ALLSTATE CORP
Form 10-Q
November 01, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
OR
[ ] 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 1-11840
THE ALLSTATE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	36-3871531
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2775 Sanders Road, Northbrook, Illinois	60062
(Address of principal executive offices)	(Zip Code)

(847) 402-5000
(Registrant's telephone number, including area code)
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 X No ___
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 X No ___
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	X	Accelerated filer	____
Non-accelerated filer	(Do not check if a smaller reporting company)	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 X
As of October 17, 2017, the registrant had 358,825,941 common shares, $.01 par value, outstanding.

The Allstate Corporation
Index to Quarterly Report on Form 10-Q
September 30, 2017

Part I. Financial Information
Item 1. Financial Statements
The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Operations

($ in millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(unaudited)		(unaudited)	
Revenues				
Property-liability insurance premiums	$8,121	$7,869	$24,098	$23,406
Life and annuity premiums and contract charges	593	571	1,777	1,701
Net investment income	843	748	2,488	2,241
Realized capital gains and losses:				
Total other-than-temporary impairment ("OTTI") losses	(26)	(73)	(135)	(241)
OTTI losses reclassified to (from) other comprehensive income	(2)	—	(2)	8
Net OTTI losses recognized in earnings	(28)	(73)	(137)	(233)
Sales and other realized capital gains and losses	131	106	455	141
Total realized capital gains and losses	103	33	318	(92)
	9,660	9,221	28,681	27,256
Costs and expenses				
Property-liability insurance claims and claims expense	5,545	5,553	16,650	17,138
Life and annuity contract benefits	456	484	1,416	1,393
Interest credited to contractholder funds	174	183	522	558
Amortization of deferred policy acquisition costs	1,200	1,138	3,545	3,393
Operating costs and expenses	1,218	1,021	3,401	3,043
Restructuring and related charges	14	5	77	21
Interest expense	83	73	251	218
	8,690	8,457	25,862	25,764
Gain on disposition of operations	1	1	15	4
Income from operations before income tax expense	971	765	2,834	1,496
Income tax expense	305	245	894	459
Net income	666	520	1,940	1,037
Preferred stock dividends	29	29	87	87
Net income applicable to common shareholders	$637	$491	$1,853	$950
Earnings per common share:				
Net income applicable to common shareholders per common share - Basic	$1.76	$1.32	$5.10	$2.54
Weighted average common shares - Basic	361.3	371.5	363.5	374.4
Net income applicable to common shareholders per common share - Diluted	$1.74	$1.31	$5.02	$2.51
Weighted average common shares - Diluted	367.1	375.9	369.1	378.9
Cash dividends declared per common share	$0.37	$0.33	$1.11	$0.99

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(unaudited)		(unaudited)	
Net income	$666	$520	$1,940	$1,037
Other comprehensive income, after-tax				
Changes in:				
Unrealized net capital gains and losses	125	193	598	1,197
Unrealized foreign currency translation adjustments	28	(7)	36	12
Unrecognized pension and other postretirement benefit cost	73	21	110	48
Other comprehensive income, after-tax	226	207	744	1,257
Comprehensive income	$892	$727	$2,684	$2,294

