In millions)	2018	2017
Common Stock - Shares Outstanding		
Beginning of year	**163.9**	164.4
Share-based awards	**0.5**	0.6
Shares acquired - share repurchase authorization	**(1.8)**	(1.0)
Shares acquired - share-based compensation plans	**—**	(0.1)
End of period	**162.6**	163.9

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

Cincinnati Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows

(Dollars in millions)	Six months ended June 30, 2018	2017
Cash Flows From Operating Activities		
Net income	**$ 186**	$ 301
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**32**	27
Investment gains and losses, net	**90**	(149)
Share-based compensation	**16**	14
Interest credited to contract holders'	**23**	24
Deferred income tax expense	**(33)**	32
Changes in:		
Investment income receivable	**4**	4
Premiums and reinsurance receivable	**(129)**	(91)
Deferred policy acquisition costs	**(41)**	(45)
Other assets	**(14)**	(37)
Loss and loss expense reserves	**195**	196
Life policy and investment contract reserves	**47**	50
Unearned premiums	**174**	154
Other liabilities	**(85)**	(82)
Current income tax receivable/payable	**(1)**	47
Net cash provided by operating activities	**464**	445
Cash Flows From Investing Activities		
Sale of fixed maturities	**5**	12
Call or maturity of fixed maturities	**674**	540
Sale of equity securities	**134**	288
Purchase of fixed maturities	**(905)**	(802)
Purchase of equity securities	**(149)**	(352)
Investment in finance receivables	**(16)**	(14)
Collection of finance receivables	**12**	11
Investment in buildings and equipment	**(9)**	(9)
Change in other invested assets, net	**(11)**	(7)
Net cash used in investing activities	**(265)**	(333)
Cash Flows From Financing Activities		
Payment of cash dividends to shareholders	**(166)**	(158)
Shares acquired - share repurchase authorization	**(125)**	(70)
Changes in note payable	**37**	(3)
Proceeds from stock options exercised	**5**	8
Contract holders' funds deposited	**43**	42
Contract holders' funds withdrawn	**(88)**	(83)
Other	**(41)**	(19)
Net cash used in financing activities	**(335)**	(283)
Net change in cash and cash equivalents	**(136)**	(171)
Cash and cash equivalents at beginning of year	**657**	777
Cash and cash equivalents at end of period	**$ 521**	$ 606
Supplemental Disclosures of Cash Flow Information:		
Interest paid	**$ 26**	$ 26
Income taxes paid	**60**	23
Noncash Activities		
Conversion of securities	**$ 3**	$ 5
Equipment acquired under capital lease obligations	**8**	6
Cashless exercise of stock options	**3**	4
Other assets and other liabilities	**28**	70

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

NOTE 1 — Accounting Policies

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

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Our actual results could differ from those estimates. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been condensed or omitted.

Our June 30, 2018, condensed consolidated financial statements are unaudited. We believe that we have made all adjustments, consisting only of normal recurring accruals, that are necessary for fair presentation. These condensed consolidated financial statements should be read in conjunction with our consolidated financial statements included in our 2017 Annual Report on Form 10-K. The results of operations for interim periods do not necessarily indicate results to be expected for the full year.

Adopted Accounting Updates

ASU 2014-09 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 was for interim and annual reporting periods beginning after December 15, 2017. The company adopted this ASU effective January 1, 2018, and it did not have a material impact on the company's consolidated financial position, cash flows or results of operations.

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

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU 2016-01 revised the accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The effective date of ASU 2016-01 was for interim and annual reporting periods beginning after December 15, 2017. The company adopted this ASU on January 1, 2018, and applied it prospectively without prior period amounts restated. As a result of the adoption, $2.503 billion of after-tax unrealized gains on equity securities was reclassified on January 1, 2018, from accumulated other comprehensive income to retained earnings. Results of operations were impacted as changes in fair value of equity securities are now reported in net income instead of reported in other comprehensive income. As a result of the adoption of this ASU, for the three and six months ended June 30, 2018, net investment gains of $105 million and net investment losses of $86 million in the condensed consolidated statements of income included an increase of $101 million and a decrease of $97 million from the fair value change of equity securities, respectively.

ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The effective date of ASU 2016-15 is for interim and annual reporting periods beginning after December 15, 2017. The company adopted this ASU effective January 1, 2018, and it did not have a material impact on our company's consolidated financial position, cash flows or results of operations.

ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Postretirement Benefit Costs*. ASU 2017-07 provides guidance on how to present the components of net periodic benefit costs in the income statement for pension plans and other post-retirement benefit plans and allows only the service cost component of net benefit cost to be eligible for capitalization when applicable. The effective date of ASU 2017-07 is for interim and annual reporting periods beginning after December 15, 2017. The company adopted this ASU effective January 1, 2018, and disclosed the line items used in the statements of income to present the service and non-service components of net periodic benefit costs in Note 11, Employee Retirement Benefits, to these consolidated financial statements. The adoption did not have a material impact on our company's consolidated financial position, cash flows or results of operations.

ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting.* ASU 2017-09 clarifies when to account for a change to the terms or conditions of a share based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The effective date of ASU 2017-09 was for interim and annual reporting periods, beginning after December 15, 2017, and was applied prospectively. The company adopted this ASU effective January 1, 2018, and it did not have a material impact on our company's consolidated financial position, cash flows or results of operations.

Pending Accounting Updates

ASU 2016-02, Leases (Topic 842)

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

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

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 amends previous guidance on the impairment of financial instruments by adding an impairment model that allows an entity to recognize expected credit losses as an allowance rather than impairing as they are incurred. The new guidance is intended to reduce complexity of credit impairment models and result in a more timely recognition of expected credit losses. The effective date of ASU 2016-13 is for interim and annual reporting periods beginning after December 15, 2019. The ASU has not yet been adopted. Management is currently evaluating the impact on our company's consolidated financial position, cash flows or results of operations.

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

In March 2017, the FASB issued ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.* ASU 2017-08 amends guidance on the amortization period of premiums on certain purchased callable debt securities. The amendments shorten the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment to beginning retained earnings. The effective date of ASU 2017-08 is for interim and annual reporting periods beginning after December 15, 2018. The ASU has not yet been adopted; however, it is not expected to have a material impact on our company's consolidated financial position, cash flows or results of operations.

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

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

NOTE 2 – Investments

On January 1, 2018, we adopted ASU 2016-01, which resulted in changes in the fair value of equity securities still held, being reported in net income instead of being reported in other comprehensive income. See Note 1, Accounting Policies, for additional discussion.

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

(Dollars in millions)	Cost or amortized	Gross unrealized		
At June 30, 2018	cost	gains	losses	Fair value
Fixed maturity securities:				
Corporate	**$ 5,625**	**$ 110**	**$ 57**	**$ 5,678**
States, municipalities and political subdivisions	**4,316**	**78**	**36**	**4,358**
Commercial mortgage-backed	**283**	**2**	**4**	**281**
Government-sponsored enterprises	**277**	**—**	**8**	**269**
United States government	**41**	**—**	**1**	**40**
Foreign government	**10**	**—**	**—**	**10**
Total	**$ 10,552**	**$ 190**	**$ 106**	**$ 10,636**
At December 31, 2017				
Fixed maturity securities:				
Corporate	$ 5,420	$ 246	$ 13	$ 5,653
States, municipalities and political subdivisions	4,316	155	6	4,465
Commercial mortgage-backed	280	7	1	286
Government-sponsored enterprises	257	1	4	254
United States government	31	—	—	31
Foreign government	10	—	—	10
Subtotal	10,314	409	24	10,699
Equity securities:				
Common equities	2,918	3,135	14	6,039
Nonredeemable preferred equities	176	34	—	210
Subtotal	3,094	3,169	14	6,249
Total	$ 13,408	$ 3,578	$ 38	$ 16,948

The net unrealized investment gains in our fixed-maturity portfolio at June 30, 2018, are primarily the result of the continued low interest rate environment that increased the fair value of our fixed-maturity portfolio. Our commercial mortgage-backed securities had an average rating of Aa1/AA at June 30, 2018, and December 31, 2017.

At June 30, 2018, Apple Inc. (Nasdaq:AAPL) was our largest single equity holding with a fair value of $259 million, which was 4.3 percent of our publicly traded common equities portfolio and 1.5 percent of the total investment portfolio.

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

(Dollars in millions)	Less than 12 months		12 months or more		Total	
At June 30, 2018	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Fixed maturity securities:						
Corporate	**$ 1,836**	**$ 39**	**$ 283**	**$ 18**	**$ 2,119**	**$ 57**
States, municipalities and political subdivisions	**1,070**	**22**	**262**	**14**	**1,332**	**36**
Commercial mortgage-backed securities	**113**	**2**	**35**	**2**	**148**	**4**
Government-sponsored enterprises	**110**	**2**	**158**	**6**	**268**	**8**
Foreign government	**10**	**—**	**—**	**—**	**10**	**—**
United States government	**23**	**1**	**11**	**—**	**34**	**1**
Total	**$ 3,162**	**$ 66**	**$ 749**	**$ 40**	**$ 3,911**	**$ 106**
At December 31, 2017						
Fixed maturity securities:						
Corporate	$ 330	$ 4	$ 252	$ 9	$ 582	$ 13
States, municipalities and political subdivisions	88	1	264	5	352	6
Commercial mortgage-backed	33	—	36	1	69	1
Government-sponsored enterprises	96	1	124	3	220	4
Foreign government	10	—	—	—	10	—
United States government	23	—	6	—	29	—
Subtotal	580	6	682	18	1,262	24
Equity securities:						
Common equities	229	14	—	—	229	14
Subtotal	229	14	—	—	229	14
Total	$ 809	$ 20	$ 682	$ 18	$ 1,491	$ 38

Contractual maturity dates for fixed-maturity investments were:

(Dollars in millions) At June 30, 2018	Amortized cost	Fair value	% of fair value
Maturity dates:			
Due in one year or less	$ 720	$ 733	6.9%
Due after one year through five years	2,745	2,781	26.1
Due after five years through ten years	3,630	3,641	34.3
Due after ten years	3,457	3,481	32.7
Total	$ 10,552	$ 10,636	100.0%

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

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

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Investment income:				
Interest	**$ 112**	$ 111	**$ 222**	$ 222
Dividends	**44**	42	**86**	81
Other	**1**	1	**2**	2
Total	**157**	154	**310**	305
Less investment expenses	**3**	3	**6**	5
Total	**$ 154**	$ 151	**$ 304**	$ 300
Investment gains and losses, net:				
Equity securities:				
Investment gains and losses on securities sold, net	**$ 4**	$ —	**$ 7**	$ —
Unrealized gains and losses on securities still held, net	**101**	—	**(97)**	—
Gross realized gains	**—**	6	**—**	159
Gross realized losses	**—**	(10)	**—**	(14)
Other-than-temporary impairments	**—**	(3)	**—**	(3)
Subtotal	**105**	(7)	**(90)**	142
Fixed maturities:				
Gross realized gains	**3**	3	**7**	13
Gross realized losses	**(1)**	—	**(1)**	—
Other-than-temporary impairments	**—**	(6)	**—**	(6)
Subtotal	**2**	(3)	**6**	7
Other	**(2)**	(1)	**(2)**	—
Total	**$ 105**	$ (11)	**$ (86)**	$ 149

During the three and six months ended June 30, 2018, there were no fixed-maturity securities other-than-temporarily impaired. During the three and six months ended June 30, 2017, there were five equity securities and one fixed-maturity security other-than-temporarily impaired. There were no credit losses on fixed-maturity securities for which a portion of other-than-temporary impairment (OTTI) has been recognized in other comprehensive income for the three and six months ended June 30, 2018 and 2017.

At June 30, 2018, 263 fixed-maturity securities with a total unrealized loss of $40 million had been in an unrealized loss position for 12 months or more. Of that total, no fixed-maturity security had a fair value below 70 percent of amortized cost. At December 31, 2017, 249 fixed-maturity securities with a total unrealized loss of $18 million had been in an unrealized loss position for 12 months or more. Of that total, no fixed-maturity securities had fair values below 70 percent of amortized cost. There were no equity securities in an unrealized loss position for 12 months or more as of December 31, 2017.

NOTE 3 – Fair Value Measurements

In accordance with accounting guidance for fair value measurements and disclosures, we categorized our financial instruments, based on the priority of the observable and market-based data for the valuation technique used, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices with readily available independent data in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable market inputs (Level 3). When various inputs for measurement fall within different levels of the fair value hierarchy, the lowest observable input that has a significant impact on fair value measurement is used. Our valuation techniques have not changed from those used at December 31, 2017, and ultimately management determines fair value. See our 2017 Annual Report on Form 10-K, Item 8, Note 3, Fair Value Measurements, Page 132, for information on characteristics and valuation techniques used in determining fair value.

Fair Value Disclosures for Assets

The following tables illustrate the fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2018, and December 31, 2017. We do not have any liabilities carried at fair value. There were no transfers between Level 1 and Level 2.

(Dollars in millions) **At June 30, 2018**	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities, available for sale:				
Corporate	**$ —**	**$ 5,677**	**$ 1**	**$ 5,678**
States, municipalities and political subdivisions	**—**	**4,354**	**4**	**4,358**
Commercial mortgage-backed	**—**	**281**	**—**	**281**
Government-sponsored enterprises	**—**	**269**	**—**	**269**
United States government	**40**	**—**	**—**	**40**
Foreign government	**—**	**10**	**—**	**10**
Subtotal	**40**	**10,591**	**5**	**10,636**
Common equities	**6,008**	**—**	**—**	**6,008**
Nonredeemable preferred equities	**—**	**192**	**—**	**192**
Separate accounts taxable fixed maturities	**—**	**781**	**—**	**781**
Top Hat savings plan mutual funds and common equity (included in Other assets)	**33**	**—**	**—**	**33**
Total	**$ 6,081**	**$ 11,564**	**$ 5**	**$ 17,650**
At December 31, 2017				
Fixed maturities, available for sale:				
Corporate	$ —	$ 5,652	$ 1	$ 5,653
States, municipalities and political subdivisions	—	4,460	5	4,465
Commercial mortgage-backed	—	286	—	286
Government-sponsored enterprises	—	254	—	254
United States government	31	—	—	31
Foreign government	—	10	—	10
Subtotal	31	10,662	6	10,699
Common equities, available for sale	6,039	—	—	6,039
Nonredeemable preferred equities, available for sale	—	210	—	210
Separate accounts taxable fixed maturities	—	795	—	795
Top Hat savings plan mutual funds and common equity (included in Other assets)	31	—	—	31
Total	$ 6,101	$ 11,667	$ 6	$ 17,774

Each financial instrument that was deemed to have significant unobservable inputs when determining valuation is identified in the following tables by security type with a summary of changes in fair value as of June 30, 2018. Total Level 3 assets continue to be less than 1 percent of financial assets measured at fair value in the condensed consolidated balance sheets. Assets presented in the table below were valued based primarily on broker/dealer quotes for which there is a lack of transparency as to inputs used to develop the valuations. Transfers out of Level 3 included situations where a broker quote was used without observable inputs or data that could be corroborated by our pricing vendors in the prior period and significant other observable inputs were identified in the current period. The quantitative detail of these unobservable inputs is neither provided nor reasonably available to us.

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

(Dollars in millions)	Asset fair value measurements using significant unobservable inputs		
	Corporate fixed maturities	States, municipalities and political subdivisions fixed maturities	Total
Beginning balance, April 1, 2018	**$ 1**	**$ 4**	**$ 5**
Total gains or losses (realized/unrealized):			
Included in net income	**—**	**—**	**—**
Included in other comprehensive income	**—**	**—**	**—**
Purchases	**—**	**—**	**—**
Sales	**—**	**—**	**—**
Transfers into Level 3	**—**	**—**	**—**
Transfers out of Level 3	**—**	**—**	**—**
Ending balance, June 30, 2018	**$ 1**	**$ 4**	**$ 5**
Beginning balance, April 1, 2017	$ 1	$ —	$ 1
Total gains or losses (realized/unrealized):			
Included in net income	—	—	—
Included in other comprehensive income	—	—	—
Purchases	—	—	—
Sales	—	—	—
Transfers into Level 3	—	5	5
Transfers out of Level 3	—	—	—
Ending balance, June 30, 2017	$ 1	$ 5	$ 6

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

(Dollars in millions)	Asset fair value measurements using significant unobservable inputs		
	Corporate fixed maturities	States, municipalities and political subdivisions fixed maturities	Total
Beginning balance, January 1, 2018	**$ 1**	**$ 5**	**$ 6**
Total gains or losses (realized/unrealized):			
Included in net income	**—**	**—**	**—**
Included in other comprehensive income	**—**	**(1)**	**(1)**
Purchases	**—**	**—**	**—**
Sales	**—**	**—**	**—**
Transfers into Level 3	**—**	**—**	**—**
Transfers out of Level 3	**—**	**—**	**—**
Ending balance, June 30, 2018	**$ 1**	**$ 4**	**$ 5**
Beginning balance, January 1, 2017	$ 78	$ —	$ 78
Total gains or losses (realized/unrealized):			
Included in net income	—	—	—
Included in other comprehensive income	—	—	—
Purchases	—	5	5
Sales	—	—	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	(77)	—	(77)
Ending balance, June 30, 2017	$ 1	$ 5	$ 6

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

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

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

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

(Dollars in millions)			Book value		Principal amount	
Interest rate	Year of issue		**June 30, 2018**	December 31, 2017	**June 30, 2018**	December 31, 2017
6.900%	1998	Senior debentures, due 2028	**$ 26**	$ 26	**$ 28**	$ 28
6.920%	2005	Senior debentures, due 2028	**391**	391	**391**	391
6.125%	2004	Senior notes, due 2034	**370**	370	**374**	374
		Total	**$ 787**	$ 787	**$ 793**	$ 793

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

(Dollars in millions) **At June 30, 2018**	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Note payable	**$ —**	**$ 61**	**$ —**	**$ 61**
6.900% senior debentures, due 2028	**—**	**32**	**—**	**32**
6.920% senior debentures, due 2028	**—**	**478**	**—**	**478**
6.125% senior notes, due 2034	**—**	**448**	**—**	**448**
Total	**$ —**	**$ 1,019**	**$ —**	**$ 1,019**
At December 31, 2017				
Note payable	$ —	$ 24	$ —	$ 24
6.900% senior debentures, due 2028	—	34	—	34
6.920% senior debentures, due 2028	—	505	—	505
6.125% senior notes, due 2034	—	477	—	477
Total	$ —	$ 1,040	$ —	$ 1,040

The following table shows the fair value of our life policy loans included in other invested assets and the fair values of our deferred annuities and structured settlements included in life policy and investment contract reserves:

(Dollars in millions) **At June 30, 2018**	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Life policy loans	**$ —**	**$ —**	**$ 40**	**$ 40**
Deferred annuities	**—**	**—**	**769**	**769**
Structured settlements	**—**	**192**	**—**	**192**
Total	**$ —**	**$ 192**	**$ 769**	**$ 961**
At December 31, 2017				
Life policy loans	$ —	$ —	$ 41	$ 41
Deferred annuities	—	—	834	834
Structured settlements	—	210	—	210
Total	$ —	$ 210	$ 834	$ 1,044

Outstanding principal and interest for these life policy loans totaled $32 million and $31 million at June 30, 2018, and December 31, 2017, respectively.

Recorded reserves for the deferred annuities were $813 million and $835 million at June 30, 2018, and December 31, 2017, respectively. Recorded reserves for the structured settlements were $159 million and $161 million at June 30, 2018, and December 31, 2017, respectively.

NOTE 4 – Property Casualty Loss and Loss Expenses

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

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Gross loss and loss expense reserves, beginning of period	**$ 5,293**	$ 5,128	**$ 5,219**	$ 5,035
Less reinsurance recoverable	**184**	297	**187**	298
Net loss and loss expense reserves, beginning of period	**5,109**	4,831	**5,032**	4,737
Net incurred loss and loss expenses related to:				
Current accident year	**852**	832	**1,691**	1,658
Prior accident years	**(31)**	(38)	**(79)**	(76)
Total incurred	**821**	794	**1,612**	1,582
Net paid loss and loss expenses related to:				
Current accident year	**341**	373	**536**	558
Prior accident years	**354**	322	**873**	831
Total paid	**695**	695	**1,409**	1,389
Net loss and loss expense reserves, end of period	**5,235**	4,930	**5,235**	4,930
Plus reinsurance recoverable	**188**	283	**188**	283
Gross loss and loss expense reserves, end of period	**$ 5,423**	$ 5,213	**$ 5,423**	$ 5,213

We use actuarial methods, models and judgment to estimate, as of a financial statement date, the property casualty loss and loss expense reserves required to pay for and settle all outstanding insured claims, including incurred but not reported (IBNR) claims, as of that date. The actuarial estimate is subject to review and adjustment by an inter-departmental committee that includes actuarial, claims, underwriting, loss prevention and accounting management. This committee is familiar with relevant company and industry business, claims and underwriting trends, as well as general economic and legal trends that could affect future loss and loss expense payments. The amount we will actually have to pay for claims can be highly uncertain. This uncertainty, together with the size of our reserves, makes the loss and loss expense reserves our most significant estimate. The reserve for loss and loss expenses in the condensed consolidated balance sheets also included $45 million at June 30, 2018, and $68 million at June 30, 2017, for certain life and health loss and loss expense reserves.

