

CINCINNATI FINANCIAL CORP
Form 10-Q
August 02, 2017

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, 2017.

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

For the transition period from _____ to _____.

Commission file number 0-4604

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

Ohio 31-0746871
(State or other jurisdiction of (I.R.S. Employer Identification
incorporation or organization) No.)

6200 S. Gilmore Road, Fairfield, Ohio 45014-5141
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (513) 870-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer, 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

(Do not check if a smaller reporting company)

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

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

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

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

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Cincinnati Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Income

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

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

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Cincinnati Financial Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

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

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

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Cincinnati Financial Corporation and Subsidiaries

Condensed Consolidated Statements of Shareholders' Equity

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

(In millions)

Common Stock - Shares Outstanding

Beginning of year	164.4	163.9
Share-based awards	0.6	0.7
Shares acquired - share repurchase authorization	(1.0)	0.0
Shares acquired - share-based compensation plans	(0.1)	(0.1)
End of period	163.9	164.5

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

Cincinnati Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows

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

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Supplemental Disclosures of Cash Flow Information:

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 — Accounting Policies

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

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

Our June 30, 2017, condensed consolidated financial statements are unaudited. Certain financial information that is included in annual financial statements prepared in accordance with GAAP is not required for interim reporting and has been condensed or omitted. We believe that we have made all adjustments, consisting only of normal recurring accruals, that are necessary for fair presentation. These condensed consolidated financial statements should be read in conjunction with our consolidated financial statements included in our 2016 Annual Report on Form 10-K. The results of operations for interim periods do not necessarily indicate results to be expected for the full year.

Adopted Accounting Updates

ASU 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-07, Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. ASU 2016-07 eliminates the requirement to retroactively adjust an investment, results of operations, and retained earnings once an investment qualifies for use of the equity method. It requires the equity method investor to add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting without retroactive adjustment. The effective date of ASU 2016-07 was for interim and annual reporting periods beginning after December 15, 2016, and was applied prospectively. The company adopted this ASU effective January 1, 2017, and it did not have a material impact on our company's consolidated financial position, cash flows or results of operations.

ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting

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

cumulative effect adjustments upon adoption of this ASU.

Pending Accounting Updates

ASU 2014-09 Revenue from Contracts with Customers

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

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

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

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

ASU 2016-02, Leases (Topic 842)

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

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

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

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

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

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

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

consolidated financial position, cash flows or results of operations.

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

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. ASU 2017-08 amends guidance on the

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amortization period of premiums on certain purchased callable debt securities. The amendments shorten the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment to beginning retained earnings. The effective date of ASU 2017-08 is for interim and annual reporting periods beginning after December 15, 2018. The ASU has not yet been adopted. Management is currently evaluating the impact on our company's consolidated financial position, cash flows or results of operations.

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

NOTE 2 – Investments

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

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

The net unrealized investment gains in our fixed-maturity portfolio at June 30, 2017, are primarily the result of the continued low interest rate environment that increased the fair value of our fixed-maturity portfolio. Our commercial mortgage-backed securities had an average rating of Aa1/AA at June 30, 2017 and December 31, 2016. At June 30, 2017, the seven largest unrealized investment gains in our common stock portfolio are from Honeywell International Incorporated (NYSE:HON), JP Morgan Chase & Co. (NYSE:JPM), Hasbro Inc. (Nasdaq:HAS), Blackrock Inc. (Nasdaq:BLK), Apple Inc. (Nasdaq:AAPL), Johnson & Johnson (NYSE:JNJ) and Microsoft Corporation (Nasdaq:MSFT), which had a combined gross unrealized gain of \$829 million. At June 30, 2017, JP Morgan Chase & Co. was our largest single equity holding with a fair value of \$206 million, which was 3.7 percent of our publicly traded common equities portfolio and 1.3 percent of the total investment portfolio.

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

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

Contractual maturity dates for fixed-maturity investments were:

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

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

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

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

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

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

NOTE 3 – Fair Value Measurements

In accordance with accounting guidance for fair value measurements and disclosures, we categorized our financial instruments, based on the priority of the observable and market-based data for the valuation technique used, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices with readily available independent data in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable market inputs (Level 3). When various inputs for measurement fall within different levels of the fair value hierarchy, the lowest observable input that has a significant impact on fair value measurement is used. Our valuation techniques have not changed from those used at December 31, 2016, and ultimately management determines fair value. See our 2016 Annual Report on Form 10-K, Item 8, Note 3, Fair Value Measurements, Page 132, for information on characteristics and valuation techniques used in determining fair value.

Fair Value Disclosures for Assets

The following tables illustrate the fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2017, and December 31, 2016. We do not have any material liabilities carried at fair value. There were no transfers between Level 1 and Level 2.

(Dollars in millions)

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