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Financial Position

($ in millions, except par value data)	September 30, 2017	December 31, 2016
Assets	(unaudited)	
Investments		
Fixed income securities, at fair value (amortized cost $57,608 and $56,576)	$ 59,391	$ 57,839
Equity securities, at fair value (cost $5,468 and $5,157)	6,434	5,666
Mortgage loans	4,322	4,486
Limited partnership interests	6,600	5,814
Short-term, at fair value (amortized cost $2,198 and $4,288)	2,198	4,288
Other	3,826	3,706
Total investments	82,771	81,799
Cash	690	436
Premium installment receivables, net	5,922	5,597
Deferred policy acquisition costs	4,147	3,954
Reinsurance recoverables, net	9,748	8,745
Accrued investment income	590	567
Property and equipment, net	1,067	1,065
Goodwill	2,309	1,219
Other assets	2,966	1,835
Separate Accounts	3,422	3,393
Total assets	$ 113,632	$ 108,610
Liabilities		
Reserve for property-liability insurance claims and claims expense	$ 27,154	$ 25,250
Reserve for life-contingent contract benefits	12,227	12,239
Contractholder funds	19,650	20,260
Unearned premiums	13,535	12,583
Claim payments outstanding	959	879
Deferred income taxes	1,249	487
Other liabilities and accrued expenses	6,968	6,599
Long-term debt	6,349	6,347
Separate Accounts	3,422	3,393
Total liabilities	91,513	88,037
Commitments and Contingent Liabilities (Note 11)		
Shareholders' equity		
Preferred stock and additional capital paid-in, $1 par value, 25 million shares authorized, 72.2 thousand shares issued and outstanding, and $1,805 aggregate liquidation preference	1,746	1,746
Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 360 million and 366 million shares outstanding	9	9
Additional capital paid-in	3,330	3,303
Retained income	42,125	40,678
Deferred ESOP expense	(6)	(6)
Treasury stock, at cost (540 million and 534 million shares)	(25,413)	(24,741)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	68	57
Other unrealized net capital gains and losses	1,715	1,091
Unrealized adjustment to DAC, DSI and insurance reserves	(132)	(95)
Total unrealized net capital gains and losses	1,651	1,053

Unrealized foreign currency translation adjustments	(14)	(50)
Unrecognized pension and other postretirement benefit cost	(1,309)	(1,419)
Total accumulated other comprehensive income (loss)	328	(416)
Total shareholders' equity	22,119	20,573
Total liabilities and shareholders' equity	$ 113,632	$ 108,610

See notes to condensed consolidated financial statements.

The Allstate Corporate and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity

($ in millions)	Nine months ended September 30,	
	2017	2016
	(unaudited)	
Preferred stock par value	$—	$—
Preferred stock additional capital paid-in	1,746	1,746
Common stock	9	9
Additional capital paid-in		
Balance, beginning of period	3,303	3,245
Forward contract on accelerated share repurchase agreement	—	(37)
Equity incentive plans activity	27	29
Balance, end of period	3,330	3,237
Retained income		
Balance, beginning of period	40,678	39,413
Net income	1,940	1,037
Dividends on common stock	(406)	(373)
Dividends on preferred stock	(87)	(87)
Balance, end of period	42,125	39,990
Deferred ESOP expense	(6)	(13)
Treasury stock		
Balance, beginning of period	(24,741)	(23,620)
Shares acquired	(845)	(1,094)
Shares reissued under equity incentive plans, net	173	177
Balance, end of period	(25,413)	(24,537)
Accumulated other comprehensive income		
Balance, beginning of period	(416)	(755)
Change in unrealized net capital gains and losses	598	1,197
Change in unrealized foreign currency translation adjustments	36	12
Change in unrecognized pension and other postretirement benefit cost	110	48
Balance, end of period	328	502
Total shareholders' equity	$22,119	$20,934

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows

($ in millions)	Nine months ended September 30,	
	2017	2016
Cash flows from operating activities	(unaudited)	
Net income	$1,940	$1,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	358	285
Realized capital gains and losses	(318)	92
Gain on disposition of operations	(15)	(4)
Interest credited to contractholder funds	522	558
Changes in:		
Policy benefits and other insurance reserves	1,276	978
Unearned premiums	525	540
Deferred policy acquisition costs	(176)	(159)
Premium installment receivables, net	(267)	(236)
Reinsurance recoverables, net	(1,017)	(420)
Income taxes	119	30
Other operating assets and liabilities	267	41
Net cash provided by operating activities	3,214	2,742
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	19,508	19,132
Equity securities	5,179	4,069
Limited partnership interests	767	634
Other investments	170	206
Investment collections		
Fixed income securities	3,038	3,430
Mortgage loans	477	403
Other investments	458	281
Investment purchases		
Fixed income securities	(23,935)	(22,282)
Equity securities	(5,296)	(4,113)
Limited partnership interests	(1,082)	(1,128)
Mortgage loans	(311)	(460)
Other investments	(700)	(674)
Change in short-term investments, net	2,257	94
Change in other investments, net	(28)	(60)
Purchases of property and equipment, net	(216)	(190)
Acquisition of operations	(1,356)	—
Net cash used in investing activities	(1,070)	(658)
Cash flows from financing activities		
Repayments of long-term debt	—	(16)
Contractholder fund deposits	767	785
Contractholder fund withdrawals	(1,416)	(1,537)
Dividends paid on common stock	(391)	(364)
Dividends paid on preferred stock	(87)	(87)
Treasury stock purchases	(848)	(1,154)