For the three months ended June 30, 2018, we experienced $31 million of favorable development on prior accident years, including $42 million of favorable development in commercial lines, $17 million of unfavorable development in personal lines, $4 million of favorable development in excess and surplus lines and $2 million of favorable development in our reinsurance assumed operations. Within commercial lines, we recognized favorable reserve development of $18 million for the workers' compensation line, $14 million for the commercial casualty line, $7 million for the commercial property line and $8 million for the other commercial lines due to reduced uncertainty of prior accident year loss and loss adjustment expense for these lines. This was partially offset by unfavorable reserve development of $5 million for the commercial auto line. Within personal lines, we recognized unfavorable reserve development of $14 million for the homeowner line of business due primarily to higher-than-anticipated loss emergence on known claims.

For the six months ended June 30, 2018, we experienced $79 million of favorable development on prior accident years, including $77 million of favorable development in commercial lines, $16 million of unfavorable development in personal lines, $14 million of favorable development in excess and surplus lines and $4 million of favorable development in our reinsurance assumed operations. This included $7 million from favorable development of catastrophe losses. Within commercial lines, we recognized favorable reserve development of $31 million for the workers' compensation line, $28 million for the commercial property line, $10 million for the commercial casualty line and $12 million for the other commercial lines due to reduced uncertainty of prior accident year loss and loss adjustment expense for these lines. This was partially offset by unfavorable reserve development of $4 million for the commercial auto line. Within personal lines, we recognized unfavorable reserve development of $17 million for the homeowner line of business due primarily to higher-than-anticipated loss emergence on known claims.

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

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

NOTE 5 – Life Policy and Investment Contract Reserves

We establish the reserves for traditional life insurance policies based on expected expenses, mortality, morbidity, withdrawal rates, timing of claim presentation and investment yields, including a provision for uncertainty. Once these assumptions are established, they generally are maintained throughout the lives of the contracts. We use both our own experience and industry experience, adjusted for historical trends, in arriving at our assumptions for expected mortality, morbidity and withdrawal rates as well as for expected expenses. We base our assumptions for expected investment income on our own experience adjusted for current economic conditions.

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

This table summarizes our life policy and investment contract reserves:

(Dollars in millions)	**June 30, 2018**	December 31, 2017
Life policy reserves:		
Ordinary/traditional life	**$ 1,118**	$ 1,080
Other	**48**	47
Subtotal	**1,166**	1,127
Investment contract reserves:		
Deferred annuities	**813**	835
Universal life	**616**	601
Structured settlements	**159**	160
Other	**6**	6
Subtotal	**1,594**	1,602
Total life policy and investment contract reserves	**$ 2,760**	$ 2,729

NOTE 6 – Deferred Policy Acquisition Costs

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

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Property casualty:				
Deferred policy acquisition costs asset, beginning of period	**$ 446**	$ 428	**$ 438**	$ 408
Capitalized deferred policy acquisition costs	**251**	237	**483**	463
Amortized deferred policy acquisition costs	**(225)**	(217)	**(449)**	(423)
Deferred policy acquisition costs asset, end of period	**$ 472**	$ 448	**$ 472**	$ 448
Life:				
Deferred policy acquisition costs asset, beginning of period	**$ 245**	$ 232	**$ 232**	$ 229
Capitalized deferred policy acquisition costs	**15**	12	**28**	25
Amortized deferred policy acquisition costs	**(11)**	(12)	**(21)**	(20)
Amortized shadow deferred policy acquisition costs	**7**	(2)	**17**	(4)
Deferred policy acquisition costs asset, end of period	**$ 256**	$ 230	**$ 256**	$ 230
Consolidated:				
Deferred policy acquisition costs asset, beginning of period	**$ 691**	$ 660	**$ 670**	$ 637
Capitalized deferred policy acquisition costs	**266**	249	**511**	488
Amortized deferred policy acquisition costs	**(236)**	(229)	**(470)**	(443)
Amortized shadow deferred policy acquisition costs	**7**	(2)	**17**	(4)
Deferred policy acquisition costs asset, end of period	**$ 728**	$ 678	**$ 728**	$ 678

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

NOTE 7 – Accumulated Other Comprehensive Income

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

(Dollars in millions)	Three months ended June 30, 2018			2017		
	Before tax	Income tax	Net	Before tax	Income tax	Net
Investments:						
AOCI, beginning of period	**$ 164**	**$ 35**	**$ 129**	$ 2,756	$ 954	$ 1,802
OCI before investment gains and losses, net, recognized in net income	**(78)**	**(18)**	**(60)**	211	74	137
Investment gains and losses, net, recognized in net income	**(2)**	**—**	**(2)**	10	3	7
OCI	**(80)**	**(18)**	**(62)**	221	77	144
AOCI, end of period	**$ 84**	**$ 17**	**$ 67**	$ 2,977	$ 1,031	$ 1,946
Pension obligations:						
AOCI, beginning of period	**$ (12)**	**$ (1)**	**$ (11)**	$ (25)	$ (8)	$ (17)
OCI excluding amortization recognized in net income	**—**	**—**	**—**	—	—	—
Amortization recognized in net income	**1**	**—**	**1**	—	—	—
OCI	**1**	**—**	**1**	—	—	—
AOCI, end of period	**$ (11)**	**$ (1)**	**$ (10)**	$ (25)	$ (8)	$ (17)
Life deferred acquisition costs, life policy reserves and other:						
AOCI, beginning of period	**$ (4)**	**$ (1)**	**$ (3)**	$ (7)	$ (2)	$ (5)
OCI before investment gains and losses, net, recognized in net income	**—**	**—**	**—**	—	(1)	1
Investment gains and losses, net, recognized in net income	**2**	**1**	**1**	1	1	—
OCI	**2**	**1**	**1**	1	—	1
AOCI, end of period	**$ (2)**	**$ —**	**$ (2)**	$ (6)	$ (2)	$ (4)
Summary of AOCI:						
AOCI, beginning of period	**$ 148**	**$ 33**	**$ 115**	$ 2,724	$ 944	$ 1,780
Investments OCI	**(80)**	**(18)**	**(62)**	221	77	144
Pension obligations OCI	**1**	**—**	**1**	—	—	—
Life deferred acquisition costs, life policy reserves and other OCI	**2**	**1**	**1**	1	—	1
Total OCI	**(77)**	**(17)**	**(60)**	222	77	145
AOCI, end of period	**$ 71**	**$ 16**	**$ 55**	$ 2,946	$ 1,021	$ 1,925

(Dollars in millions)	Six months ended June 30,					
	2018			2017		
	Before tax	Income tax	Net	Before tax	Income tax	Net
Investments:						
AOCI, beginning of period	**$ 3,540**	**$ 733**	**$ 2,807**	$ 2,625	$ 908	$ 1,717
Cumulative effect of change in accounting for equity securities as of January 1, 2018	**(3,155)**	**(652)**	**(2,503)**	—	—	—
Adjusted AOCI, beginning of period	**385**	**81**	**304**	2,625	908	1,717
OCI before investment gains and losses, net, recognized in net income	**(295)**	**(63)**	**(232)**	501	176	325
Investment gains and losses, net, recognized in net income	**(6)**	**(1)**	**(5)**	(149)	(53)	(96)
OCI	**(301)**	**(64)**	**(237)**	352	123	229
AOCI, end of period	**$ 84**	**$ 17**	**$ 67**	$ 2,977	$ 1,031	$ 1,946
Pension obligations:						
AOCI, beginning of period	**$ (12)**	**$ (1)**	**$ (11)**	$ (26)	$ (8)	$ (18)
OCI excluding amortization recognized in net income	**—**	**—**	**—**	—	—	—
Amortization recognized in net income	**1**	**—**	**1**	1	—	1
OCI	**1**	**—**	**1**	1	—	1
AOCI, end of period	**$ (11)**	**$ (1)**	**$ (10)**	$ (25)	$ (8)	$ (17)
Life deferred acquisition costs, life policy reserves and other:						
AOCI, beginning of period	**$ (10)**	**$ (2)**	**$ (8)**	$ (9)	$ (3)	$ (6)
OCI before investment gains and losses, net, recognized in net income	**6**	**1**	**5**	3	1	2
Investment gains and losses, net, recognized in net income	**2**	**1**	**1**	—	—	—
OCI	**8**	**2**	**6**	3	1	2
AOCI, end of period	**$ (2)**	**$ —**	**$ (2)**	$ (6)	$ (2)	$ (4)
Summary of AOCI:						
AOCI, beginning of period	**$ 3,518**	**$ 730**	**$ 2,788**	$ 2,590	$ 897	$ 1,693
Cumulative effect of change in accounting for equity securities as of January 1, 2018	**(3,155)**	**(652)**	**(2,503)**	—	—	—
Adjusted AOCI, beginning of period	**363**	**78**	**285**	2,590	897	1,693
Investments OCI	**(301)**	**(64)**	**(237)**	352	123	229
Pension obligations OCI	**1**	**—**	**1**	1	—	1
Life deferred acquisition costs, life policy reserves and other OCI	**8**	**2**	**6**	3	1	2
Total OCI	**(292)**	**(62)**	**(230)**	356	124	232
AOCI, end of period	**$ 71**	**$ 16**	**$ 55**	$ 2,946	$ 1,021	$ 1,925

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

NOTE 8 – Reinsurance

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

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

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Direct written premiums	**$ 1,336**	$ 1,265	**$ 2,583**	$ 2,491
Assumed written premiums	**52**	42	**101**	75
Ceded written premiums	**(39)**	(36)	**(77)**	(64)
Net written premiums	**$ 1,349**	$ 1,271	**$ 2,607**	$ 2,502
Direct earned premiums	**$ 1,235**	$ 1,189	**$ 2,442**	$ 2,352
Assumed earned premiums	**36**	33	**69**	60
Ceded earned premiums	**(41)**	(41)	**(81)**	(80)
Earned premiums	**$ 1,230**	$ 1,181	**$ 2,430**	$ 2,332
Direct incurred loss and loss expenses	**$ 821**	$ 770	**$ 1,602**	$ 1,558
Assumed incurred loss and loss expenses	**13**	20	**29**	35
Ceded incurred loss and loss expenses	**(13)**	4	**(19)**	(11)
Incurred loss and loss expenses	**$ 821**	$ 794	**$ 1,612**	$ 1,582

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

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

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Direct earned premiums	**$ 81**	$ 77	**$ 158**	$ 151
Ceded earned premiums	**(17)**	(17)	**(34)**	(34)
Earned premiums	**$ 64**	$ 60	**$ 124**	$ 117
Direct contract holders' benefits incurred	**70**	87	**146**	163
Ceded contract holders' benefits incurred	**(8)**	(27)	**(21)**	(38)
Contract holders' benefits incurred	**$ 62**	$ 60	**$ 125**	$ 125

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

NOTE 9 – Income Taxes

As of June 30, 2018, and December 31, 2017, we had no liability for unrecognized tax benefits.

The differences between the 21 percent and 35 percent statutory federal income tax rates and our effective income tax rate were as follows:

(Dollars in millions)	Three months ended June 30,				Six months ended June 30,			
	2018		2017		**2018**		2017	
Tax at statutory rate:	**$ 56**	**21.0 %**	$ 44	35.0 %	**$ 45**	**21.0 %**	$ 141	35.0 %
Increase (decrease) resulting from:								
Tax-exempt income from municipal bonds	**(5)**	**(1.9)**	(9)	(7.0)	**(10)**	**(4.7)**	(18)	(4.5)
Dividend received exclusion	**(5)**	**(1.5)**	(9)	(7.0)	**(8)**	**(3.7)**	(17)	(4.2)
Other	**1**	**0.2**	2	0.9	**1**	**0.5**	(3)	(0.8)
Provision for income taxes	**$ 47**	**17.8 %**	$ 28	21.9 %	**$ 28**	**13.1 %**	$ 103	25.5 %

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

See our 2017 Annual Report on Form 10-K, Item 8, Note 11, Income Taxes, Page 153, which discusses enactment of the Tax Cuts and Jobs Act (the “Tax Act”) on December 22, 2017, and its impact on our financial results for that period. Interpretive guidance of the Tax Act will be received throughout 2018, and we expect to update our estimates and our disclosure on a quarterly basis as interpretative guidance is received within each quarter that it is received. During the period ended June 30, 2018, the U.S. Treasury Department and the Internal Revenue Service have not issued further clarification or guidance for the items for which our accounting for the Tax Act is incomplete. We expect to complete determination of the effects of the Tax Act on our deferred tax assets and liabilities as part of the annual income tax return filing process.

As of June 30, 2018, we had no operating or capital loss carryforwards.

NOTE 10 – Net Income Per Common Share

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

(In millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Numerator:				
Net income—basic and diluted	**$ 217**	$ 100	**$ 186**	$ 301
Denominator:				
Basic weighted-average common shares outstanding	**163.2**	164.3	**163.6**	164.4
Effect of share-based awards:				
Stock options	**0.8**	1.0	**0.9**	1.1
Nonvested shares	**0.5**	0.7	**0.5**	0.7
Diluted weighted-average shares	**164.5**	166.0	**165.0**	166.2
Earnings per share:				
Basic	**$ 1.33**	$ 0.61	**$ 1.13**	$ 1.83
Diluted	**$ 1.32**	$ 0.60	**$ 1.12**	$ 1.81
Number of anti-dilutive share-based awards	**1.3**	0.6	**1.3**	0.7

The sources of dilution of our common shares are certain equity-based awards. See our 2017 Annual Report on Form 10-K, Item 8, Note 17, Share-Based Associate Compensation Plans, Page 161, for information about share-based awards. The above table shows the number of anti-dilutive share-based awards for the three and six months ended June 30, 2018 and 2017. These share-based awards were not included in the computation of net income per common share (diluted) because their exercise would have anti-dilutive effects.

NOTE 11 – Employee Retirement Benefits

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

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Service cost	**$ 2**	$ 2	**$ 5**	$ 5
Non-service costs (benefit):				
Interest cost	**3**	4	**6**	7
Expected return on plan assets	**(6)**	(5)	**(11)**	(10)
Amortization of actuarial loss and prior service cost	**1**	—	**1**	1
Total non-service benefit	**(2)**	(1)	**(4)**	(2)
Net periodic benefit cost	**$ —**	$ 1	**$ 1**	$ 3

See our 2017 Annual Report on Form 10-K, Item 8, Note 13, Employee Retirement Benefits, Page 156, for information on our retirement benefits. Service costs and non-service costs (benefit) are allocated in the same proportion primarily to the underwriting, acquisition and insurance expenses line item with the remainder allocated to the insurance losses and contract holders' benefits line item on the condensed consolidated statements of income for both 2018 and 2017.

We made matching contributions totaling $4 million and $3 million to our 401(k) and Top Hat savings plans during the second quarter of 2018 and 2017 and contributions of $10 million and $9 million for the first half of 2018 and 2017, respectively.

We contributed $5 million to our qualified pension plan during the first six months of 2018.

NOTE 12 – Commitments and Contingent Liabilities

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

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

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

NOTE 13 – Segment Information

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

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

We report as Other the noninvestment operations of the parent company and its noninsurer subsidiary, CFC Investment Company and Cincinnati Re, our reinsurance assumed operations. See our 2017 Annual Report on Form 10-K, Item 8, Note 18, Segment Information, Page 164, for a description of revenue, income or loss before income taxes and identifiable assets for each of the five segments.

Segment information is summarized in the following table:

(Dollars in millions)	Three months ended June 30, **2018**	2017	Six months ended June 30, **2018**	2017
Revenues:				
Commercial lines insurance				
Commercial casualty	**$ 272**	$ 271	**$ 537**	$ 536
Commercial property	**231**	226	**459**	449
Commercial auto	**166**	158	**327**	313
Workers' compensation	**85**	86	**165**	170
Other commercial	**58**	55	**114**	109
Commercial lines insurance premiums	**812**	796	**1,602**	1,577
Fee revenues	**—**	1	**2**	2
Total commercial lines insurance	**812**	797	**1,604**	1,579
Personal lines insurance				
Personal auto	**153**	144	**304**	285
Homeowner	**139**	128	**275**	253
Other personal	**39**	35	**77**	69
Personal lines insurance premiums	**331**	307	**656**	607
Fee revenues	**2**	1	**3**	3
Total personal lines insurance	**333**	308	**659**	610
Excess and surplus lines insurance	**57**	52	**113**	100
Fee revenues	**1**	1	**1**	1
Total excess and surplus lines insurance	**58**	53	**114**	101
Life insurance premiums	**64**	60	**124**	117
Fee revenues	**1**	1	**2**	3
Total life insurance	**65**	61	**126**	120
Investments				
Investment income, net of expenses	**154**	151	**304**	300
Investment gains and losses, net	**105**	(11)	**(86)**	149
Total investment revenue	**259**	140	**218**	449
Other				
Cincinnati Re insurance premiums	**30**	26	**59**	48
Other	**1**	1	**2**	2
Total other revenues	**31**	27	**61**	50
Total revenues	**$ 1,558**	$ 1,386	**$ 2,782**	$ 2,909
Income (loss) before income taxes:				
Insurance underwriting results				
Commercial lines insurance	**$ 47**	$ 24	**$ 62**	$ 22
Personal lines insurance	**(32)**	(24)	**(41)**	(39)
Excess and surplus lines insurance	**13**	19	**31**	37
Life insurance	**8**	4	**10**	4
Investments	**235**	117	**170**	403
Other	**(7)**	(12)	**(18)**	(23)
	$ 264	$ 128	**$ 214**	$ 404

Identifiable assets:	**June 30, 2018**	December 31, 2017
Property casualty insurance	**$ 3,011**	$ 2,863
Life insurance	**1,406**	1,409
Investments	**16,972**	17,112
Other	**371**	459
Total	**$ 21,760**	$ 21,843

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

The following discussion highlights significant factors influencing the condensed consolidated results of operations and financial position of Cincinnati Financial Corporation. It should be read in conjunction with the consolidated financial statements and related notes included in our 2017 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 2017 Annual Report on Form 10-K, Item 1A, Risk Factors, Page 30.

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

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

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

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

CORPORATE FINANCIAL HIGHLIGHTS

Net Income and Comprehensive Income Data

(Dollars in millions, except per share data)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Earned premiums	**$ 1,294**	$ 1,241	4	**$ 2,554**	$ 2,449	4
Investment income, net of expenses (pretax)	**154**	151	2	**304**	300	1
Investment gains and losses, net (pretax)	**105**	(11)	nm	**(86)**	149	nm
Total revenues	**1,558**	1,386	12	**2,782**	2,909	(4)
Net income	**217**	100	117	**186**	301	(38)
Comprehensive income (loss)	**157**	245	(36)	**(44)**	533	nm
Net income per share—diluted	**1.32**	0.60	120	**1.12**	1.81	(38)
Cash dividends declared per share	**0.53**	0.50	6	**1.06**	1.00	6
Diluted weighted average shares outstanding	**164.5**	166.0	(1)	**165.0**	166.2	(1)

Total revenues increased for the second quarter of 2018, compared with the same period of 2017, reflecting higher earned premiums and significant net investment gains. For the first six months of 2018, compared with the same period a year ago, total revenues decreased, as higher earned premiums were offset by a reduction in net investment gains. Premium and investment revenue trends are discussed further in the respective sections of Financial Results.

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

Net income for the second quarter of 2018, compared with second-quarter 2017, increased $117 million, including increases of $91 million in after-tax net investment gains and losses, $16 million in after-tax investment income and $13 million in after-tax property casualty underwriting income. New accounting requirements adopted during the first quarter of 2018 resulted in reporting, through net income, the change in fair value for equity securities still held, as disclosed in this quarterly report Item 1, Note 1, Accounting Policies, and Note 2, Investments. Included in the $91 million increase in net investment gains was $80 million from the recognition of fair value changes of equity securities still held that prior to 2018 would have been reported in other comprehensive income instead of net income. Catastrophe losses, mostly weather related, were $6 million less after taxes and favorably affected both net income and property casualty underwriting income. Life insurance segment results on a pretax basis for the second quarter of 2018 rose $4 million compared with the second quarter of 2017.