Shares reissued under equity incentive plans, net	132	123
Excess tax benefits on share-based payment arrangements	—	25
Other	(47)	35
Net cash used in financing activities	(1,890)	(2,190)
Net increase (decrease) in cash	254	(106)
Cash at beginning of period	436	495
Cash at end of period	$690	$389

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. General

Basis of presentation

The accompanying condensed consolidated financial statements include the accounts of The Allstate Corporation (the "Corporation") and its wholly owned subsidiaries, primarily Allstate Insurance Company ("AIC"), a property-liability insurance company with various property-liability and life and investment subsidiaries, including Allstate Life Insurance Company ("ALIC") (collectively referred to as the "Company" or "Allstate"). These condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

The condensed consolidated financial statements and notes as of September 30, 2017 and for the three-month and nine-month periods ended September 30, 2017 and 2016 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year. All significant intercompany accounts and transactions have been eliminated.

Adopted accounting standards

Employee Share-Based Payment Accounting

Effective January 1, 2017, the Company adopted new Financial Accounting Standards Board ("FASB") guidance that amends the accounting for share-based payments on a prospective basis. Under the new guidance, reporting entities are required to recognize all tax effects related to share-based payments at settlement or expiration through the income statement and the requirement to delay recognition of certain tax benefits until they reduce current taxes payable is eliminated. The new guidance also permits employers to withhold shares issued in connection with an employee's exercise of options or the settlement of stock awards, up to the employee's maximum individual statutory tax rate, to meet tax withholding requirements without causing liability classification of the award. In addition, all tax-related cash flows resulting from share-based payments are reported as operating activities on the statement of cash flows whereas cash payments made to taxing authorities on an employee's behalf for withheld shares are presented as financing activities. The adoption of this guidance had no impact on the Company's results of operations or financial position on the date of adoption.

Transition to Equity Method Accounting

Effective January 1, 2017, the Company adopted new FASB guidance amending the accounting requirements for transitioning to the equity method of accounting ("EMA"), including a transition from the cost method. The guidance requires the cost of acquiring an additional interest in an investee to be added to the existing carrying value to establish the initial basis of the EMA investment. Under the new guidance, no retroactive adjustment is required when an investment initially qualifies for EMA treatment. The guidance is applied prospectively to investments that qualify for EMA after application of the cost method of accounting. Accordingly, the adoption of this guidance had no impact on the Company's results of operations or financial position.

Pending accounting standards

Revenue from Contracts with Customers

In May 2014, the FASB issued guidance which revises the criteria for revenue recognition. Insurance contracts are excluded from the scope of the new guidance. Under the guidance, the transaction price is attributed to underlying performance obligations in the contract and revenue is recognized as the entity satisfies the performance obligations and transfers control of a good or service to the customer. Incremental costs of obtaining a contract may be capitalized to the extent the entity expects to recover those costs. The guidance is effective for reporting periods beginning after December 15, 2017 and is to be applied retrospectively. The Company's principal activities impacted by the standard are those related to the issuance of protection plans for consumer products and automobiles and service contracts that provide roadside assistance. The impacts include an increase in deferred revenue with a corresponding increase in deferred costs for protection plans that are sold directly to retailers for which Allstate is deemed to be the principal in the transaction. The anticipated impacts of this adjustment offset and will not impact net income, but result in an increase in unearned premiums and deferred policy acquisition costs of approximately $145 million to $175 million, pre-tax. The Company also anticipates impacts related to recognizing revenue for SquareTrade based on expected losses, accounting for variable consideration and the deferral of certain costs associated with acquiring service contracts that provide roadside assistance, the net impact of which is not expected to materially reduce shareholders' equity at the date of adoption. Based on the Company's assessment, the total impact of adoption will not be material to the Company's results of operations or financial position.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued guidance requiring equity investments, including equity securities and limited partnership interests, that are not accounted for under the equity method of accounting or result in consolidation to be measured at fair value with changes in fair value recognized in net income. Equity investments without readily determinable fair values may be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. When a qualitative assessment of equity investments without readily determinable fair values indicates that impairment exists, the carrying value is required to be adjusted to fair value, if lower. The guidance clarifies that an entity should evaluate the realizability of a deferred tax asset related to available-for-sale fixed income securities in combination with the entity's other deferred tax assets. The guidance also changes certain disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2017, and is to be applied through a cumulative-effect adjustment to beginning retained income which results in no impact to the Company's results of operations at the date of adoption. The new guidance related to equity investments without readily determinable fair values is applied prospectively as of the date of adoption. The most significant anticipated impacts, using values as of September 30, 2017, relate to the change in accounting for equity securities, where $966 million of pre-tax unrealized net capital gains would be reclassified from accumulated other comprehensive income to retained income, and cost method limited partnership interests (excluding limited partnership interests accounted for on a cost recovery basis), where the carrying value of these investments would increase by approximately $200 million, pre-tax, with the offsetting after-tax adjustment recognized in retained income. The after-tax change in accounting for equity securities will not affect the Company's shareholders' equity and the unrealized net capital gains reclassified to retained income will never be recognized in net income. The after-tax change in accounting for cost method limited partnerships, if adopted at the end of this reporting period, would increase the Company's shareholders' equity, while also decreasing net income return on shareholders' equity. The amount by which the fair value of cost method limited partnerships exceeds their carrying value will never be recognized in net income.

Accounting for Leases

In February 2016, the FASB issued guidance revising the accounting for leases. Under the new guidance, lessees will be required to recognize a right-of-use asset and lease liability for all leases other than those that meet the definition of a short-term lease. The lease liability will be equal to the present value of lease payments. A right-of-use asset will be based on the lease liability adjusted for qualifying initial direct costs. The expense of operating leases under the new guidance will be recognized in the income statement on a straight-line basis after combining the lease expense components (interest expense on the lease liability and amortization of the right-of-use asset) over the term of the lease. For finance leases, the expense components are computed separately and produce greater up-front expense compared to operating leases as interest expense on the lease liability is higher in early years and the right-of-use asset is amortized on a straight-line basis. Lease classification will be based on criteria similar to those currently applied. The accounting model for lessors will be similar to the current model with modifications to reflect definition changes for components such as initial direct costs. Lessors will continue to classify leases as operating, direct financing, or sales-type. The guidance is effective for reporting periods beginning after December 15, 2018 using a modified retrospective approach applied at the beginning of the earliest period presented. The Company is in the process of evaluating the impact of adoption, which is not expected to be material to the Company's results of operations or financial position.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued guidance which revises the credit loss recognition criteria for certain financial assets measured at amortized cost, including reinsurance recoverables. The new guidance replaces the existing incurred loss recognition model with an expected loss recognition model. The objective of the expected credit loss model is for the reporting entity to recognize its estimate of expected credit losses for affected financial assets in a valuation allowance deducted from the amortized cost basis of the related financial assets that results in presenting the net carrying value of the financial assets at the amount expected to be collected. The reporting entity must consider all available relevant information when estimating expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts over the life of an asset. Financial assets may be evaluated individually or on a pooled basis when they share similar risk characteristics. The measurement of credit losses for available-for-sale debt securities measured at fair value is not affected except that credit losses recognized are limited to the amount by which fair value is below amortized cost and the carrying value adjustment is recognized through a valuation allowance and not as a direct write-down. The guidance is effective for interim and annual periods beginning after December 15, 2019, and for most affected instruments must be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to beginning retained income. The Company is in the process of evaluating the impact of adoption.