For the six months ended June 30, 2018, net income decreased $115 million compared with the first six months of 2017, reflecting a $163 million decrease in after-tax investment gains and losses that was partially offset by increases of $29 million in after-tax investment income and $32 million in after-tax property casualty underwriting income. Included in the $163 million decrease in net investment gains was $77 million from the recognition of fair value changes of equity securities still held that prior to 2018 would have been reported in other comprehensive income instead of net income.The property casualty underwriting income increase included a favorable $33 million after-tax effect from lower catastrophe losses. Life insurance segment results increased by $6 million on a pretax basis.

Performance by segment is discussed below in Financial Results. As discussed in our 2017 Annual Report on Form 10-K, Item 7, Factors Influencing Our Future Performance, Page 48, there are several reasons that our performance during 2018 may be below our long-term targets. In that annual report, as part of Financial Results, we also discussed the full-year 2018 outlook for each reporting segment.

The board of directors is committed to rewarding shareholders directly through cash dividends and through share repurchase authorizations. Through 2017, the company had increased the annual cash dividend rate for 57 consecutive years, a record we believe is matched by only seven other publicly traded companies.

In January 2018, the board of directors increased the regular quarterly dividend to 53 cents per share, setting the stage for our 58th consecutive year of increasing cash dividends. During the first six months of 2018, cash dividends declared by the company increased 6 percent compared with the same period of 2017. Our board regularly evaluates relevant factors in decisions related to dividends and share repurchases.
The 2018 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

(Dollars in millions, except share data)	**At June 30, 2018**	At December 31, 2017
Total investments	**$ 16,944**	$ 17,051
Total assets	**21,760**	21,843
Short-term debt	**61**	24
Long-term debt	**787**	787
Shareholders' equity	**7,916**	8,243
Book value per share	**48.68**	50.29
Debt-to-total-capital ratio	**9.7%**	9.0%

Total assets at June 30, 2018, decreased less than 1 percent compared with year-end 2017, and included a 1 percent decrease in investments that reflected net purchases that were offset by lower fair values for many securities in our portfolio. Shareholders' equity decreased 4 percent, and book value per share decreased 3 percent during the first six months of 2018. Our debt-to-total-capital ratio (capital is the sum of debt plus shareholders' equity) was higher than at year-end 2017.

Our value creation ratio is our primary performance metric. That ratio was negative 1.1 percent for the first six months of 2018, and was less than the same period in 2017 due to a decrease in overall net gains from our investment portfolio. The $1.61 decrease in book value per share during the first six months of 2018 contributed negative 3.2 percentage points to the value creation ratio, while dividends declared at $1.06 per share contributed positive 2.1 points. Value creation ratios for comparable periods by major components and in total, along with a calculations from per-share amounts, are shown in the tables below.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Value creation ratio major components:				
Net income before investment gains	**1.7 %**	1.5 %	**3.1 %**	2.9 %
Change in fixed-maturity securities, realized and unrealized gains	**(0.8)**	0.7	**(2.8)**	1.1
Change in equity securities, investment gains	**1.0**	1.2	**(0.9)**	3.5
Other	**(0.3)**	(0.2)	**(0.5)**	(0.5)
Value creation ratio	**1.6 %**	3.2 %	**(1.1)%**	7.0 %

(Dollars are per share)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Value creation ratio:				
End of period book value*	**$ 48.68**	$ 44.97	**$ 48.68**	$ 44.97
Less beginning of period book value	**48.42**	44.07	**50.29**	42.95
Change in book value	**0.26**	0.90	**(1.61)**	2.02
Dividend declared to shareholders	**0.53**	0.50	**1.06**	1.00
Total value creation	**$ 0.79**	$ 1.40	**$ (0.55)**	$ 3.02
Value creation ratio from change in book value**	**0.5%**	2.1%	**(3.2)%**	4.7%
Value creation ratio from dividends declared to shareholders***	**1.1**	1.1	**2.1**	2.3
Value creation ratio	**1.6%**	3.2%	**(1.1)%**	7.0%

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

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

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

DRIVERS OF LONG-TERM VALUE CREATION

Operating through The Cincinnati Insurance Company, Cincinnati Financial Corporation is one of the 25 largest property casualty insurers in the nation, based on 2017 net written premiums for approximately 2,000 U.S. stock and mutual insurer groups. We market our insurance products through a select group of independent insurance agencies as discussed in our 2017 Annual Report on Form 10-K, Item 1, Our Business and Our Strategy, Page 5. At June 30, 2018, we actively marketed through agencies located in 42 states. We maintain a long-term perspective that guides us in addressing immediate challenges or opportunities while focusing on the major decisions that best position our company for success through all market cycles.

To measure our long-term progress in creating shareholder value, our value creation ratio is our primary financial performance target. As discussed in our 2017 Annual Report on Form 10-K, Item 7, Executive Summary, Page 44, management believes this measure is a meaningful indicator of our long-term progress in creating shareholder value and has three primary performance drivers:

- Premium growth – We believe our agency relationships and initiatives can lead to a property casualty written premium growth rate over any five-year period that exceeds the industry average. For the first six months of 2018, our consolidated property casualty net written premium year-over-year growth was slightly more than 4 percent. As of February 2018, A.M. Best projected the industry's full-year 2018 written premium growth at approximately 4 percent. For the five-year period 2013 through 2017, our growth rate was nearly double that of the industry. The industry's growth rate excludes its mortgage and financial guaranty lines of business.
- Combined ratio – We believe our underwriting philosophy and initiatives can generate a GAAP combined ratio over any five-year period that is consistently within the range of 95 percent to 100 percent. For the first six months of 2018, our GAAP combined ratio was 97.5 percent and our statutory combined ratio was 96.1 percent, both including 6.1 percentage points of current accident year catastrophe losses partially offset by 3.3 percentage points of favorable loss reserve development on prior accident years. As of February 2018, A.M. Best projected the industry's full-year 2018 statutory combined ratio at approximately 100 percent, including approximately 5 percentage points of catastrophe losses and a favorable effect of approximately 1 percentage point of loss reserve development on prior accident years. The industry's ratio again excludes its mortgage and financial guaranty lines of business.
- Investment contribution – We believe our investment philosophy and initiatives can drive investment income growth and lead to a total return on our equity investment portfolio over a five-year period that exceeds the five-year return of the Standard & Poor’s 500 Index. For the first six months of 2018, pretax investment income was $304 million, up 1 percent compared with the same period in 2017. We believe our investment portfolio mix provides an appropriate balance of income stability and growth with capital appreciation potential.

Highlights of Our Strategy and Supporting Initiatives

Management has worked to identify a strategy that can lead to long-term success, with concurrence by the board of directors. Our strategy is intended to position us to compete successfully in the markets we have targeted while appropriately managing risk. Further description of our long-term, proven strategy can be found in our 2017 Annual Report on Form 10-K, Item 1, Our Business and Our Strategy, Page 5. We believe successful implementation of initiatives that support our strategy will help us better serve our agent customers and reduce volatility in our financial results while we also grow earnings and book value over the long term, successfully navigating challenging economic, market or industry pricing cycles.

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

  We continue to enhance our property casualty underwriting expertise and to effectively and efficiently underwrite individual policies and process transactions. Ongoing initiatives supporting this work include expanding our pricing and segmentation capabilities through experience and use of predictive analytics and additional data. Our segmentation efforts emphasize identification and retention of insurance policies we believe have relatively stronger pricing, while seeking more aggressive renewal terms and conditions on policies we believe have relatively weaker pricing. In 2018, we continue to improve underwriting and rate adequacy for our commercial auto and personal auto lines of business. Our commercial auto policies that renewed during the first six months of 2018 experienced an estimated average price increase at percentages in the high-single-digit range, and our personal auto policies that renewed during that period also averaged an estimated price increase at percentages in the high-single-digit range.

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

  We continue to appoint new agencies to develop additional points of distribution. In 2018, we are planning approximately 100 appointments of independent agencies that offer most or all of our property casualty insurance products. During the first six months of 2018, we appointed 43 new agencies that meet that criteria.

  We also plan to appoint additional agencies that focus on high net worth personal lines clients. In 2018, we are targeting the appointment of approximately 100 agencies that market only personal lines products for us. During the first six months of 2018, we appointed 37 new agencies that meet that criteria.

  As of June 30, 2018, a total of 1,735 agency relationships market our property casualty insurance products from 2,302 reporting locations.

  We also continue to grow premiums through the disciplined expansion of Cincinnati Re. During the first six months of 2018, Cincinnati Re contributed $14 million of growth in consolidated property casualty insurance net written premiums.

Financial Strength

An important part of our long-term strategy is financial strength, which is described in our 2017 Annual Report on Form 10-K, Item 1, Our Business and Our Strategy, Financial Strength, Page 8. One aspect of our financial strength is prudent use of reinsurance ceded to help manage financial performance variability due to catastrophe loss experience. A description of how we use reinsurance ceded is included in our 2017 Annual Report on Form 10-K, Item 7, Liquidity and Capital Resources, 2018 Reinsurance Ceded Programs, Page 99. Another aspect of our financial strength is our investment portfolio, which remains well-diversified as discussed in this quarterly report in Item 3, Quantitative and Qualitative Disclosures About Market Risk. Our strong parent-company liquidity and financial strength increase our flexibility to maintain a cash dividend through all periods and to continue to invest in and expand our insurance operations.

At June 30, 2018, we held $2.543 billion of our cash and invested assets at the parent-company level, of which $2.354 billion, or 92.5 percent, was invested in common stocks, and $115 million, or 4.5 percent, was cash or cash equivalents. Our debt-to-total-capital ratio was 9.7 percent at June 30, 2018. Another important indicator of financial strength is our ratio of property casualty net written premiums to statutory surplus, which was 1.0-to-1 for the 12 months ended June 30, 2018, matching year-end 2017.

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

At July 25, 2018, our insurance subsidiaries continued to be highly rated.

Insurer Financial Strength Ratings

Rating agency	Standard market property casualty insurance subsidiaries			Life insurance subsidiary			Excess and surplus lines insurance subsidiary			Outlook
			Rating tier			Rating tier			Rating tier	
A.M. Best Co. *ambest.com*	A+	Superior	2 of 16	A	Excellent	3 of 16	A+	Superior	2 of 16	Stable/ Positive/ Stable
Fitch Ratings *fitchratings.com*	A+	Strong	5 of 21	A+	Strong	5 of 21	-	-	-	Stable
Moody's Investors Service *moodys.com*	A1	Good	5 of 21	-	-	-	-	-	-	Stable
S&P Global Ratings *spratings.com*	A+	Strong	5 of 21	A+	Strong	5 of 21	-	-	-	Stable

CONSOLIDATED PROPERTY CASUALTY INSURANCE HIGHLIGHTS

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

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Earned premiums	**$ 1,230**	$ 1,181	4	**$ 2,430**	$ 2,332	4
Fee revenues	**3**	3	0	**6**	6	0
Total revenues	**1,233**	1,184	4	**2,436**	2,338	4
Loss and loss expenses from:						
Current accident year before catastrophe losses	**765**	714	7	**1,544**	1,423	9
Current accident year catastrophe losses	**87**	118	(26)	**147**	235	(37)
Prior accident years before catastrophe losses	**(31)**	(35)	11	**(72)**	(62)	(16)
Prior accident years catastrophe losses	**—**	(3)	100	**(7)**	(14)	50
Loss and loss expenses	**821**	794	3	**1,612**	1,582	2
Underwriting expenses	**376**	367	2	**759**	727	4
Underwriting profit	**$ 36**	$ 23	57	**$ 65**	$ 29	124
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year before catastrophe losses	**62.2 %**	60.5 %	1.7	**63.5 %**	61.0 %	2.5
Current accident year catastrophe losses	**7.1**	10.0	(2.9)	**6.1**	10.1	(4.0)
Prior accident years before catastrophe losses	**(2.6)**	(3.0)	0.4	**(3.0)**	(2.7)	(0.3)
Prior accident years catastrophe losses	**0.0**	(0.2)	0.2	**(0.3)**	(0.6)	0.3
Loss and loss expenses	**66.7**	67.3	(0.6)	**66.3**	67.8	(1.5)
Underwriting expenses	**30.5**	31.0	(0.5)	**31.2**	31.2	0.0
Combined ratio	**97.2 %**	98.3 %	(1.1)	**97.5 %**	99.0 %	(1.5)
Combined ratio	**97.2 %**	98.3 %	(1.1)	**97.5 %**	99.0 %	(1.5)
Contribution from catastrophe losses and prior years reserve development	**4.5**	6.8	(2.3)	**2.8**	6.8	(4.0)
Combined ratio before catastrophe losses and prior years reserve development	**92.7 %**	91.5 %	1.2	**94.7 %**	92.2 %	2.5

Our consolidated property casualty insurance operations generated an underwriting profit of $36 million and $65 million for the three and six months ended June 30, 2018. The three-month increase of $13 million, compared with the same period of 2017, included a decrease of $28 million in losses from weather-related natural catastrophes. The six-month increase of $36 million, compared with the first half of 2017, included a decrease of $81 million in losses from weather-related natural catastrophes. Weather-related losses not identified as part of designated catastrophe events for the property casualty industry, typically referred to as noncatastrophe weather losses, increased by $34 million in the first six months of 2018, and partially offset the decrease in catastrophe losses. We believe future property casualty underwriting results will continue to benefit from price increases and our ongoing initiatives to improve pricing precision and loss experience related to claims and loss control practices.

For all property casualty lines of business in aggregate, net loss and loss expense reserves at June 30, 2018, were $203 million higher than at year-end 2017, including $130 million for the incurred but not reported (IBNR) portion. The $203 million reserve increase raised year-end 2017 net loss and loss expense reserves by 4 percent.

We measure and analyze property casualty underwriting results primarily by the combined ratio and its component ratios. The GAAP-basis combined ratio is the percentage of incurred losses plus all expenses per each earned premium dollar – the lower the ratio, the better the performance. An underwriting profit results when the combined ratio is below 100 percent. A combined ratio above 100 percent indicates that an insurance company’s losses and expenses exceeded premiums.

Our consolidated property casualty combined ratio for the second quarter of 2018 decreased by 1.1 percentage points, compared with the same period of 2017, including 2.7 points from lower catastrophe losses and loss expenses. For the first six months of 2018, compared with the same period of 2017, our consolidated property casualty combined ratio decreased by 1.5 percentage points, including a decrease of 3.7 points from lower catastrophe losses and loss expenses. The six-month 2018 decrease from catastrophe loss effects was partially offset by an increase of 1.2 points from higher noncatastrophe weather-related losses.

The combined ratio can be affected significantly by natural catastrophe losses and other large losses as discussed in detail below. The combined ratio can also be affected by updated estimates of loss and loss expense reserves established for claims that occurred in prior periods, referred to as prior accident years. Net favorable development on prior accident year reserves, including reserves for catastrophe losses, benefited the combined ratio by 3.3 percentage points in the first six months of 2018, matching 3.3 percentage points in the same period of 2017. 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 six months of 2018. That 63.5 percent ratio increased 2.5 percentage points compared with the 61.0 percent accident year 2017 ratio measured as of June 30, 2017, including an increase of 0.2 percentage points in the ratio for large losses of $1 million or more per claim, discussed below. The effects of higher first-half 2018 noncatastrophe weather-related losses contributed approximately half of the overall increase in the current accident year ratio.

The underwriting expense ratio for the second quarter of 2018 decreased, compared with the same period of 2017, and for the first six months of 2018 it matched the first six months a year ago, reflecting higher earned premiums and ongoing expense management efforts.

Consolidated Property Casualty Insurance Premiums

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Agency renewal written premiums	**$ 1,150**	$ 1,090	6	**$ 2,233**	$ 2,147	4
Agency new business written premiums	**181**	165	10	**340**	318	7
Cincinnati Re net written premiums	**48**	40	20	**94**	80	18
Other written premiums	**(30)**	(24)	(25)	**(60)**	(43)	(40)
Net written premiums	**1,349**	1,271	6	**2,607**	2,502	4
Unearned premium change	**(119)**	(90)	(32)	**(177)**	(170)	(4)
Earned premiums	**$ 1,230**	$ 1,181	4	**$ 2,430**	$ 2,332	4

The trends in net written premiums and earned premiums summarized in the table above include the effects of price increases. Price change trends that heavily influence renewal written premium increases or decreases, along with other premium growth drivers for 2018, are discussed in more detail by segment below in Financial Results.

Consolidated property casualty net written premiums for the three and six months ended June 30, 2018, grew $78 million and $105 million compared with the same periods of 2017. Our premium growth initiatives from prior years have provided an ongoing favorable effect on growth during the current year, particularly as newer agency relationships mature over time.

Consolidated property casualty agency new business written premiums rose $16 million and $22 million for the second quarter and first half of 2018, compared with the same periods of 2017. The increase for both 2018 periods was primarily from our commercial lines insurance segment. New agency appointments during 2017 and 2018 produced a $25 million increase in standard lines new business for the first six months of 2018 compared with the same period of 2017. As we appoint new agencies that choose to move accounts to us, we report these accounts as new business. While this business is new to us, in many cases it is not new to the agent. We believe these seasoned accounts tend to be priced more accurately than business that may be less familiar to our agent upon obtaining it from a competing agent.

Net written premiums for Cincinnati Re increased $8 million and $14 million for the second quarter and first six months of 2018, compared with the same periods of 2017. Cincinnati Re assumes risks through reinsurance treaties and in some cases cedes part of the risk and related premiums to one or more unaffiliated reinsurance companies through transactions known as retrocessions. For the first six months of 2018, earned premiums for Cincinnati Re totaled $59 million, compared with $48 million earned in the same period a year ago.

Other written premiums include premiums ceded to reinsurers as part of our reinsurance ceded program. Those ceded premium totals for the second quarter and first six months of 2018 were substantially similar to the same periods of 2017.

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 7.1 and 5.8 percentage points to the combined ratio in the second quarter and first six months of 2018, compared with 9.8 and 9.5 percentage points in the same periods of 2017. Some of those losses were applicable to annual loss deductible provisions of our collateralized reinsurance funded through catastrophe bonds. For our collateralized reinsurance arrangement that became effective in January 2017, we can recover catastrophe bond funds if aggregate losses, after the $8 million per occurrence deductible, exceed $190 million during an annual coverage period. Aggregate losses from seven events between January 1 and June 30, 2018, which occurred within the specific geographic locations included in the severe convective storm portion of our coverage, totaled $56 million, after our per occurrence deductible.

Effective July 1, 2018, we added a new component to our property casualty reinsurance program, a property catastrophe occurrence and aggregate excess of loss treaty providing coverage not to exceed $50 million in aggregate. Key coverages include $50 million in excess of net $125 million per occurrence combining business written on a direct basis and by Cincinnati Re, $25 million in excess of $32 million for the aggregation of Cincinnati Re catastrophe occurrences subject to certain deductibles, $50 million in excess of $10 million for business written on a direct basis for the loss perils of earthquake, brushfire and wildfire in certain western states, or various combinations of occurrences with coverage up to the $50 million aggregate limit. The aggregate limit is $25 million if covered losses pertain only to Cincinnati Re. Ceded premiums for the first year of coverage from this treaty are estimated to be approximately $7 million.

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

Consolidated Property Casualty Insurance Catastrophe Losses and Loss Expenses Incurred

(Dollars in millions, net of reinsurance)		Three months ended June 30,					Six months ended June 30,				
Dates	Region	Comm. lines	Pers. lines	E&S lines	Cin. Re	Total	Comm. lines	Pers. lines	E&S lines	Cin. Re	Total
2018											
Jan. 8-10	West	**$ —**	**$ (1)**	**$ —**	**$ —**	**$ (1)**	**$ —**	**$ 10**	**$ —**	**$ —**	**$ 10**
Mar. 1-3	Northeast, South	**—**	**—**	**—**	**—**	**—**	**6**	**6**	**—**	**—**	**12**
Mar. 18-21	South	**4**	**1**	**—**	**—**	**5**	**21**	**7**	**1**	**—**	**29**
Apr. 13-17	Midwest, Northeast, South	**22**	**7**	**—**	**—**	**29**	**22**	**7**	**—**	**—**	**29**
All other 2018 catastrophes		**29**	**25**	**—**	**—**	**54**	**36**	**31**	**—**	**—**	**67**
Development on 2017 and prior catastrophes		**(2)**	**2**	**—**	**—**	**—**	**(9)**	**2**	**—**	**—**	**(7)**
Calendar year incurred total		**$ 53**	**$ 34**	**$ —**	**$ —**	**$ 87**	**$ 76**	**$ 63**	**$ 1**	**$ —**	**$ 140**
2017											
Feb. 28-Mar. 1	Midwest, South	$ —	$ 1	$ —	$ —	$ 1	$ 22	$ 22	$ —	$ —	$ 44
Mar. 6-9	Midwest, Northeast, South	2	(2)	—	—	—	24	11	—	—	35
Mar. 21-22	South	9	(1)	—	—	8	22	9	—	—	31
Apr. 4-6	Midwest, South	8	12	—	—	20	8	12	—	—	20
May 8-11	Midwest, South, West	14	—	1	—	15	14	—	1	—	15
Jun. 11	Midwest	4	13	—	—	17	4	13	—	—	17
All other 2017 catastrophes		33	25	(1)	—	57	44	29	—	—	73
Development on 2016 and prior catastrophes		(2)	(1)	—	—	(3)	(11)	(2)	—	(1)	(14)
Calendar year incurred total		$ 68	$ 47	$ —	$ —	$ 115	$ 127	$ 94	$ 1	$ (1)	$ 221

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

Consolidated Property Casualty Insurance Losses Incurred by Size

(Dollars in millions, net of reinsurance)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Current accident year losses greater than $5 million	**$ 6**	$ —	nm	**$ 21**	$ 28	(25)
Current accident year losses $1 million - $5 million	**62**	48	29	**94**	77	22
Large loss prior accident year reserve development	**4**	21	(81)	**38**	38	—
Total large losses incurred	**72**	69	4	**153**	143	7
Losses incurred but not reported	**87**	(1)	nm	**97**	3	nm
Other losses excluding catastrophe losses	**433**	487	(11)	**953**	954	—
Catastrophe losses	**83**	112	(26)	**134**	215	(38)
Total losses incurred	**$ 675**	$ 667	1	**$ 1,337**	$ 1,315	2
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year losses greater than $5 million	**0.4%**	— %	0.4	**0.8%**	1.2%	(0.4)
Current accident year losses $1 million - $5 million	**5.1**	4.1	1.0	**3.9**	3.3	0.6
Large loss prior accident year reserve development	**0.3**	1.8	(1.5)	**1.6**	1.6	0.0
Total large loss ratio	**5.8**	5.9	(0.1)	**6.3**	6.1	0.2
Losses incurred but not reported	**7.1**	(0.1)	7.2	**4.0**	0.1	3.9
Other losses excluding catastrophe losses	**35.1**	41.3	(6.2)	**39.2**	40.9	(1.7)
Catastrophe losses	**6.8**	9.4	(2.6)	**5.5**	9.3	(3.8)
Total loss ratio	**54.8%**	56.5 %	(1.7)	**55.0%**	56.4%	(1.4)

We believe the inherent variability of aggregate loss experience for our portfolio of larger policies is greater than that of our portfolio of smaller policies, and we continue to monitor the variability in addition to general inflationary trends in loss costs. Our analysis continues to indicate no unexpected concentration of large losses and case reserve increases by risk category, geographic region, policy inception, agency or field marketing territory. The second-quarter 2018 property casualty total large losses incurred of $72 million, net of reinsurance, were lower than the $77 million quarterly average during full-year 2017 and higher than the $69 million experienced for the second quarter of 2017. The ratio for these large losses was 0.1 percentage points lower compared with last year's second quarter. The second-quarter 2018 amount of total large losses incurred contributed to the increase of 0.2 points in the six-month 2018 total large loss ratio, compared with 2017, reducing the effect of a first-quarter 2018 ratio that was 0.4 points higher than the first quarter of 2017. We believe results for the three- and six-month periods largely reflected normal fluctuations in loss patterns and normal variability in large case reserves for claims above $1 million. Losses by size are discussed in further detail in results of operations by property casualty insurance segment.

FINANCIAL RESULTS

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

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

COMMERCIAL LINES INSURANCE RESULTS

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Earned premiums	**$ 812**	$ 796	2	**$ 1,602**	$ 1,577	2
Fee revenues	**—**	1	(100)	**2**	2	0
Total revenues	**812**	797	2	**1,604**	1,579	2
Loss and loss expenses from:						
Current accident year before catastrophe losses	**497**	475	5	**1,021**	953	7
Current accident year catastrophe losses	**55**	70	(21)	**85**	138	(38)
Prior accident years before catastrophe losses	**(40)**	(24)	(67)	**(68)**	(26)	(162)
Prior accident years catastrophe losses	**(2)**	(2)	0	**(9)**	(11)	18
Loss and loss expenses	**510**	519	(2)	**1,029**	1,054	(2)
Underwriting expenses	**255**	254	0	**513**	503	2
Underwriting profit	**$ 47**	$ 24	96	**$ 62**	$ 22	182
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year before catastrophe losses	**61.3 %**	59.7 %	1.6	**63.7 %**	60.4 %	3.3
Current accident year catastrophe losses	**6.8**	8.7	(1.9)	**5.3**	8.7	(3.4)
Prior accident years before catastrophe losses	**(4.9)**	(3.0)	(1.9)	**(4.2)**	(1.6)	(2.6)
Prior accident years catastrophe losses	**(0.3)**	(0.2)	(0.1)	**(0.6)**	(0.6)	0.0
Loss and loss expenses	**62.9**	65.2	(2.3)	**64.2**	66.9	(2.7)
Underwriting expenses	**31.3**	31.9	(0.6)	**32.0**	31.9	0.1
Combined ratio	**94.2 %**	97.1 %	(2.9)	**96.2 %**	98.8 %	(2.6)
Combined ratio	**94.2 %**	97.1 %	(2.9)	**96.2 %**	98.8 %	(2.6)
Contribution from catastrophe losses and prior years reserve development	**1.6**	5.5	(3.9)	**0.5**	6.5	(6.0)
Combined ratio before catastrophe losses and prior years reserve development	**92.6 %**	91.6 %	1.0	**95.7 %**	92.3 %	3.4

Overview

Performance highlights for the commercial lines segment include:

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

  Agency renewal written premiums grew 4 percent during the second quarter and 2 percent during the first six months of 2018, compared with the same periods of 2017. During the second quarter of 2018, our overall standard commercial lines policies averaged estimated renewal price increases at percentages in the low-single-digit range, similar to the first quarter of 2018. We continue to segment commercial lines policies, emphasizing identification and retention of policies we believe have relatively stronger pricing. Conversely, we have been seeking stricter renewal terms and conditions on policies we believe have relatively weaker pricing, thus retaining fewer of those policies. We measure average changes in commercial lines renewal pricing as the percentage rate of change in renewal premium for the new policy period compared with the premium for the expiring policy period, assuming no change in the level of insured exposures or policy coverage between those periods for the respective policies.

  Our average overall commercial lines renewal pricing change includes the impact of flat pricing for certain coverages within package policies written for a three-year term that were in force but did not expire during the period being measured. Therefore, our reported change in average commercial lines renewal pricing reflects a blend of three-year policies that did not expire and other policies that did expire during the measurement period. For commercial lines policies that did expire and were then renewed during the second quarter of 2018, we estimate that our average percentage price increase for commercial auto continued in the high-single-digit range. The estimated average percentage price change for our commercial property line of business was an increase in the mid-single-digit range and for commercial casualty it was an increase near the low end of the low-single-digit range. The estimated average percentage price change for workers' compensation was a decrease in the mid-single-digit range.

Renewal premiums for certain policies, primarily our commercial casualty and workers' compensation lines of business, include the results of policy audits that adjust initial premium amounts based on differences between estimated and actual sales or payroll related to a specific policy. Audits completed during the first six months of 2018 contributed $38 million to net written premiums.

New business written premiums for commercial lines increased $19 million and $20 million during the second quarter and first six months of 2018, compared with the same periods of 2017, driven by second-quarter growth for each major line of business in our commercial lines insurance segment. Trend analysis for year-over-year comparisons of individual quarters is more difficult to assess for commercial lines new business written premiums, due to inherent variability. That variability is often driven by larger policies with annual premiums greater than $100,000.

Other written premiums include premiums ceded to reinsurers as part of our reinsurance ceded program. For our commercial lines insurance segment, ceded premium totals for the second quarter and first six months of 2018 exceeded the same periods of 2017 by $2 million and $3 million, respectively.

Commercial Lines Insurance Premiums

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Agency renewal written premiums	**$ 758**	$ 729	4	**$ 1,529**	$ 1,501	2
Agency new business written premiums	**118**	99	19	**222**	202	10
Other written premiums	**(20)**	(15)	(33)	**(41)**	(25)	(64)
Net written premiums	**856**	813	5	**1,710**	1,678	2
Unearned premium change	**(44)**	(17)	(159)	**(108)**	(101)	(7)
Earned premiums	**$ 812**	$ 796	2	**$ 1,602**	$ 1,577	2

- Combined ratio – The commercial lines combined ratio decreased 2.9 percentage points for the second quarter of 2018, compared with the same period a year ago, largely due to a decline in losses from natural catastrophes. For the first six months of 2018, the combined ratio decreased 2.6 percentage points, compared with the same period a year ago, largely reflecting a lower level of losses from natural catastrophes that was partially offset by higher noncatastrophe weather-related losses.

  Catastrophe losses and loss expenses accounted for 6.5 and 4.7 percentage points of the combined ratio for the second quarter and first six months of 2018, compared with 8.5 and 8.1 percentage points for the same periods a year ago. Through 2017, the 10-year annual average for that catastrophe measure for the commercial lines segment was 5.2 percentage points, and the five-year annual average was 4.7 percentage points. The first-half 2018 ratio for noncatastrophe weather-related losses, at 4.4 percent, was 1.5 percentage points higher than the same period a year ago.

  Commercial auto, which represented 20 percent of our 2017 commercial lines earned premiums, was the only major line of business in this segment with a first-half 2018 total loss and loss expense ratio before catastrophe losses significantly higher than we desired. During the first six months of 2018, our commercial auto policies experienced average renewal price increases at percentages in the high-single-digit range. We believe pricing and risk selection actions we are taking will help improve future profitability. Further segmentation of policies as they renew should also help improve profitability, as we seek more adequate pricing on individual policies that need it based on analytics and underwriter judgment.

  The net effect of reserve development on prior accident years during the second quarter and first six months of 2018 was favorable for commercial lines overall by $42 million and $77 million compared with $26 million and $37 million for the same periods in 2017. For the first six months of 2018, 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. The net favorable reserve development recognized during the first six months of 2018 for our commercial lines insurance segment was largely for accident years 2015 through 2017, and was primarily due to lower-than-anticipated loss emergence on known claims. Reserve estimates are inherently uncertain as described in our 2017 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 49.

The commercial lines underwriting expense ratio for the second quarter of 2018 decreased, compared with the same period of 2017, and for the first six months of 2018 it rose slightly, compared with the first six months a year ago, reflecting higher earned premiums and ongoing expense management efforts.

Commercial Lines Insurance Losses Incurred by Size

(Dollars in millions, net of reinsurance)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Current accident year losses greater than $5 million	**$ 6**	$ —	nm	**$ 21**	$ 28	(25)
Current accident year losses $1 million - $5 million	**51**	33	55	**73**	59	24
Large loss prior accident year reserve development	**1**	19	(95)	**30**	36	(17)
Total large losses incurred	**58**	52	12	**124**	123	1
Losses incurred but not reported	**53**	21	152	**69**	16	nm
Other losses excluding catastrophe losses	**247**	292	(15)	**572**	598	(4)
Catastrophe losses	**51**	64	(20)	**73**	122	(40)
Total losses incurred	**$ 409**	$ 429	(5)	**$ 838**	$ 859	(2)
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year losses greater than $5 million	**0.7%**	—%	0.7	**1.3%**	1.8%	(0.5)
Current accident year losses $1 million - $5 million	**6.2**	4.2	2.0	**4.6**	3.7	0.9
Large loss prior accident year reserve development	**0.2**	2.3	(2.1)	**1.8**	2.3	(0.5)
Total large loss ratio	**7.1**	6.5	0.6	**7.7**	7.8	(0.1)
Losses incurred but not reported	**6.5**	2.7	3.8	**4.3**	1.0	3.3
Other losses excluding catastrophe losses	**30.4**	36.5	(6.1)	**35.7**	37.9	(2.2)
Catastrophe losses	**6.3**	8.1	(1.8)	**4.6**	7.7	(3.1)
Total loss ratio	**50.3%**	53.8%	(3.5)	**52.3%**	54.4%	(2.1)

We continue to monitor new losses and case reserve increases greater than $1 million for trends in factors such as initial reserve levels, loss cost inflation and claim settlement expenses. Our analysis continues to indicate no unexpected concentration of these large losses and case reserve increases by risk category, geographic region, policy inception, agency or field marketing territory. The second-quarter 2018 commercial lines total large losses incurred of $58 million, net of reinsurance, were lower than the quarterly average of $63 million during full-year 2017 but higher than the $52 million total large losses incurred for the second quarter of 2017. The second-quarter 2018 ratio for commercial lines total large losses was 0.6 percentage points higher compared with last year’s second-quarter ratio. The second-quarter 2018 amount of total large losses incurred helped contribute to the slight decrease in the six-month 2018 total large loss ratio, compared with 2017, as it partially offset a first-quarter 2018 ratio that was 0.7 points lower than the first quarter of 2017. We believe results for the three- and six-month periods largely reflected normal fluctuations in loss patterns and normal variability in large case reserves for claims above $1 million.

PERSONAL LINES INSURANCE RESULTS

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Earned premiums	**$ 331**	$ 307	8	**$ 656**	$ 607	8
Fee revenues	**2**	1	100	**3**	3	0
Total revenues	**333**	308	8	**659**	610	8
Loss and loss expenses from:						
Current accident year before catastrophe losses	**220**	197	12	**430**	390	10
Current accident year catastrophe losses	**32**	48	(33)	**61**	96	(36)
Prior accident years before catastrophe losses	**15**	(2)	nm	**14**	(11)	nm
Prior accident years catastrophe losses	**2**	(1)	nm	**2**	(2)	nm
Loss and loss expenses	**269**	242	11	**507**	473	7
Underwriting expenses	**96**	90	7	**193**	176	10
Underwriting loss	**$ (32)**	$ (24)	(33)	**$ (41)**	$ (39)	(5)
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year before catastrophe losses	**66.6%**	64.6 %	2.0	**65.5%**	64.3 %	1.2
Current accident year catastrophe losses	**9.6**	15.8	(6.2)	**9.3**	15.9	(6.6)
Prior accident years before catastrophe losses	**4.3**	(0.9)	5.2	**2.1**	(1.8)	3.9
Prior accident years catastrophe losses	**0.6**	(0.4)	1.0	**0.3**	(0.4)	0.7
Loss and loss expenses	**81.1**	79.1	2.0	**77.2**	78.0	(0.8)
Underwriting expenses	**29.0**	29.3	(0.3)	**29.5**	29.0	0.5
Combined ratio	**110.1%**	108.4 %	1.7	**106.7%**	107.0 %	(0.3)
Combined ratio	**110.1%**	108.4 %	1.7	**106.7%**	107.0 %	(0.3)
Contribution from catastrophe losses and prior years reserve development	**14.5**	14.5	0.0	**11.7**	13.7	(2.0)
Combined ratio before catastrophe losses and prior years reserve development	**95.6%**	93.9 %	1.7	**95.0%**	93.3 %	1.7

Overview

Performance highlights for the personal lines segment include:

- Premiums – Personal lines earned premiums and net written premiums for the second quarter and first six months of 2018 continued to grow, reflecting increases in renewal written premiums and new business written premiums from agencies that represent us.
  Price increases and a high level of policy retention were the main drivers of renewal premium growth. The table below analyzes the primary components of premiums.

  Agency renewal written premiums increased 8 percent for both the second quarter and first six months of 2018, largely reflecting rate increases. We estimate that premium rates for our personal auto line of business increased at average percentages in the high-single-digit range during the first six months of 2018. For our homeowner line of business, we estimate that premium rates for the first six months of 2018 increased at average percentages in the mid-single-digit range. For both our personal auto and homeowner lines of business, some individual policies experienced lower or higher rate changes based on each risk's specific characteristics and enhanced pricing precision enabled by predictive models.

  Personal lines new business written premiums grew $1 million or 2 percent during the second quarter and $6 million or 8 percent during the first half of 2018, compared with the same periods of 2017, mainly due to increases of approximately $3 million and $8 million, respectively, from high net worth business written through our agencies. Personal lines new business written premiums from high net worth policies totaled approximately $34 million for the first six months of 2018.

  Other written premiums include premiums ceded to reinsurers as part of our reinsurance ceded program. For our personal lines insurance segment, ceded premium totals for the second quarter and first six months of 2018 were similar to the same periods of 2017.

We continue to implement strategies discussed in our 2017 Annual Report on Form 10-K, Item 1, Strategic Initiatives, Page 14, to enhance our responsiveness to marketplace changes and to help achieve our long-term objectives for personal lines growth and profitability. These strategies include initiatives to more profitably underwrite personal auto policies.

Personal Lines Insurance Premiums

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Agency renewal written premiums	**$ 342**	$ 318	8	**$ 606**	$ 563	8
Agency new business written premiums	**46**	45	2	**85**	79	8
Other written premiums	**(7)**	(6)	(17)	**(13)**	(12)	(8)
Net written premiums	**381**	357	7	**678**	630	8
Unearned premium change	**(50)**	(50)	0	**(22)**	(23)	4
Earned premiums	**$ 331**	$ 307	8	**$ 656**	$ 607	8

- Combined ratio – Our personal lines combined ratio increased by 1.7 percentage points for the second quarter of 2018, compared with the same period a year ago. The increase was primarily due to unfavorable reserve development on prior accident years that offset a decrease of 5.2 percentage points in the ratio for weather-related natural catastrophe losses and loss expenses. The combined ratio decreased 0.3 percentage points for the first six months of 2018, compared with the first six months of 2017, primarily due to a decrease of 5.9 percentage points in the ratio for weather-related natural catastrophe losses and loss expenses. The lower ratio for catastrophe effects for the first six months of 2018 was partially offset by higher noncatastrophe weather-related losses.

  Catastrophe losses and loss expenses accounted for 10.2 and 9.6 percentage points of the combined ratio for the second quarter and first six months of 2018, compared with 15.4 and 15.5 percentage points for the same periods of last year. Through 2017, the 10-year annual average catastrophe loss ratio for the personal lines segment was 11.4 percentage points, and the five-year annual average was 8.6 percentage points. The ratio for noncatastrophe weather-related losses for the first six months of 2018, at 7.0 percent, was 0.8 percentage points higher than the same period a year ago.

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

  Personal auto, representing 47 percent of our 2017 personal lines earned premiums, was the only major line of business in this segment with recent year and first-half 2018 total loss and loss expense ratios before catastrophe losses significantly higher than we desired. As discussed above, during the first six months of 2018, our personal auto policies experienced average renewal price increases at percentages in the high-single-digit range. We believe rate increases and other actions to improve pricing precision and reduce loss costs will improve future profitability.

  The net effect of reserve development on prior accident years during the second quarter and first six months of 2018 was unfavorable for personal lines overall by $17 million and $16 million, compared with favorable net reserve development of $3 million and $13 million for the same periods of 2017. Our homeowner line of business was the largest contributor to the second-quarter and first-half 2018 total personal lines net unfavorable reserve development on prior accident years, partially offset by net favorable reserve development for our personal auto line of business. The net unfavorable reserve development was due primarily to higher-than-anticipated loss emergence on known claims. Reserve estimates are inherently uncertain as described in our 2017 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 49.

  The underwriting expense ratio decreased for the second quarter of 2018, compared with the same period of 2017, and increased for the first six months of 2018, compared with the first six months a year ago, reflecting higher earned premiums and ongoing expense management efforts.

Personal Lines Insurance Losses Incurred by Size

(Dollars in millions, net of reinsurance)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Current accident year losses greater than $5 million	**$ —**	$ —	nm	**$ —**	$ —	nm
Current accident year losses $1 million - $5 million	**11**	15	(27)	**21**	18	17
Large loss prior accident year reserve development	**3**	1	200	**8**	1	nm
Total large losses incurred	**14**	16	(13)	**29**	19	53
Losses incurred but not reported	**31**	(12)	nm	**30**	(2)	nm
Other losses excluding catastrophe losses	**157**	164	(4)	**324**	308	5
Catastrophe losses	**33**	47	(30)	**62**	93	(33)
Total losses incurred	**$ 235**	$ 215	9	**$ 445**	$ 418	6
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year losses greater than $5 million	**—%**	— %	0.0	**—%**	— %	0.0
Current accident year losses $1 million - $5 million	**3.5**	4.8	(1.3)	**3.2**	2.9	0.3
Large loss prior accident year reserve development	**0.8**	0.6	0.2	**1.2**	0.2	1.0
Total large loss ratio	**4.3**	5.4	(1.1)	**4.4**	3.1	1.3
Losses incurred but not reported	**9.4**	(4.0)	13.4	**4.6**	(0.4)	5.0
Other losses excluding catastrophe losses	**47.3**	53.7	(6.4)	**49.4**	50.9	(1.5)
Catastrophe losses	**10.0**	15.2	(5.2)	**9.4**	15.3	(5.9)
Total loss ratio	**71.0%**	70.3 %	0.7	**67.8%**	68.9 %	(1.1)

We continue to monitor new losses and case reserve increases greater than $1 million for trends in factors such as initial reserve levels, loss cost inflation and claim settlement expenses. Our analysis continues to indicate no unexpected concentration of these large losses and case reserve increases by risk category, geographic region, policy inception, agency or field marketing territory. In the second quarter of 2018, the personal lines total large loss ratio, net of reinsurance, was 1.1 percentage points lower than last year's second quarter. The rise in personal lines large losses for the first six months of 2018 was due to our homeowner line of business. The second-quarter 2018 amount of total large losses incurred contributed to the increase of 1.3 points in the six-month 2018 total large loss ratio, compared with 2017, reducing the effect of a first-quarter 2018 ratio that was 3.8 points higher than the first quarter of 2017. We believe results for the three- and six-month periods largely reflected normal fluctuations in loss patterns and normal variability in large case reserves for claims above $1 million.

EXCESS AND SURPLUS LINES INSURANCE RESULTS

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Earned premiums	**$ 57**	$ 52	10	**$ 113**	$ 100	13
Fee revenues	**1**	1	0	**1**	1	0
Total revenues	**58**	53	9	**114**	101	13
Loss and loss expenses from:						
Current accident year before catastrophe losses	**33**	29	14	**63**	55	15
Current accident year catastrophe losses	**—**	—	0	**1**	1	0
Prior accident years before catastrophe losses	**(4)**	(9)	56	**(14)**	(22)	36
Prior accident years catastrophe losses	**—**	—	0	**—**	—	0
Loss and loss expenses	**29**	20	45	**50**	34	47
Underwriting expenses	**16**	14	14	**33**	30	10
Underwriting profit	**$ 13**	$ 19	(32)	**$ 31**	$ 37	(16)
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year before catastrophe losses	**56.9 %**	54.2 %	2.7	**55.8 %**	54.8 %	1.0
Current accident year catastrophe losses	**1.0**	0.9	0.1	**1.4**	1.1	0.3
Prior accident years before catastrophe losses	**(9.6)**	(17.0)	7.4	**(13.3)**	(22.0)	8.7
Prior accident years catastrophe losses	**0.2**	0.4	(0.2)	**0.1**	0.0	0.1
Loss and loss expenses	**48.5**	38.5	10.0	**44.0**	33.9	10.1
Underwriting expenses	**29.1**	27.7	1.4	**29.3**	30.4	(1.1)
Combined ratio	**77.6 %**	66.2 %	11.4	**73.3 %**	64.3 %	9.0
Combined ratio	**77.6 %**	66.2 %	11.4	**73.3 %**	64.3 %	9.0
Contribution from catastrophe losses and prior years reserve development	**(8.4)**	(15.7)	7.3	**(11.8)**	(20.9)	9.1
Combined ratio before catastrophe losses and prior years reserve development	**86.0 %**	81.9 %	4.1	**85.1 %**	85.2 %	(0.1)

Overview

Performance highlights for the excess and surplus lines segment include:

- Premiums – Excess and surplus lines net written premiums continued to grow during the second quarter and first six months of 2018, driven by increases in renewal written premiums, which rose 16 percent and 18 percent compared with the same periods of 2017. Growth in renewal written premiums reflected the opportunity to renew many accounts for the first time, as well as higher renewal pricing. For the first six months of 2018, excess and surplus lines policy renewals experienced estimated average price increases at percentages in the low-single-digit range. We measure average changes in excess and surplus lines renewal pricing as the percentage rate of change in renewal premium for the new policy period compared with the premium for the expiring policy period, assuming no change in the level of insured exposures or policy coverage between those periods for respective policies.

  New business written premiums produced by agencies decreased by $4 million for both the second quarter and first six months of 2018, compared with the same periods of 2017. The decrease reflects a highly competitive market, particularly for larger policies. Some of what we report as new business came from accounts that were not new to our agents. We believe our agents' seasoned accounts tend to be priced more accurately than business that may be less familiar to them.

Excess and Surplus Lines Insurance Premiums

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Agency renewal written premiums	**$ 50**	$ 43	16	**$ 98**	$ 83	18
Agency new business written premiums	**17**	21	(19)	**33**	37	(11)
Other written premiums	**(3)**	(3)	0	**(6)**	(6)	0
Net written premiums	**64**	61	5	**125**	114	10
Unearned premium change	**(7)**	(9)	22	**(12)**	(14)	14
Earned premiums	**$ 57**	$ 52	10	**$ 113**	$ 100	13

- Combined ratio – The excess and surplus lines combined ratio increased by 11.4 and 9.0 percentage points for the second quarter and first six months of 2018, compared with the same periods of 2017, primarily due to less favorable reserve development on prior accident years.

  Excess and surplus lines net favorable reserve development on prior accident years, as a ratio to earned premiums, was 9.4 percent and 13.2 percent for the second quarter and first six months of 2018, compared with 16.6 percent and 22.0 percent for the same periods of 2017. Approximately half of the net favorable reserve development recognized during the first six months of 2018 was attributable to accident years 2017 and 2016. The favorable reserve development was due primarily to lower-than-anticipated loss emergence on known claims. Reserve estimates are inherently uncertain as described in our 2017 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Property Casualty Insurance Loss and Loss Expense Reserves, Page 49.

  The excess and surplus lines underwriting expense ratio for the second quarter of 2018 increased, compared with the same period of 2017, primarily due to higher agency profit-sharing commissions. The underwriting expense ratio for the first six months of 2018 improved, compared with the same period of 2017, reflecting higher earned premiums and ongoing expense management efforts.

Excess and Surplus Lines Insurance Losses Incurred by Size

(Dollars in millions, net of reinsurance)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Current accident year losses greater than $5 million	**$ —**	$ —	nm	**$ —**	$ —	nm
Current accident year losses $1 million - $5 million	**—**	—	nm	**—**	—	nm
Large loss prior accident year reserve development	**—**	1	nm	**—**	1	nm
Total large losses incurred	**—**	1	nm	**—**	1	nm
Losses incurred but not reported	**3**	(10)	nm	**(2)**	(11)	82
Other losses excluding catastrophe losses	**17**	19	(11)	**31**	27	15
Catastrophe losses	**—**	1	nm	**1**	1	—
Total losses incurred	**$ 20**	$ 11	82	**$ 30**	$ 18	67
Ratios as a percent of earned premiums:			Pt. Change			Pt. Change
Current accident year losses greater than $5 million	**— %**	— %	0.0	**— %**	— %	0.0
Current accident year losses $1 million - $5 million	**—**	—	0.0	**—**	—	0.0
Large loss prior accident year reserve development	**(0.2)**	2.3	(2.5)	**(0.3)**	1.1	(1.4)
Total large loss ratio	**(0.2)**	2.3	(2.5)	**(0.3)**	1.1	(1.4)
Losses incurred but not reported	**4.5**	(20.2)	24.7	**(2.1)**	(11.3)	9.2
Other losses excluding catastrophe losses	**28.6**	37.0	(8.4)	**27.4**	27.4	0.0
Catastrophe losses	**1.0**	1.2	(0.2)	**1.4**	1.0	0.4
Total loss ratio	**33.9 %**	20.3 %	13.6	**26.4 %**	18.2 %	8.2

We continue to monitor new losses and case reserve increases greater than $1 million for trends in factors such as initial reserve levels, loss cost inflation and claim settlement expenses. Our analysis continues to indicate no unexpected concentration of these large losses and case reserve increases by risk category, geographic region, policy inception, agency or field marketing territory. In the second quarter of 2018, the excess and surplus lines total ratio for large losses, net of reinsurance, was 2.5 percentage points lower than last year's second quarter. The second-quarter 2018 amount of total large losses incurred contributed to the decrease in the six-month 2018 total large loss ratio, compared with 2017, in addition to a first-quarter 2018 ratio that was 0.1 points lower than the first quarter of 2017. We believe results for the three-month period largely reflected normal fluctuations in loss patterns and normal variability in large case reserves for claims above $1 million.

LIFE INSURANCE RESULTS

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Earned premiums	**$ 64**	$ 60	7	**$ 124**	$ 117	6
Fee revenues	**1**	1	0	**2**	3	(33)
Total revenues	**65**	61	7	**126**	120	5
Contract holders' benefits incurred	**62**	60	3	**125**	125	0
Investment interest credited to contract holders'	**(24)**	(23)	(4)	**(48)**	(46)	(4)
Underwriting expenses incurred	**19**	20	(5)	**39**	37	5
Total benefits and expenses	**57**	57	0	**116**	116	0
Life insurance segment profit	**$ 8**	$ 4	100	**$ 10**	$ 4	150

Overview

Performance highlights for the life insurance segment include:

- Revenues – Revenues increased for the six months ended June 30, 2018, primarily due to higher earned premiums from term life insurance, our largest life insurance product line.

  Net in-force life insurance policy face amounts increased to $63.564 billion at June 30, 2018, from $61.177 billion at year-end 2017.

  Fixed annuity deposits received for the three and six months ended June 30, 2018, were $9 million and $16 million compared with $7 million and $17 million for same periods of 2017. Fixed annuity deposits have a minimal impact to earned premiums because deposits received are initially recorded as liabilities. Profit is earned over time by way of interest-rate spreads. We do not write variable or equity-indexed annuities.

Life Insurance Premiums

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Term life insurance	**$ 44**	$ 41	7	**$ 85**	$ 79	8
Universal life insurance	**9**	11	(18)	**18**	21	(14)
Other life insurance, annuity and disability income products	**11**	8	38	**21**	17	24
Net earned premiums	**$ 64**	$ 60	7	**$ 124**	$ 117	6

- Profitability – Our life insurance segment typically reports a small profit or loss on a GAAP basis because profits from investment income spreads are included in our investment segment results. We include only investment income credited to contract holders (including interest assumed in life insurance policy reserve calculations) in our life insurance segment results. A gain of $10 million for our life insurance segment in the first six months of 2018, compared with a gain of $4 million for the same period of 2017, was due to growth in earned premiums while total benefits and expenses remained flat, in addition to more favorable effects from the unlocking of actuarial assumptions.

  Life insurance segment benefits and expenses consist principally of contract holders' (policyholders') benefits incurred related to traditional life and interest-sensitive products and operating expenses incurred, net of deferred acquisition costs. Total benefits for the first six months of 2018 matched the same period of 2017. Mortality results were flat compared with the same period of 2017 and were less than our 2018 projections.

  Underwriting expenses for the first six months of 2018 increased compared with the same period a year ago. For the first six months of 2018, unlocking of interest rate and other actuarial assumptions decreased the amount of expenses deferred to future periods, increasing underwriting expenses. For the first six months of 2017, unlocking increased the amount of expenses deferred to future periods, decreasing underwriting expenses.

We recognize that assets under management, capital appreciation and investment income are integral to evaluating the success of the life insurance segment because of the long duration of life products. On a basis that includes investment income and investment gains or losses from life-insurance-related invested assets, the life insurance company reported net income of $17 million and $30 million for the three and six months ended June 30, 2018, compared with net income of $12 million and $25 million for the same periods of 2017. The life insurance company portfolio had net after-tax investment losses of less than $1 million for the three and six months ended June 30, 2018, compared with $1 million of net after-tax investment losses and $2 million of net after-tax investment gains for the three and six months ended June 30, 2017.

INVESTMENTS RESULTS

Overview

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

Investment Income

Pretax investment income increased 2 percent and 1 percent for the three and six months ended June 30, 2018, compared with the same periods of 2017. Interest income was essentially flat due to the continuing effects of the low interest rate environment that offset net purchases of fixed-maturity securities. Higher dividend income reflected rising dividend rates and net purchases of equity securities.

Investments Results

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Total investment income, net of expenses	**$ 154**	$ 151	2	**$ 304**	$ 300	1
Investment interest credited to contract holders'	**(24)**	(23)	(4)	**(48)**	(46)	(4)
Investment gains and losses, net	**105**	(11)	nm	**(86)**	149	nm
Investments profit, pretax	**$ 235**	$ 117	101	**$ 170**	$ 403	(58)

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

(Dollars in millions) At June 30, 2018	% Yield	Principal redemptions
Fixed-maturity pretax yield profile:		
Expected to mature during the remainder of 2018	5.36	$ 321
Expected to mature during 2019	6.03	646
Expected to mature during 2020	4.75	659
Average yield and total expected redemptions from the remainder of 2018 through 2020	5.38	$ 1,626

The table below shows the average pretax yield-to-amortized cost for fixed-maturity securities acquired during the periods indicated. The average yield for total fixed-maturity securities acquired during the first six months of 2018 was lower than the 4.40 percent average yield-to-amortized cost of the fixed-maturity securities portfolio at the end of 2017. Our fixed-maturity portfolio's average yield of 4.26 percent for the first six months of 2018, from the investment income table below, was also lower than that yield for the year-end 2017 fixed-maturities portfolio.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Average pretax yield-to-amortized cost on new fixed-maturities:				
Acquired taxable fixed-maturities	**4.68%**	3.75%	**4.40%**	4.08%
Acquired tax-exempt fixed-maturities	**3.72**	3.33	**3.51**	3.39
Average total fixed-maturities acquired	**4.59**	3.53	**4.30**	3.73

While our bond portfolio more than covers our insurance reserve liabilities, we believe our diversified common stock portfolio of mainly blue chip, dividend-paying companies represents one of our best investment opportunities for the long term. In our 2017 Annual Report on Form 10-K, Item 1, Investments Segment, Page 24, and Item 7, Investments Outlook, Page 86, we discussed our portfolio strategies. We discuss risks related to our investment income and our fixed-maturity and equity investment portfolios in this quarterly report Item 3, Quantitative and Qualitative Disclosures About Market Risk.

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

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Investment income:						
Interest	**$ 112**	$ 111	1	**$ 222**	$ 222	0
Dividends	**44**	42	5	**86**	81	6
Other	**1**	1	0	**2**	2	0
Less investment expenses	**3**	3	0	**6**	5	20
Investment income, pretax	**154**	151	2	**304**	300	1
Less income taxes	**23**	36	(36)	**46**	71	(35)
Total investment income, after-tax	**$ 131**	$ 115	14	**$ 258**	$ 229	13
Investment returns:						
Average invested assets plus cash and cash equivalents	**$ 17,271**	$ 16,447		**$ 17,352**	$ 16,298	
Average yield pretax	**3.57%**	3.67%		**3.50%**	3.68%	
Average yield after-tax	**3.03**	2.80		**2.97**	2.81	
Effective tax rate	**15.2**	23.7		**15.3**	23.6	
Fixed-maturity returns:						
Average amortized cost	**$ 10,458**	$ 10,044		**$ 10,433**	$ 9,953	
Average yield pretax	**4.28%**	4.42%		**4.26%**	4.46%	
Average yield after-tax	**3.58**	3.23		**3.56**	3.26	
Effective tax rate	**16.3**	26.8		**16.3**	26.9	

Total Investment Gains and Losses

We believe it is useful to analyze our overall investment performance by using total investment return over several years. Total investment return considers those changes in unrealized gains and losses that are not included in net income, in addition to net investment income and investment gains and losses that are included in net income. Measuring total investment gains and losses is useful for evaluating major components of changes in book value and the value creation ratio that are not included in net income before investment gains.

Investment gains and losses are recognized on the sales of investments, for certain changes in fair values of securities even though we continue to hold the securities or as otherwise required by GAAP. New accounting requirements adopted during first-quarter 2018 resulted in reporting, through net income, the change in fair value for equity securities still held, as disclosed in this quarterly report Item 1, Note 1, Accounting Policies, and Note 2, Investments. Net investment gains and losses included $101 million of gains for the second quarter of 2018, and $97 million of losses for the first six months of 2018, from the recognition of fair value changes of equity securities still held that prior to 2018 would have been reported in other comprehensive income instead of net income. Change in unrealized gain or losses for fixed-maturity securities are included as a component of other comprehensive income (OCI). Accounting requirements for other-than-temporary impairment (OTTI) charges for the fixed-maturity portfolio are disclosed in our 2017 Annual Report on Form 10-K, Item 8, Note 1, Summary of Significant Accounting Policies, Page 121.

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

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Investment gains and losses:				
Equity securities:				
Investment gains and losses on securities sold, net	**$ 4**	$ —	**$ 7**	$ —
Unrealized investment gains and losses on securities still held, net	**101**	—	**(97)**	—
Gross realized gains	**—**	6	**—**	159
Gross realized losses	**—**	(10)	**—**	(14)
Other-than-temporary impairments	**—**	(3)	**—**	(3)
Subtotal	**105**	(7)	**(90)**	142
Fixed maturities:				
Gross realized gains	**3**	3	**7**	13
Gross realized losses	**(1)**	—	**(1)**	—
Other-than-temporary impairments	—	(6)	**—**	(6)
Subtotal	**2**	(3)	**6**	7
Other	**(2)**	(1)	**(2)**	—
Total investment gains and losses reported in net income	**105**	(11)	**(86)**	149
Change in unrealized investment gains and losses:				
Equity Securities	**—**	145	**—**	242
Fixed Maturities	**(80)**	76	**(301)**	110
Total unrealized investment gains and losses reported in OCI	**(80)**	221	**(301)**	352
Total	**$ 25**	$ 210	**$ (387)**	$ 501

Of the 3,554 fixed-maturity securities in the portfolio, no securities were trading below 70 percent of amortized cost at June 30, 2018. Our asset impairment committee regularly monitors the portfolio, including a quarterly review of the entire portfolio for potential OTTI charges. We believe that if liquidity in the markets were to significantly deteriorate or economic conditions were to significantly weaken, we could experience declines in portfolio values and possibly additional OTTI charges.

The table below provides additional detail for OTTI charges:

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Fixed maturities:				
Banking	**$ —**	$ 6	**$ —**	$ 6
Total fixed maturities	**—**	6	**—**	6
Common equities:				
Energy	**—**	3	**—**	3
Total common equities	**—**	3	**—**	3
Total	**$ —**	$ 9	**$ —**	$ 9

OTHER

We report as Other the noninvestment operations of the parent company and a noninsurance subsidiary, CFC Investment Company. We also report as Other the underwriting results of Cincinnati Re, our reinsurance assumed operation, including earned premiums, loss and loss expenses and underwriting expenses.

Total revenues for the first six months of 2018 for our Other operations increased, compared with the same period of 2017, primarily due to earned premiums from Cincinnati Re. Total expenses for Other also increased for the first six months of 2018, primarily due to losses and loss expenses and underwriting expenses from Cincinnati Re.

Other loss in the table below represents losses before income taxes. The net result of Cincinnati Re for the first six months of 2018 was an underwriting profit of approximately $13 million, compared with $9 million for the same period a year ago. For both periods shown, Other loss resulted largely from interest expense from debt of the parent company.

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Interest and fees on loans and leases	**$ 1**	$ 1	0	**$ 2**	$ 2	0
Earned premiums	**30**	26	15	**59**	48	23
Total revenues	**31**	27	15	**61**	50	22
Interest expense	**13**	13	0	**26**	26	0
Loss and loss expenses	**13**	13	0	**26**	21	24
Underwriting expenses	**9**	9	0	**20**	18	11
Operating expenses	**3**	4	(25)	**7**	8	(13)
Total expenses	**38**	39	(3)	**79**	73	8
Other loss	**$ (7)**	$ (12)	42	**$ (18)**	$ (23)	22

TAXES

We had $47 million and $28 million of income tax expense for the three and six months ended June 30, 2018, compared with $28 million and $103 million for the same periods of 2017. The effective tax rates for the three and six months ended June 30, 2018, were 17.8 percent and 13.1 percent compared with 21.9 percent and 25.5 percent for the same periods last year. The change in our effective tax rate includes the change in the federal tax rate from 35 percent to 21 percent. However, our change in the effective tax rate is primarily due to large unrealized losses included in income for the current period versus only net realized gains included in income for the prior period, combined with immaterial changes in the amount of permanent book-tax differences between the two periods.

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

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2018, shareholders' equity was $7.916 billion, compared with $8.243 billion at December 31, 2017. Total debt was $848 million at June 30, 2018, up $37 million from December 31, 2017. At June 30, 2018, cash and cash equivalents totaled $521 million, compared with $657 million at December 31, 2017.

SOURCES OF LIQUIDITY

Subsidiary Dividends

Our lead insurance subsidiary declared dividends of $200 million to the parent company in the first six months of 2018, compared with $190 million for the same period of 2017. For full-year 2017, subsidiary dividends declared totaled $465 million. State of Ohio regulatory requirements restrict the dividends our insurance subsidiary can pay. For full-year 2018, total dividends that our insurance subsidiary could pay to our parent company without regulatory approval are approximately $509 million.

Investing Activities

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

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

See our 2017 Annual Report on Form 10-K, Item 1, Investments Segment, Page 24, for a discussion of our historic investment strategy, portfolio allocation and quality.

Insurance Underwriting

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

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

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

(Dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Premiums collected	**$ 1,310**	$ 1,265	4	**$ 2,579**	$ 2,506	3
Loss and loss expenses paid	**(695)**	(695)	—	**(1,409)**	(1,389)	(1)
Commissions and other underwriting expenses paid	**(352)**	(333)	(6)	**(871)**	(830)	(5)
Cash flow from underwriting	**263**	237	11	**299**	287	4
Investment income received	**103**	97	6	**211**	202	4
Cash flow from operations	**$ 366**	$ 334	10	**$ 510**	$ 489	4

Collected premiums for property casualty insurance rose $73 million during the first six months of 2018, compared with the same period in 2017. Loss and loss expenses paid increased $20 million. Commissions and other underwriting expenses paid rose $41 million, primarily due to higher commissions paid to agencies, reflecting the increase in collected premiums.

We discuss our future obligations for claims payments and for underwriting expenses in our 2017 Annual Report on Form 10-K, Item 7, Contractual Obligations, Page 92, and Other Commitments also on Page 92.

Capital Resources

At June 30, 2018, our debt-to-total-capital ratio was 9.7 percent, with $787 million in long-term debt and $61 million in borrowing on our revolving short-term line of credit. That line of credit had a $24 million balance at December 31, 2017. At June 30, 2018, $164 million was available for future cash management needs. Based on our capital requirements at June 30, 2018, during the remainder of the year we do not anticipate a material increase in debt levels exceeding the available line of credit amount. As a result, we expect changes in our debt-to-total-capital ratio to continue to be largely a function of the contribution of unrealized investment gains or losses to shareholders' equity.

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

Four independent ratings firms award insurer financial strength ratings to our property casualty insurance companies and three firms rate our life insurance company. Those firms made no changes to our parent company debt ratings during the first six months of 2018. Our debt ratings are discussed in our 2017 Annual Report on Form 10-K, Item 7, Liquidity and Capital Resources, Other Sources of Liquidity, Page 90.

Off-Balance Sheet Arrangements

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

USES OF LIQUIDITY

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

Contractual Obligations

In our 2017 Annual Report on Form 10-K, Item 7, Contractual Obligations, Page 92, we estimated our future contractual obligations as of December 31, 2017. There have been no material changes to our estimates of future contractual obligations since our 2017 Annual Report on Form 10-K.

Other Commitments

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

- Commissions – Commissions paid were $537 million in the first six months of 2018. Commission payments generally track with written premiums, except for annual profit-sharing commissions typically paid during the first quarter of the year.
- Other underwriting expenses – Many of our underwriting expenses are not contractual obligations, but reflect the ongoing expenses of our business. Noncommission underwriting expenses paid were $334 million in the first six months of 2018.
- Technology costs – In addition to contractual obligations for hardware and software, we anticipate capitalizing up to $6 million in spending for key technology initiatives in 2018. Capitalized development costs related to key technology initiatives were $3 million in the first six months of 2018. These activities are conducted at our discretion, and we have no material contractual obligations for activities planned as part of these projects.

We contributed $5 million to our qualified pension plan during the first six months of 2018, and may contribute additional amounts by the end of 2018.

Investing Activities

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

Uses of Capital

Uses of cash to enhance shareholder return include dividends to shareholders. In January 2018, the board of directors declared regular quarterly cash dividends of 53 cents per share for an indicated annual rate of $2.12 per share. During the first six months of 2018, we used $166 million to pay cash dividends to shareholders.

PROPERTY CASUALTY INSURANCE LOSS AND LOSS EXPENSE RESERVES

For the business lines in the commercial and personal lines insurance segments, and in total for the excess and surplus lines segment, the following table details gross reserves among case, IBNR (incurred but not reported) and loss expense reserves, net of salvage and subrogation reserves. Reserving practices are discussed in our 2017 Annual Report on Form 10-K, Item 7, Property Casualty Insurance Loss and Loss Expense Obligations and Reserves, Page 93.

Total gross reserves at June 30, 2018, increased $204 million compared with December 31, 2017. Case loss reserves for losses increased $79 million, IBNR loss reserves increased by $93 million and loss expense reserves increased by $32 million. Accounting for most of the total gross increase was the aggregate of our commercial casualty, homeowner and commercial auto lines of business.

Property Casualty Gross Reserves

(Dollars in millions)	Loss reserves								
At June 30, 2018	Case reserves		IBNR reserves		Loss expense reserves		Total gross reserves		Percent of total
Commercial lines insurance:									
Commercial casualty	**$**	**928**	**$**	**655**	**$**	**591**	**$**	**2,174**	**40.1%**
Commercial property		**236**		**29**		**57**		**322**	**5.9**
Commercial auto		**408**		**138**		**134**		**680**	**12.5**
Workers' compensation		**389**		**533**		**91**		**1,013**	**18.7**
Other commercial		**102**		**14**		**62**		**178**	**3.3**
Subtotal		**2,063**		**1,369**		**935**		**4,367**	**80.5**
Personal lines insurance:									
Personal auto		**240**		**44**		**71**		**355**	**6.6**
Homeowner		**122**		**22**		**39**		**183**	**3.4**
Other personal		**55**		**51**		**5**		**111**	**2.0**
Subtotal		**417**		**117**		**115**		**649**	**12.0**
Excess and surplus lines		**113**		**85**		**80**		**278**	**5.1**
Cincinnati Re		**30**		**97**		**2**		**129**	**2.4**
Total	**$**	**2,623**	**$**	**1,668**	**$**	**1,132**	**$**	**5,423**	**100.0%**
At December 31, 2017									
Commercial lines insurance:									
Commercial casualty	$	890	$	611	$	570	$	2,071	39.7%
Commercial property		232		18		65		315	6.0
Commercial auto		401		119		125		645	12.4
Workers' compensation		393		533		96		1,022	19.6
Other commercial		108		14		61		183	3.5
Subtotal		2,024		1,295		917		4,236	81.2
Personal lines insurance:									
Personal auto		240		35		70		345	6.6
Homeowner		101		2		33		136	2.6
Other personal		55		46		5		106	2.0
Subtotal		396		83		108		587	11.2
Excess and surplus lines		104		87		73		264	5.1
Cincinnati Re		20		110		2		132	2.5
Total	$	2,544	$	1,575	$	1,100	$	5,219	100.0%

LIFE POLICY AND INVESTMENT CONTRACT RESERVES

Gross life policy and investment contract reserves were $2.760 billion at June 30, 2018, compared with $2.729 billion at year-end 2017, reflecting continued growth in life insurance policies in force. We discuss our life insurance reserving practices in our 2017 Annual Report on Form 10-K, Item 7, Life Insurance Policyholder Obligations and Reserves, Page 99.

OTHER MATTERS

SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are discussed in our 2017 Annual Report on Form 10-K, Item 8, Note 1, Summary of Significant Accounting Policies, Page 121, and updated in this quarterly report Item 1, Note 1, Accounting Policies.

In conjunction with those discussions, in the Management's Discussion and Analysis in the 2017 Annual Report on Form 10-K, management reviewed the estimates and assumptions used to develop reported amounts related to the most significant policies. Management discussed the development and selection of those accounting estimates with the audit committee of the board of directors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Our view of potential risks and our sensitivity to such risks is discussed in our 2017 Annual Report on Form 10-K, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, Page 106.

The fair value of our investment portfolio was $16.836 billion at June 30, 2018, down $112 million from year-end 2017, including a $63 million decrease in the fixed-maturity portfolio and a $49 million decrease in the equity portfolio.

(Dollars in millions)	**At June 30, 2018**				At December 31, 2017			
	Cost or adjusted cost	Percent of total	Fair value	Percent of total	Cost or adjusted cost	Percent of total	Fair value	Percent of total
Taxable fixed maturities	**$ 6,688**	**48.6%**	**$ 6,742**	**40.0%**	$ 6,383	47.6%	$ 6,637	39.2%
Tax-exempt fixed maturities	**3,864**	**28.1**	**3,894**	**23.1**	3,931	29.3	4,062	24.0
Common equity securities	**3,025**	**22.0**	**6,008**	**35.7**	2,918	21.8	6,039	35.6
Nonredeemable preferred equity securities	**173**	**1.3**	**192**	**1.2**	176	1.3	210	1.2
Total	**$ 13,750**	**100.0%**	**$ 16,836**	**100.0%**	$ 13,408	100.0%	$ 16,948	100.0%

At June 30, 2018, our consolidated investment portfolio included $5 million of assets for which values are based on prices or valuation techniques that require significant management judgment (Level 3 assets). This represented less than 1 percent of investment portfolio assets measured at fair value. See Item 1, Note 3, Fair Value Measurements, for additional discussion of our valuation techniques. We have generally obtained and evaluated two nonbinding quotes from brokers; then, our investment professionals determined our best estimate of fair value. These investments include private placements, small issues and various thinly traded securities.

In addition to our investment portfolio, the total investments amount reported in our condensed consolidated balance sheets includes Other invested assets. Other invested assets included $32 million of life policy loans, $39 million of private equity investments and $37 million of real estate through direct property ownership and development projects in the United States at June 30, 2018.

FIXED-MATURITY SECURITIES INVESTMENTS

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

In the first six months of 2018, the decrease in fair value of our fixed-maturity portfolio reflected net purchases of securities that were more than offset by a decrease in net unrealized gains, primarily due to an increase in interest rates and a widening of corporate credit spreads.
At June 30, 2018, our fixed-maturity portfolio with an average rating of A2/A was valued at 100.8 percent of its amortized cost, compared with 103.7 percent at December 31, 2017.

At June 30, 2018, our investment-grade and noninvestment-grade fixed-maturity securities represented 87.4 percent and 2.8 percent of the portfolio, respectively. The remaining 9.8 percent represented fixed-maturity securities that were not rated by Moody's or S&P Global Ratings.

Attributes of the fixed-maturity portfolio include:

	At June 30, 2018	At December 31, 2017
Weighted average yield-to-amortized cost	**4.22 %**	4.40 %
Weighted average maturity	**7.7 yrs**	7.7 yrs
Effective duration	**5.3 yrs**	5.2 yrs

We discuss maturities of our fixed-maturity portfolio in our 2017 Annual Report on Form 10-K, Item 8, Note 2, Investments, Page 129, and in this quarterly report Item 2, Investments Results.

TAXABLE FIXED MATURITIES

Our taxable fixed-maturity portfolio, with a fair value of $6.742 billion at June 30, 2018, included:

(Dollars in millions)	**At June 30, 2018**	At December 31, 2017
Investment-grade corporate	**$ 5,379**	$ 5,252
States, municipalities and political subdivisions	**464**	403
Noninvestment-grade corporate	**299**	401
Commercial mortgage-backed	**281**	286
Government sponsored enterprises	**269**	254
United States government	**40**	31
Foreign government	**10**	10
Total	**$ 6,742**	$ 6,637

Our strategy is to buy, and typically hold, fixed-maturity investments to maturity, but we monitor credit profiles and fair value movements when determining holding periods for individual securities. With the exception of United States agency issues that include government-sponsored enterprises, no individual issuer's securities accounted for more than 1.3 percent of the taxable fixed-maturity portfolio at June 30, 2018. Our investment-grade corporate bonds had an average rating of Baa2 by Moody's or BBB by S&P Global Ratings and represented 79.8 percent of the taxable fixed-maturity portfolio's fair value at June 30, 2018, compared with 79.1 percent at year-end 2017.

The heaviest concentration in our investment-grade corporate bond portfolio, based on fair value at June 30, 2018, was the financial sector. It represented 46.3 percent of our investment-grade corporate bond portfolio, compared with 46.6 percent at year-end 2017. No other sector exceeded 10 percent of our investment-grade corporate bond portfolio.

Our taxable fixed-maturity portfolio at June 30, 2018, included $281 million of commercial mortgage-backed securities with an average rating of Aa1/AA.

TAX-EXEMPT FIXED MATURITIES

At June 30, 2018, we had $3.894 billion of tax-exempt fixed-maturity securities with an average rating of Aa2/AA by Moody's and S&P Global Ratings. We traditionally have purchased municipal bonds focusing on general obligation and essential services issues, such as water, waste disposal or others. The portfolio is well diversified among approximately 1,450 municipal bond issuers. No single municipal issuer accounted for more than 0.6 percent of the tax-exempt fixed-maturity portfolio at June 30, 2018.

INTEREST RATE SENSITIVITY ANALYSIS

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

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

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

(Dollars in millions)	Effect from interest rate change in basis points				
	-200	-100	-	100	200
At June 30, 2018	**$ 11,763**	**$ 11,205**	**$ 10,636**	**$ 10,059**	**$ 9,511**
At December 31, 2017	$ 11,803	$ 11,249	$ 10,699	$ 10,133	$ 9,589

The effective duration of the fixed-maturity portfolio as of June 30, 2018, was 5.3 years, up from 5.2 years at year-end 2017. The above table is a theoretical presentation showing that an instantaneous, parallel shift in the yield curve of 100 basis points could produce an approximately 5.4 percent change in the fair value of the fixed-maturity portfolio. Generally speaking, the higher a bond is rated, the more directly correlated movements in its fair value are to changes in the general level of interest rates, exclusive of call features. The fair values of average- to lower-rated corporate bonds are additionally influenced by the expansion or contraction of credit spreads.

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

EQUITY INVESTMENTS

Our equity investments, with a fair value totaling $6.200 billion at June 30, 2018, included $6.008 billion of common stock securities of companies generally with strong indications of paying and growing their dividends. Other criteria we evaluate include increasing sales and earnings, proven management and a favorable outlook. We believe our equity investment style is an appropriate long-term strategy. While our long-term financial position would be affected by prolonged changes in the market valuation of our investments, we believe our strong surplus position and cash flow provide a cushion against short-term fluctuations in valuation. Continued payment of cash dividends by the issuers of our common equity holdings can provide a floor to their valuation.

The table below summarizes the effect of hypothetical changes in market prices on fair value of our equity portfolio.

(Dollars in millions)	Effect from market price change in percent						
	-30%	-20%	-10%	—	10%	20%	30%
At June 30, 2018	**$ 4,340**	**$ 4,960**	**$ 5,580**	**$ 6,200**	**$ 6,820**	**$ 7,440**	**$ 8,060**
At December 31, 2017	$ 4,374	$ 4,999	$ 5,624	$ 6,249	$ 6,874	$ 7,499	$ 8,124

At June 30, 2018, Apple Inc. (Nasdaq:AAPL) was our largest single common stock holding with a fair value of $259 million, or 4.3 percent of our publicly traded common stock portfolio and 1.5 percent of the total investment portfolio. Thirty holdings among eight different sectors each had a fair value greater than $100 million.

Common Stock Portfolio Industry Sector Distribution

	Percent of common stock portfolio			
	At June 30, 2018		At December 31, 2017	
	Cincinnati Financial	S&P 500 Industry Weightings	Cincinnati Financial	S&P 500 Industry Weightings
Sector:				
Information technology	**21.4%**	**26.0%**	19.5%	23.7%
Financial	**15.8**	**13.8**	16.2	14.8
Consumer discretionary	**13.5**	**12.9**	13.6	12.2
Healthcare	**13.1**	**14.1**	13.2	13.8
Industrials	**12.6**	**9.5**	14.3	10.3
Energy	**8.0**	**6.3**	7.3	6.1
Consumer staples	**5.3**	**7.0**	6.2	8.2
Materials	**5.0**	**2.6**	5.6	3.0
Utilities	**2.4**	**2.9**	2.1	2.9
Telecomm services	**1.5**	**2.0**	1.7	2.1
Real Estate	**1.4**	**2.9**	0.3	2.9
Total	**100.0%**	**100.0%**	100.0%	100.0%

UNREALIZED INVESTMENT GAINS AND LOSSES

With the adoption of ASU 2016-01 on January 1, 2018, we recognized the cumulative unrealized gains on equity securities and will recognize future changes in fair value through net income. For GAAP purposes this eliminated unrealized gains on equity securities. The remaining unrealized gains and losses are related to fixed-maturity securities. At June 30, 2018, unrealized investment gains before taxes for the fixed-maturity portfolio totaled
$190 million and unrealized investment losses amounted to $106 million.

The $84 million net unrealized gain position in our fixed-maturity portfolio at June 30, 2018 decreased in the first six months of 2018, primarily due to an increase in interest rates and a widening of corporate credit spreads. The net gain position for our current fixed-maturity holdings will naturally decline over time as individual securities mature. In addition, changes in interest rates can cause rapid, significant changes in fair values of fixed-maturity securities and the net gain position, as discussed in Quantitative and Qualitative Disclosures About Market Risk.

For federal income tax purposes, taxes on gains from appreciated investments generally are not due until securities are sold. We believe that the appreciated value of equity securities, compared with the cost of securities that is generally used as a tax basis, is a useful measure to help evaluate how fair value can change over time. On this basis, the net unrealized investment gains at June 30, 2018, consisted of a net gain position in our equity portfolio of $3.002 billion. Events or factors such as economic growth or recession can affect the fair value of our equity securities. The seven largest contributors to our common stock portfolio net gain position were Microsoft Corporation (Nasdaq:MSFT), Apple, JP Morgan Chase & Co (NYSE:JPM), Blackrock Inc. (NYSE:BLK), Honeywell International Inc. (NYSE:HON), UnitedHealth Group Incorporated (NYSE:UNH), and CME Group Inc. (Nasdaq:CME), which had a combined gross unrealized gain position of $1.023 billion.

Unrealized Investment Losses

We expect the number of fixed-maturity securities trading below amortized cost to fluctuate as interest rates rise or fall and credit spreads expand or contract due to prevailing economic conditions. Further, amortized costs for some securities are revised through OTTI recognized in prior periods. At June 30, 2018, 1,279 of the 3,554 fixed-maturity securities we owned had fair values below amortized cost, compared with 440 of the 3,598 securities we owned at year-end 2017. The 1,279 holdings with fair values below cost or amortized cost at June 30, 2018, represented 36.8 percent of the fair value of our fixed-maturity investment portfolio and $106 million in unrealized losses.

- 1,268 of the 1,279 holdings had fair value between 90 percent and 100 percent of amortized cost at June 30, 2018. These primarily consist of securities whose current valuation is largely the result of interest rate factors. The fair value of these 1,268 securities was $3.869 billion, and they accounted for $99 million in unrealized losses.
- 11 of the 1,279 fixed-maturity holdings had fair value between 70 percent and 90 percent of amortized cost at June 30, 2018. We believe the 11 fixed-maturity securities will continue to pay interest and ultimately pay principal upon maturity. The issuers of these 11 securities have strong cash flow to service their debt and meet their contractual obligation to make principal payments. The fair value of these securities was $42 million, and they accounted for $7 million in unrealized losses.
- There were no fixed-maturity securities with a fair value below 70 percent of amortized cost at June 30, 2018.

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

(Dollars in millions)	Less than 12 months		12 months or more		Total	
At June 30, 2018	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Fixed maturity securities:						
Corporate	**$ 1,836**	**$ 39**	**$ 283**	**$ 18**	**$ 2,119**	**$ 57**
States, municipalities and political subdivisions	**1,070**	**22**	**262**	**14**	**1,332**	**36**
Commercial mortgage-backed securities	**113**	**2**	**35**	**2**	**148**	**4**
Government-sponsored enterprises	**110**	**2**	**158**	**6**	**268**	**8**
Foreign government	**10**	**—**	**—**	**—**	**10**	**—**
United States government	**23**	**1**	**11**	**—**	**34**	**1**
Total	**$ 3,162**	**$ 66**	**$ 749**	**$ 40**	**$ 3,911**	**$ 106**
At December 31, 2017						
Fixed maturity securities:						
Corporate	$ 330	$ 4	$ 252	$ 9	$ 582	$ 13
States, municipalities and political subdivisions	88	1	264	5	352	6
Commercial mortgage-backed	33	—	36	1	69	1
Government-sponsored enterprises	96	1	124	3	220	4
Foreign government	10	—	—	—	10	—
United States government	23	—	6	—	29	—
Subtotal	580	6	682	18	1,262	24
Equity securities:						
Common equities	229	14	—	—	229	14
Subtotal	229	14	—	—	229	14
Total	$ 809	$ 20	$ 682	$ 18	$ 1,491	$ 38

At June 30, 2018, 263 fixed-maturity securities with a total unrealized loss of $40 million had been in an unrealized loss position for 12 months or more. Of that total, no fixed-maturity securities had a fair value below 70 percent of amortized cost; eight fixed-maturity securities with a fair value of $37 million had a fair value from 70 percent to less than 90 percent of amortized cost and accounted for $6 million in unrealized losses; and 255 fixed-maturity securities with a fair value of $712 million had fair values from 90 percent to less than 100 percent of amortized cost and accounted for $34 million in unrealized losses.

At June 30, 2018, applying our invested asset impairment policy, we determined that the total of $40 million, for securities in an unrealized loss position for 12 months or more in the table above, was not other-than-temporarily impaired.

During the second quarter of 2018, no securities were written down through an impairment charge and none were written down during the first quarter of 2018. OTTI resulted in pretax, noncash charges of $9 million for the three and six months ended June 30, 2017. During the first six months of 2017, six securities were written down resulting in $9 million in OTTI charges.

During full-year 2017, we wrote down six securities and recorded $9 million in OTTI charges. At December 31, 2017, 249 fixed-maturity investments with a total unrealized loss of $18 million had been in an unrealized loss position for 12 months or more. Of that total, no fixed-maturity investments had fair values below 70 percent of amortized cost. There were no equity security investments in an unrealized loss position for 12 months or more as of December 31, 2017.

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

(Dollars in millions) **At June 30, 2018**	Number of issues	Cost or amortized cost	Fair value	Gross unrealized gain (loss)	Gross investment income
Taxable fixed maturities:					
Fair valued below 70% of amortized cost	—	$ —	$ —	$ —	$ —
Fair valued at 70% to less than 100% of amortized cost	666	2,783	2,709	(74)	47
Fair valued at 100% and above of amortized cost	882	3,905	4,033	128	102
Investment income on securities sold in current year	—	—	—	—	7
Total	1,548	6,688	6,742	54	156
Tax-exempt fixed maturities:					
Fair valued below 70% of amortized cost	—	—	—	—	—
Fair valued at 70% to less than 100% of amortized cost	613	1,234	1,202	(32)	18
Fair valued at 100% and above of amortized cost	1,393	2,630	2,692	62	45
Investment income on securities sold in current year	—	—	—	—	2
Total	2,006	3,864	3,894	30	65
Fixed-maturities summary:					
Fair valued below 70% of cost or amortized cost	**—**	**—**	**—**	**—**	**—**
Fair valued at 70% to less than 100% of cost or amortized cost	**1,279**	**4,017**	**3,911**	**(106)**	**65**
Fair valued at 100% and above of cost or amortized cost	**2,275**	**6,535**	**6,725**	**190**	**147**
Investment income on securities sold in current year	**—**	**—**	**—**	**—**	**9**
Total	**3,554**	**$ 10,552**	**$ 10,636**	**$ 84**	**$ 221**
At December 31, 2017					
Portfolio summary:					
Fair valued below 70% of cost or amortized cost	—	$ —	$ —	$ —	$ —
Fair valued at 70% to less than 100% of cost or amortized cost	440	1,529	1,491	(38)	37
Fair valued at 100% and above of cost or amortized cost	3,158	11,879	15,457	3,578	533
Investment income on securities sold in current year	—	—	—	—	45
Total	3,598	$ 13,408	$ 16,948	$ 3,540	$ 615

See our 2017 Annual Report on Form 10-K, Item 7, Critical Accounting Estimates, Asset Impairment, Page 53.

Item 4. Controls and Procedures

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

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The company's management, with the participation of the company's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures as of June 30, 2018. Based upon that evaluation, the company's chief executive officer and chief financial officer concluded that the design and operation of the company's disclosure controls and procedures provided reasonable assurance that the disclosure controls and procedures are effective to ensure:

- that information required to be disclosed in the company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and
- that such information is accumulated and communicated to the company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting – During the three months ended June 30, 2018, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Our risk factors have not changed materially since they were described in our 2017 Annual Report on Form 10-K filed February 23, 2018.

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

We did not sell any of our shares that were not registered under the Securities Act during the first six months of 2018. Our repurchase program was expanded on October 22, 2007, to increase our repurchase authorization to approximately 13 million shares. Our repurchase program does not have an expiration date. On January 26, 2018, an additional 15 million shares were authorized, which expanded our current repurchase program. We have 15,476,785 shares available for purchase under our programs at June 30, 2018.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1-30, 2018	241,624	$ 71.32	241,624	16,800,441
May 1-31, 2018	1,191,016	70.44	1,191,016	15,609,425
June 1-30, 2018	132,640	70.36	132,640	15,476,785
Totals	1,565,280	70.57	1,565,280	

Item 6. Exhibits

Exhibit No.	Exhibit Description
3.1	Amended and Restated Articles of Incorporation of Cincinnati Financial Corporation (incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, Exhibit 3.1)
3.2	Amended and Restated Code of Regulations of Cincinnati Financial Corporation, as of May 5, 2018
31A	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002 – Chief Executive Officer
31B	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002 – Chief Financial Officer
32	Certification pursuant to Section 906 of the Sarbanes Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

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

CINCINNATI FINANCIAL CORPORATION

Date: July 26, 2018

/S/ Michael J. Sewell

Michael J. Sewell, CPA

Chief Financial Officer, Senior Vice President and Treasurer

(Principal Accounting Officer)

AMENDED AND RESTATED CODE OF REGULATIONS OF CINCINNATI FINANCIAL CORPORATION AS OF MAY 5, 2018

ARTICLE I

SHAREHOLDER MEETINGS

Section 1. Annual Meetings. The annual meeting of shareholders of the Corporation for the election of directors, the consideration of reports to be laid before the meeting and the transaction of such other business as properly may be brought at such meeting shall be held on the first Saturday of April in each year at 9:30 a.m., Eastern Standard Time; provided, however, that in lieu of such annual meeting date and time the Board of Directors may fix an alternate annual meeting date and time for any particular year.

Section 2. Place of Meetings. Meetings of shareholders may be held either within or without the State of Ohio.

Section 3. Notice of Meetings. Written notice of meetings of shareholders may be given by or at the direction of the Chief Executive Officer of the Corporation, the President of the Corporation or the Secretary of the Corporation. Such notices shall be given in accordance with applicable law.

Section 4. Quorum at Meetings. The holders of a majority of the voting shares issued and outstanding and entitled to vote thereat present in person or represented by proxy shall constitute a quorum at all meetings of shareholders for the transaction of business except as otherwise required by applicable law or the Articles of Incorporation. Less than such a majority may adjourn the meeting of shareholders from time to time and at any such adjourned meeting any business may be transacted as if the meeting had been held as originally called.

Section 5. Order of Business. Unless otherwise determined by the Board of Directors of the Corporation prior to the meeting, the chairman of the meeting shall determine in his or her sole discretion the order of business of each shareholder meeting and the rules of procedure thereof, and shall have the authority to regulate the conduct of any such meeting as he or she deems appropriate. Notwithstanding the foregoing, the order of business fixed by the chairman of the meeting may be changed by the vote of the holders of shares entitling them to exercise a majority of the voting power of the shareholders present in person or by proxy and entitled to vote.

Section 6. Notice of Shareholder Business to Be Brought Before a Meeting.

(a) *Business Properly Brought Before a Meeting*. At an annual meeting of shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) brought before the meeting by the Corporation and specified in the notice of meeting given by or at the direction of the Board of Directors, (ii) brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a shareholder who (A) was a shareholder of record (and, with respect to any beneficial owner, if different, on whose behalf such business is proposed, only if such beneficial owner was the beneficial owner of shares of the Corporation) both at the time of giving the notice provided for in this Section 6 and at the time of the meeting, (B) is entitled to vote at the meeting, and (C) has complied with this Section 6 as to such business. Except for proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations, the *"Exchange Act"*), and included in the notice of meeting given by or at the direction of the Board of Directors, the foregoing clause (iii) shall be the exclusive means for a shareholder to propose business to be brought before an annual meeting of the shareholders. Shareholders shall not be permitted to propose business to be brought before a special meeting of the shareholders, and the only matters that may be brought before a special meeting are the matters specified in the notice of meeting given by or at the direction of the person calling the meeting pursuant to Article I, Section 3 of these Regulations. Shareholders seeking to nominate persons for election to the Board must comply with Article I, Section 7 of these Regulations, and this Section 6 shall not be applicable to nominations except as expressly provided in Article I, Section 7 of these Regulations.

(b) Requirement of Timely Notice of Shareholder Business. Without qualification, for business to be properly brought before an annual meeting by a shareholder, the shareholder must (i) provide Timely Notice (as defined below) thereof in writing and in proper form to the Secretary of the Corporation and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 6. To be timely, a shareholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation not less than 60 days nor more than 100 days prior to the one year anniversary of the preceding year's annual meeting; *provided, however*, that if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the shareholder to be timely must be so delivered, or mailed and received, not earlier than the 100th day prior to such annual meeting and not later than the 60th day prior to such annual meeting or, if later, the tenth day following the day on which Public Disclosure of the date of such annual meeting was first made (such notice within such time periods, *"Timely Notice"*). In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of Timely Notice as described above.

(c) *Requirements for Proper Form of Shareholder Notice of Proposed Business*. To be in proper form for purposes of this Section 6, a shareholder's notice to the Secretary of the Corporation shall set forth:

(i) Shareholder Information. As to each Proposing Person (as defined below), (A) the name and address of such Proposing Person (including, if applicable, the name and address that appear on the Corporation's books and records) and (B) the class or series and number of shares of the Corporation that are, directly or indirectly, owned of record or beneficially owned (within the meaning of Rule 13d-3 under the Exchange Act) by such Proposing Person, except that such Proposing Person shall in all events be deemed to beneficially own any shares of any class or series of the Corporation as to which such Proposing Person has a right to acquire beneficial ownership at any time in the future (the disclosures to be made pursuant to the foregoing clauses (A) and (B) are referred to as *"Shareholder Information"*);

(ii) Information Regarding Disclosable Interests. As to each Proposing Person, (A) any derivative, swap or other transaction or series of transactions engaged in, directly or indirectly, by such Proposing Person, the purpose or effect of which is to give such Proposing Person economic risk similar to ownership of shares of any class or series of the Corporation, including due to the fact that the value of such derivative, swap or other transactions are determined by reference to the price, value or volatility of any shares of any class or series of the Corporation, or which derivative, swap or other transactions provide, directly or indirectly, the opportunity to profit from any increase in the price or value of shares of any class or series of the Corporation (*"Synthetic Equity Interests"*), which such Synthetic Equity Interests shall be disclosed without regard to whether (x) such derivative, swap or other transactions convey any voting rights in such shares to such Proposing Person, (y) the derivative, swap or other transactions are required to be, or are capable of being, settled through delivery of such shares or (z) such Proposing Person may have entered into other transactions that hedge or mitigate the economic effect of such derivative, swap or other transactions, (B) any proxy (other than a revocable proxy or consent given in response to a solicitation made pursuant to, and in accordance with, Section 14(a) of the Exchange Act by way of a solicitation statement filed on Schedule 14A), agreement, arrangement, understanding or relationship pursuant to which such Proposing Person has or shares a right to vote any shares of any class or series of the Corporation, (C) any agreement, arrangement, understanding or relationship, including any repurchase or similar so-called "stock borrowing" agreement or arrangement, engaged in, directly or indirectly, by such Proposing Person, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of shares of any class or series of the Corporation by, manage the risk of share price changes for, or increase or decrease the voting power of, such Proposing Person with respect to the shares of any class or series of the Corporation, or which provides, directly or indirectly, the opportunity to profit from any decrease in the price or value of the shares of any class or series of the Corporation (*"Short Interests"*), (D) any rights to dividends on the shares of any class or series of the Corporation owned beneficially by such Proposing Person that are separated or separable from the underlying shares of the Corporation, (E) any performance related fees (other than an asset based fee) that such Proposing Person is entitled to based on any increase or decrease in the price or value of shares of any class or series of the Corporation, or any Synthetic Equity Interests or Short Interests, if any, and (F) any other information relating to such Proposing Person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies or consents by such Proposing Person in support of the business proposed to be brought before the meeting pursuant to Section 14(a) of the Exchange Act (the disclosures to be made pursuant to the foregoing clauses (A) through (F) are referred to as *"Disclosable Interests"*); provided, however, that Disclosable Interests shall not include any such disclosures with respect to the ordinary course business activities of any broker, dealer, commercial bank, trust company or other nominee who is a Proposing Person solely as a result of being the shareholder directed to prepare and submit the notice required by these Regulations on behalf of a beneficial owner; and

(iii) Description of Proposed Business. As to each item of business the shareholder proposes to bring before the annual meeting, (A) a reasonably brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of each Proposing Person, (B) the text of the proposal or business (including the text of any resolutions proposed for consideration), and (C) a reasonably detailed description of all agreements, arrangements and understandings (x) between or among any of the Proposing Persons or (y) between or among any Proposing Person and any other person or entity (including their names) in connection with the proposal of such business by such shareholder.

(iv) Definition of Proposing Person. For purposes of this Section 6, the term *"Proposing Person"* shall mean (i) the shareholder providing the notice of business proposed to be brought before an annual meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the business proposed to be brought before the annual meeting is made, and (iii) any affiliate or associate (each within the meaning of Rule 12b-2 under the Exchange Act for purposes of these Regulations) of such shareholder or beneficial owner.

(d) *Update and Supplement of Shareholder Notice of Proposed Business*. A shareholder providing notice of business proposed to be brought before an annual meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 6 shall be true and correct as of the record date for the meeting and as of the date that is ten business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary of the Corp oration at the principal executive offices of the Corporation not later than five business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight business days prior to the date for the meeting (in the case of the update and supplement required to be made as of ten business days prior to the meeting or any adjournment or postponement thereof), if practicable (or, if not practicable, on the first practicable date prior to any adjournment or postponement thereof).

(e) *Business Not Properly Brought Before A Meeting*. Notwithstanding anything in these Regulations to the contrary, no business shall be conducted at an annual meeting except in accordance with this Section 6. The chairman of the meeting shall, if the facts warrant, determine that the business was not properly brought before the meeting in accordance with this Section 6, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(f) *Rule 14a-8; Exchange Act Compliance*. This Section 6 is expressly intended to apply to any business proposed to be brought before an annual meeting of shareholders other than any proposal made pursuant to Rule 14a-8 under the Exchange Act. In addition to the requirements of this Section 6 with respect to any business proposed to be brought before an annual meeting, each Proposing Person shall comply with all applicable requirements of the Exchange Act with respect to any such business. Nothing in this Section 6 shall be deemed to affect the rights of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

(g) *Definition of Public Disclosure*. For purposes of these Regulations, *"public disclosure"* shall mean disclosure in a news release reported by a national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

Section 7. <u>Nominations</u>.

(a) Who May Make Nominations. Nominations of any person for election to the Board of Directors at an annual meeting or at a special meeting (but only if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling such special meeting) may be made at such meeting only (i) by or at the direction of the Board of Directors, including by any committee or persons appointed by the Board of Directors, or (ii) by a shareholder who (A) was a shareholder of record (and, with respect to any beneficial owner, if different, on whose behalf such nomination is proposed to be made, only if such beneficial owner was the beneficial owner of shares of the Corporation) both at the time of giving the notice provided for in this Section 7 and at the time of the meeting, (B) is entitled to vote at the meeting, and (C) has complied with this Section 7 as to such nomination, or (iii) if properly brought before the meeting by one or more Eligible Shareholders (as such term is defined below) pursuant to and in accordance with Section 8 of this Article I. The foregoing clauses (ii) and (iii) shall be the exclusive means for a shareholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting or special meeting.

(b) Requirement of Timely Notice of Shareholder Nominations. Without qualification, for a shareholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting (other than a nomination pursuant to Section 8 of this Article I), the shareholder must (i) provide Timely Notice (as defined in Section 6 of these Regulations) thereof in writing and in proper form to the Secretary of the Corporation and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 7. Without qualification, if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling such special meeting, then for a shareholder to make any nomination of a person or persons for election to the Board of Directors at a special meeting, the shareholder must (i) provide timely notice thereof in writing and in proper form to the Secretary of the Corporation at the principal executive offices of the Corporation, and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 7. To be timely, a shareholder’s notice for nominations to be made at a special meeting must be delivered to, or mailed and received at, the principal executive offices of the Corporation not earlier than the 100^{th} day prior to such special meeting and not later than the 60^{th} day prior to such special meeting or, if later, the tenth day following the day on which Public Disclosure (as defined in Section 6 of these Regulations) of the date of such special meeting was first made. In no event shall any adjournment or postponement of an annual meeting or special meeting or the announcement thereof commence a new time period for the giving of a shareholder’s notice as described above.

(c) Requirements for Proper Form of Notice of Shareholder Nominations. To be in proper form for purposes of this Section 7, a shareholder’s notice to the Secretary of the Corporation shall set forth:

(i) <u>Shareholder Information</u>. As to each Nominating Person (as defined below), the Shareholder Information (as defined in Article I, Section 6(c)(i), except that for purposes of this Section 7, the term “Nominating Person” shall be substituted for the term “Proposing Person” in all places it appears in Article I, Section 6(c)(i));

(ii) Information Regarding Disclosable Interests. As to each Nominating Person, any Disclosable Interests (as defined in Article I, Section 6(c)(ii), except that for purposes of this Section 7 the term "Nominating Person" shall be substituted for the term "Proposing Person" in all places it appears in Article I, Section 6(c)(ii)), and the disclosure in clause (F) of Article I, Section 6(c)(ii) shall be made with respect to the election of directors at the meeting;

(iii) Information Regarding Proposed Nominees. As to each person whom a Nominating Person proposes to nominate for election as a director, (A) all information with respect to such proposed nominee that would be required to be set forth in a shareholder's notice pursuant to this Section 7 if such proposed nominee were a Nominating Person, (B) all information relating to such proposed nominee that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14(a) under the Exchange Act (including such proposed nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), and (C) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among any Nominating Person, on the one hand, and each proposed nominee, his or her respective affiliates and associates, on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Item 404 under Regulation S-K if such Nominating Person were the "registrant" for purposes of such rule and the proposed nominee were a director or executive officer of such registrant; and

(iv) Other Information to be Furnished by Proposed Nominees. The Corporation may require any proposed nominee to furnish such other information (A) as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation in accordance with the Corporation's Corporate Governance Guidelines or (B) that could be material to a reasonable shareholder's understanding of the independence or lack of independence of such proposed nominee.

(v) Definition of Nominating Person. For purposes of this Section 7, the term *"Nominating Person"* shall mean (i) the shareholder providing the notice of the nomination proposed to be made at the meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the nomination proposed to be made at the meeting is made, and (iii) any affiliate or associate of such shareholder or beneficial owner.

(d) Update and Supplement of Shareholder Notice of Nominations. A shareholder providing notice of any nomination proposed to be made at a meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 7 shall be true and correct as of the record date for the meeting and as of the date that is ten business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary of the Corporation at the principal executive offices of the Corporation not later than five business days after the record date for the meeting (in the case of the update

and supplement required to be made as of the record date), and not later than eight business days prior to the date for the meeting (in the case of the update and supplement required to be made as of ten business days prior to the meeting or any adjournment or postponement thereof), if practicable (or, if not practicable, on the first practicable date prior to any adjournment or postponement thereof).

(e) *Defective Nominations*. Notwithstanding anything in these Regulations to the contrary, no person shall be eligible for election as a director of the Corporation unless nominated in accordance with this Section 7 or Section 8 of this Article I. The presiding officer at the meeting shall, if the facts warrant, determine that a nomination was not properly made in accordance with this Section 7 or Section 8 of this Article I and if he or she should so determine, he or she shall so declare such determination to the meeting and the defective nomination shall be disregarded.

(f) *Compliance with Exchange Act*. In addition to the requirements of this Section 7 with respect to any nomination proposed to be made at a meeting, each Nominating Person shall comply with all applicable requirements of the Exchange Act with respect to any such nominations.

Section 8. Proxy Access for Director Nominations.

(a) Subject to the terms and conditions set forth in these Regulations, the Corporation shall include in its proxy materials for an annual meeting of shareholders the name, together with the Required Information (defined below), of any person nominated for election (the "*Shareholder Nominee*") to the Board of Directors by a shareholder or group of shareholders that satisfy the requirements of this Section 8, including qualifying as an Eligible Shareholder (as defined in paragraph (e) below), and that expressly elects at the time of providing the written notice required by this Section 8 (a "*Proxy Access Notice*") to have its nominee included in the Corporation's proxy materials pursuant to this Section 8. For the purposes of this Section 8:

(i) "*affiliate*" or "*affiliates*" shall have the meaning ascribed thereto in Rule 405 under the Securities Act of 1933, as amended, and the rules and regulations thereunder; and

(ii) a shareholder shall be deemed to "*own*" only those outstanding shares of the Corporation as to which the shareholder itself possesses both (A) the full voting and investment rights pertaining to the shares and (B) the full economic interest in (including the opportunity for profit and risk of loss on) such shares. The number of shares calculated in accordance with the foregoing clauses (A) and (B) shall be deemed not to include (and to the extent any of the following arrangements have been entered into by affiliates of the shareholder, shall be reduced by) any shares (x) sold by such shareholder (or any of its affiliates) in any transaction that has not been settled or closed, including any short sale, (y) borrowed by such shareholder (or any of its affiliates) for any purposes or purchased by such shareholder (or any of its affiliates) pursuant to an agreement to resell or (z) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar agreement entered into by such shareholder (or any of its affiliates), whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or value of the Corporation's shares, in any such case which instrument or agreement has, or is intended to have, or if exercised by either party thereto would have, the purpose or effect of (1) reducing in any manner, to any extent or at any time in the future, such shareholder's (or its affiliate's) full right to vote or direct the voting of any such shares, and/or (2) hedging, offsetting or altering to any degree gain or loss arising from the full economic ownership of such shares by such shareholder (or its affiliate). A shareholder shall "*own*" shares held in the name of a nominee or other intermediary so long as the shareholder itself retains the right to instruct how the shares are voted with respect to the election of directors and the right to direct the disposition thereof and possesses the full economic interest in the shares. A shareholder's ownership of shares shall be deemed to continue during any period in which such person has loaned such shares in the ordinary course of its business or delegated any voting power over such shares by means of a proxy, power of attorney or other instrument or arrangement which loan or delegation in all such cases is revocable at any time by the shareholder (and, with respect to any such loans of shares, as long as such shares can be recalled within five (5) days). The terms "*owned*," "*owning*" and other variations of the word "own" shall have correlative meanings.

(b) For purposes of this Section 8, the "*Required Information*" that the Corporation will include in its proxy statement is (i) the information concerning the Shareholder Nominee and the Eligible Shareholder that the Corporation determines is required to be disclosed in the Corporation's proxy statement by the regulations promulgated under the Exchange Act; and (ii) if the Eligible Shareholder so elects, a Statement (as defined in paragraph (g) below). The Corporation shall also include the name of the Shareholder Nominee in its proxy card. For the avoidance of doubt, and any other provision of these Regulations notwithstanding, the Corporation may in its sole discretion solicit against, and include in the proxy statement its own statements or other information relating to, any Eligible Shareholder and/or Shareholder Nominee, including any information provided to the Corporation with respect to the foregoing.

(c) To be timely, a shareholder's Proxy Access Notice must be delivered to the principal executive offices of the Corporation no earlier than one hundred fifty (150) days and no later than one hundred twenty (120) days before the anniversary of the date for the previous year's annual meeting. In no event shall any adjournment or postponement of an annual meeting, the date of which has been announced by the Corporation, commence a new time period for the giving of a Proxy Access Notice.

(d) The number of Shareholder Nominees appearing in the Corporation's proxy materials with respect to an annual meeting of shareholders shall not exceed the greater of (x) two (2) and (y) the largest whole number that does not exceed 20 percent of the number of directors in office as of the last day on which a Proxy Access Notice may be delivered in accordance with the procedures set forth in this Section 8 (such greater number, the "*Permitted Number*"); *provided*, *however*, that the Permitted Number shall be reduced by:

(i) the number of Shareholder Nominees that were submitted by an Eligible Shareholder for inclusion in the Corporation's proxy materials pursuant to this Section 8 but are subsequently withdrawn;

(ii) the number of directors in office who have been nominated and elected pursuant to this Section 8 with respect to any of the two (2) immediately preceding annual meetings; and

(iii) director candidates for which the Corporation shall have received one or more valid shareholder notices (whether or not subsequently withdrawn) nominating director candidates pursuant to Section 7, provided that the Permitted Number after such reduction with respect to this clause (iii) will in no event be less than one.

In the event the Board of Directors resolves to reduce the size of the Board of Directors effective on or prior to the date of the annual meeting, the Permitted Number shall be calculated based on the number of directors in office as so reduced.

In the event that the number of Shareholder Nominees submitted by Eligible Shareholders pursuant to this Section 8 exceeds the Permitted Number, each Eligible Shareholder will promptly select one Shareholder Nominee for inclusion in the Corporation's proxy materials until the Permitted Number is reached, going in order of the amount (largest to smallest) of shares of the Corporation each Eligible Shareholder disclosed as owned in its Proxy Access Notice submitted to the Corporation. If the Permitted Number is not reached after each Eligible Shareholder has selected one Shareholder Nominee, this selection process will continue as many times as necessary, following the same order each time, until the Permitted Number is reached.

(e) An "*Eligible Shareholder*" is one or more shareholders of record who own and have owned, or are acting on behalf of one or more beneficial owners who own and have owned (in each case as defined above), in each case continuously for at least three (3) years as of both the date that the Proxy Access Notice is received by the Corporation pursuant to this Section 8, and as of the record date for determining shareholders eligible to vote at the annual meeting, based on the company's most recently publicly disclosed number of shares of common stock outstanding, at least 3 percent of the aggregate voting power of the Corporation's shares (the "*Proxy Access Required Shares*"), and who continue to own the Proxy Access Required Shares at all times between the date such Proxy Access Notice is received by the Corporation and the date of the applicable annual meeting, provided that the aggregate number of shareholders, and, if and to the extent that a shareholder is acting on behalf of one or more beneficial owners, of such beneficial owners, whose share ownership is counted for the purpose of satisfying the foregoing ownership requirement, shall not exceed twenty (20). Two or more funds that are (i) under common management and investment control, (ii) under common management and funded primarily by a single employer or (iii) a "group of investment companies," as such term is defined in Section 12(d)(1)(G)(ii) of the Investment Company Act of 1940 (such funds together under each of (i), (ii) or (iii), a "*Qualifying Fund*") shall be treated as one shareholder for the purpose of determining the aggregate number of shareholders referred to in the preceding sentence of this paragraph, provided that each fund included within a Qualifying Fund otherwise meets the requirements set forth in this Section 8. No shares may be attributed to more than one group constituting an Eligible Shareholder under this Section 8 (and, for the avoidance of doubt, no shareholder may be a member of more than one group constituting an Eligible Shareholder). A record holder acting on behalf of one or more beneficial owners will not be counted separately as a shareholder with respect to the shares owned by beneficial owners on whose behalf such record holder has been directed in writing to act, but each such beneficial owner will be counted separately, subject to the other provisions of this paragraph (e), for purposes of determining the number of shareholders whose holdings may be considered as part of an Eligible Shareholder's holdings. For the avoidance of doubt, Proxy Access Required Shares will qualify as such, if and only if, the beneficial owner of such shares as of the date of the Proxy Access Notice has itself individually beneficially owned such shares continuously for the three-year (3 year) period ending on that date and through the other applicable dates referred to above (in addition to the other applicable requirements being met).

(f) No later than the final date when a Proxy Access Notice pursuant to this Section 8 may be timely delivered to the Corporation, an Eligible Shareholder must provide the following information in writing to the Secretary of the Corporation:

(i) one or more written statements from the record holder of the shares (and from each intermediary through which the shares are or have been held during the requisite three-year (3 year) holding period) verifying that, as of a date within seven (7) calendar days prior to the date the Proxy Access Notice is timely delivered to the Corporation, such person owns, and has owned continuously for the preceding three (3) years, the Proxy Access Required Shares, and such person's agreement to provide immediate notice if the Eligible Shareholder ceases to own any of the Proxy Access Required Shares prior to the date of the applicable annual meeting of shareholders;

(ii) any information relating to such Eligible Shareholder and their respective affiliates or others acting in concert therewith, and any information relating to such Eligible Shareholder's Shareholder Nominee(s), in each case that would be required to be disclosed in a proxy statement and form of proxy or other filings required to be made in connection with solicitations of proxies for the election of such Shareholder Nominee(s) in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder or that would be required to be disclosed by Section 7 of these Regulations in connection with submitting a notice nominating a Nominating Person;

(iii) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three (3) years, and any other material relationships, between or among the Eligible Shareholder and its or their respective affiliates, or others acting in concert therewith, on the one hand, and each of such Eligible Shareholder's Shareholder Nominee(s), and his or her respective affiliates, or others acting in concert therewith, on the other hand, including without limitation all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the Eligible Shareholder, or any affiliate thereof or person acting in concert therewith, were the "registrant" for purposes of such rule and the Shareholder Nominee were a director or executive officer of such registrant;

(iv) a representation that such person:

(A) acquired the Proxy Access Required Shares in the ordinary course of business and not with the intent to change or influence control of the Corporation, and does not presently have such intent;

(B) has not nominated and will not nominate for election to the Board of Directors at the annual meeting any person other than the Shareholder Nominee(s) being nominated pursuant to this Section 8;

(C) has not engaged and will not engage in, and has not and will not be a "participant" in another person's, "solicitation" within the meaning of Rule 14a-1(l) under the Exchange Act in support of the election of any individual as a director at the annual meeting other than its Shareholder Nominee(s) or a nominee of the Board of Directors;

(D) will not distribute to any shareholder any form of proxy for the annual meeting other than the form distributed by the Corporation; and

(E) will provide facts, statements and other information in all communications with the Corporation and its shareholders that are and will be true and correct in all material respects and do not and will not omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, and will otherwise comply with all applicable laws, rules and regulations in connection with any actions taken pursuant to this Section 8;

(v) in the case of a nomination by a group of shareholders that together is such an Eligible Shareholder, the designation by all group members of one group member that is authorized to act on behalf of all members of the nominating shareholder group with respect to the nomination and matters related thereto, including withdrawal of the nomination; and

(vi) an undertaking that such person agrees to:

(A) assume all liability stemming from, and indemnify and hold harmless the Corporation and each of its directors, officers and employees individually against any liability, loss or damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the Corporation or any of its directors, officers or employees arising out of any legal or regulatory violation arising out of the Eligible Shareholder's communications with the shareholders of the Corporation or out of the information that the Eligible Shareholder (including such person) provided to the Corporation in connection with the election of directors following the Proxy Access Notice pursuant to this Section 8;

(A) file with the Securities and Exchange Commission any solicitation by the Eligible Shareholder of shareholders of the Corporation relating to the annual meeting at which the Shareholder Nominee will be nominated;

(B) comply with all other laws and regulations applicable to any solicitation in connection with the annual shareholder meeting; and

(C) provide to the Corporation prior to the annual shareholder meeting such additional information as necessary with respect thereto.

In addition, no later than the final date on which a Proxy Access Notice may be submitted under this Section 8, a Qualifying Fund whose share ownership is counted for purposes of qualifying as an Eligible Shareholder must provide to the Secretary of the Corporation documentation reasonably satisfactory to the Board of Directors that demonstrates that the funds included within the Qualifying Fund satisfy the definition of Qualifying Fund as defined by this Section 8. In order to be considered timely, any information required by this Section 8 to be provided to the Corporation must be supplemented (by delivery to the Secretary of the Corporation) (1) no later than ten (10) days following the record date for the applicable annual meeting, to disclose the foregoing information as of such record date, and (2) no later than the fifth day before the annual meeting, to disclose the foregoing information as of the date that is no earlier than ten (10) days prior to such annual meeting. For the avoidance of doubt, the requirement to update and supplement such information shall not permit any Eligible Shareholder or other person to change or add any proposed Shareholder Nominee or be deemed to cure any defects or limit the remedies (including without limitation under these Regulations) available to the Corporation relating to any defect.

(g) The Eligible Shareholder may provide to the Secretary of the Corporation, at the time the information required by this Section 8 is originally provided, a written statement for inclusion in the Corporation's proxy statement for the annual meeting, not to exceed five hundred (500) words for each Shareholder Nominee, in support of the candidacy of such Eligible Shareholder's Shareholder Nominee(s) (the "*Statement*"). Notwithstanding anything to the contrary contained in this Section 8, the Corporation may omit from its proxy materials any information or Statement that it, in good faith, believes is materially false or misleading, omits to state any material fact, or would violate any applicable law or regulation.

(h) No later than the final date when a Proxy Access Notice pursuant to this Section 8 may be timely delivered to the Corporation, each Shareholder Nominee must:

(i) provide an executed agreement, in a form deemed satisfactory by the Board of Directors or its designee (which form shall be provided by the Corporation reasonably promptly upon written request of a shareholder), that such Shareholder Nominee:

(A) consents to being named in the Corporation's proxy statement and form of proxy card (and will not agree to be named in any other person's proxy statement or form of proxy card) as a nominee and to serving as a director of the Corporation if elected;

(B) agrees, if elected, to adhere to the Corporation's Corporate Governance Guidelines and Code of Conduct and any other publicly available or publicly disclosed Corporation policies and guidelines applicable to directors; and

(C) is not and will not become a party to any compensatory, payment or other financial agreement, arrangement or understanding with any person or entity in connection with his or her nomination, service or action as a director of the Corporation, or any agreement, arrangement or understanding with any person or entity as to how the Shareholder Nominee would vote or act on any issue or question as a director, in each case that has not been disclosed to the Corporation;

(ii) complete, sign and submit all questionnaires, representations and agreements required by these Regulations or of the Corporation's directors generally; and

(iii) provide such additional information as necessary to permit the Board of Directors to determine if such Shareholder Nominee:

(A) is independent under the listing standards of each principal U.S. exchange upon which the shares of the Corporation are listed, any applicable rules of the Securities and Exchange Commission and any publicly disclosed standards used by the Board of Directors in determining and disclosing the independence of the Corporation's directors;

(B) has any direct or indirect relationship with the Corporation other than those relationships that have been deemed categorically immaterial pursuant to the Corporation's Corporate Governance Guidelines; and

(C) would, by serving on the Board of Directors, violate or cause the Corporation to be in violation of the Corporation's Articles of Incorporation or Regulations, the rules and listing standards of the principal U.S. exchange upon which the shares of the Corporation are listed or any applicable law, rule or regulation.

In the event that any information or communications provided by the Eligible Shareholder or the Shareholder Nominee to the Corporation or its shareholders ceases to be true and correct in all material respects or omits a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, each Eligible Shareholder or Shareholder Nominee, as the case may be, shall promptly notify the Secretary of the Corporation of any defect in such previously provided information and of the information that is required to correct any such defect; it being understood for the avoidance of doubt that providing any such notification shall not be deemed to cure any such defect or limit the remedies (including without limitation under these Regulations) available to the Corporation relating to any such defect.

(i) Any Shareholder Nominee who is included in the Corporation's proxy statement for a particular annual meeting of shareholders, but subsequently is determined not to satisfy the eligibility requirements of this Section 8 or any other provision of the Corporation's Articles of Incorporation or Regulations or other applicable regulation any time before the annual meeting of shareholders, will not be eligible for election at the relevant annual meeting of shareholders.

(j) The Corporation shall not be required to include, pursuant to this Section 8, a Shareholder Nominee in its proxy materials for any annual meeting of shareholders, or, if the proxy statement already has been filed, to allow the nomination of a Shareholder Nominee, notwithstanding that proxies in respect of such vote may have been received by the Corporation:

(i) who is not independent under the listing standards of the principal U.S. exchange upon which the shares of the Corporation are listed, any applicable rules of the Securities and Exchange Commission and any publicly disclosed standards used by the Board of Directors in determining and disclosing independence of the Corporation's directors, in each case as determined by the Board of Directors;

(ii) whose service as a member of the Board of Directors would violate or cause the Corporation to be in violation of the Corporation's Articles of Incorporation or Regulations, the rules and listing standards of the principal U.S. exchange upon which the shares of the Corporation are traded, or any applicable law, rule or regulation;

(iii) if the Eligible Shareholder or applicable Shareholder Nominee otherwise breaches or fails to comply in any material respect with its obligations pursuant to this Section 8 or any agreement, representation or undertaking required by this Section;

(iv) who is or has been, within the past three (3) years, an officer or Director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914;

(v) who is a named subject of a pending criminal proceeding (excluding minor traffic violations and other minor offenses) or has been convicted in such a criminal proceeding within the past ten (10) years;

(vi) who is subject to any order of the type specified in Rule 506(d) of Regulation D promulgated under the Securities Act of 1933, as amended;

(vii) if the Eligible Shareholder ceases to be an Eligible Shareholder for any reason, including but not limited to not owning the Proxy Access Required Shares through the date of the applicable annual meeting; or

(viii) if the Eligible Shareholder who has nominated such Shareholder Nominee has engaged in or is currently engaged in, or has been or is a "participant" in another person's, "solicitation" within the meaning of Rule 14a-1(l) under the 1934 Act in support of the election of any individual as a director at the meeting other than its Shareholder Nominee(s) or a nominee of the Board of Directors.

(k) Notwithstanding anything to the contrary set forth herein, the Board of Directors or the person presiding at the meeting shall declare a nomination by an Eligible Shareholder to be invalid, and such nomination shall be disregarded notwithstanding that proxies in respect of such vote may have been received by the Corporation, if:

(i) the Shareholder Nominee and/or the applicable Eligible Shareholder shall have breached its or their obligations, agreements or representations under this Section 8, as determined by the Board of Directors or the person presiding at the annual shareholder meeting; or

(ii) the Eligible Shareholder (or a qualified representative thereof) does not appear at the annual shareholder meeting to present any nomination pursuant to this Section 8. For purposes of this Section 8, to be considered a qualified representative of the Eligible Shareholder, a person must be authorized by a writing executed by such Eligible Shareholder, or an electronic transmission delivered by such Eligible Shareholder, to act for such Eligible Shareholder as proxy at the annual shareholder meeting and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the annual shareholder meeting.

ARTICLE II

DIRECTORS

Section 1. Committees. The Board of Directors may create an executive committee or any other committee of the directors, to consist of not less than three (3) directors, and may delegate to any such committee any of the authority of the Board of Directors, however conferred, other than the authority of filling vacancies among the directors or in any committee of the directors.

Section 2. Meetings. Meetings of the Board of Directors shall be held at the offices of the Corporation or at such other place, within or without the State of Ohio, as may be determined by the Board of Directors. Two (2) days notice of each such meeting shall be given to each Director unless the Board of Directors has fixed a regular time and place for such meetings, in which case no notice shall be required for meetings held at such time and place. Meetings may be called by the Chairman of the Board, the President, or by any three (3) Directors, upon giving notice as herein required.

Section 3. Officers. The Board of Directors shall have the right, from time to time, to choose as directors emeritus persons who have had prior service as members of the Board of Directors and who may receive such compensation as shall be fixed, from time to time, by the Board of Directors. Directors emeritus shall not be considered for quorum purposes and shall have no vote.

ARTICLE III

OFFICERS

Section 1. Officers. The officers of the Corporation shall consist of a President, a Secretary, a Treasurer and such other officers and assistant officers, including without limitation a Chairman of the Board, Vice Chairman of the Board, Chief Executive Officer, Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers, as the Board of Directors may, from time to time, determine.

ARTICLE IV

CERTIFICATES OF STOCK

Section 1. Form. If shares are represented by certificates, certificates for shares of the Corporation shall be in such form as the board of directors may, from time to time, approve. The Board of Directors may provide that some or all of any or all classes and series of the Corporation’s shares shall be uncertificated shares, provided that such authorization shall not apply to shares represented by a certificate until the certificate is surrendered to the corporation and that the authorization shall not apply to a certificated security issued in exchange for an uncertificated security. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the registered owner of the shares a written notice containing the information required to be set forth or stated on certificates pursuant to division (A) of Section 1701.25 of the Ohio Revised Code.

ARTICLE V

CORPORATE SEAL

Section 1. Corporate Seal. The seal of the Corporation shall be in such form as the Board of Directors may, from time to time, approve.

ARTICLE VI

AMENDMENTS

Section 1. Amendments. These Regulations may be altered, amended or repealed and new Regulations may be adopted by the affirmative vote of the holders of shares entitling them to exercise a majority of the voting power of the Corporation.

EXHIBIT 31A

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Steven J. Johnston, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cincinnati Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2018

/S/ Steven J. Johnston

Steven J. Johnston, FCAS, MAAA, CFA, CERA
President and Chief Executive Officer

EXHIBIT 31B

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Michael J. Sewell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cincinnati Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2018

/S/ Michael J. Sewell

Michael J. Sewell, CPA
Chief Financial Officer, Senior Vice President and Treasurer
(Principal Accounting Officer)

EXHIBIT 32

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

The certification set forth below is being submitted in connection with this report on Form 10-Q for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Steven J. Johnston, the chief executive officer, and Michael J. Sewell, the chief financial officer, of Cincinnati Financial Corporation each certifies that, to the best of his knowledge:

1. the report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Cincinnati Financial Corporation.

Date: July 26, 2018

/S/ Steven J. Johnston

Steven J. Johnston, FCAS, MAAA, CFA, CERA
President and Chief Executive Officer

/S/ Michael J. Sewell

Michael J. Sewell, CPA
Chief Financial Officer, Senior Vice President and Treasurer
(Principal Accounting Officer)