Goodwill Impairment

In January 2017, the FASB issued guidance to simplify the accounting for goodwill impairment which removes the second step of the goodwill impairment test that requires a hypothetical purchase price allocation. Under the new guidance, goodwill impairment will be measured and recognized as the amount by which a reporting unit's carrying value, including goodwill, exceeds its fair value, not to exceed the carrying amount of goodwill allocated to the reporting unit. The revised guidance does not affect a reporting entity's ability to first assess qualitative factors by reporting unit to determine whether to perform the quantitative goodwill impairment test. The guidance is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The guidance is to be applied on a prospective basis, with the effects, if any, recognized in net income in the period of adoption. The impact to the Company upon adoption is dependent upon the excess, if any, of carrying value of the Company's reporting units, including goodwill, over their respective fair values, a measure that is not currently determinable.

Presentation of Net Periodic Pension and Postretirement Benefits Costs

In March 2017, the FASB issued guidance to improve the presentation of net periodic pension and postretirement benefits costs that requires the service cost component to be reported in operating expenses together with other employee compensation costs and all other components of net periodic pension and postretirement benefits costs reported in non-operating expenses. If the reporting entity does not separately report operating and non-operating expenses on the statement of operations it is required to identify, on the statement of operations or in disclosures, the line items in which the components of net periodic pension and postretirement benefits costs are presented. The new guidance permits only the service cost component to be eligible for capitalization where applicable. The guidance is effective for annual periods beginning after December 15, 2017 and for interim periods within those annual periods. The guidance is to be applied on a prospective basis for capitalization of service costs where applicable and on a retrospective basis for the presentation of the service cost and other components of net periodic pension benefit costs in the statements of operations or in disclosures. The impact of adoption is not expected to be material to the Company's results of operations or financial position.

Accounting for Hedging Activities

In August 2017, the FASB issued amendments intended to better align hedge accounting with an organization's risk management activities. The amendments expand hedge accounting for nonfinancial and financial risk components and revise the measurement methodologies to better align with an organization's risk management activities. Separate presentation of hedge ineffectiveness is eliminated to provide greater transparency of the full impact of hedging by requiring presentation of the results of the hedged item and hedging instrument in a single financial statement line item. In addition, the amendments reduce complexity by simplifying the manner in which assessments of hedge effectiveness may be performed. The guidance is effective for annual periods beginning after December 15, 2018 and for interim periods within those annual periods. The presentation and disclosure guidance is effective on a prospective basis. The impact of adoption is not expected to be material to the Company's results of operations or financial position.

2. Earnings per Common Share

Basic earnings per common share is computed using the weighted average number of common shares outstanding, including vested unissued participating restricted stock units. Diluted earnings per common share is computed using the weighted average number of common and dilutive potential common shares outstanding. For the Company, dilutive potential common shares consist of outstanding stock options and unvested non-participating restricted stock units and contingently issuable performance stock awards.

The computation of basic and diluted earnings per common share is presented in the following table.

($ in millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income	$666	$520	$1,940	$1,037
Less: Preferred stock dividends	29	29	87	87
Net income applicable to common shareholders [1]	$637	$491	$1,853	$950
Denominator:				
Weighted average common shares outstanding	361.3	371.5	363.5	374.4
Effect of dilutive potential common shares:				
Stock options	4.4	3.2	4.3	3.3
Restricted stock units (non-participating) and performance stock awards	1.4	1.2	1.3	1.2
Weighted average common and dilutive potential common shares outstanding	367.1	375.9	369.1	378.9
Earnings per common share - Basic	$1.76	$1.32	$5.10	$2.54
Earnings per common share - Diluted	$1.74	$1.31	$5.02	$2.51

(1) Net income applicable to common shareholders is net income less preferred stock dividends.

The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per common share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect. Options to purchase 0.2 million and 3.6 million Allstate common shares, with exercise prices ranging from $78.35 to $93.93 and $58.14 to $71.29, were outstanding for the three-month periods ended September 30, 2017 and 2016, respectively, but were not included in the computation of diluted earnings per common share in those periods. Options to purchase 2.5 million and 4.7 million Allstate common shares, with exercise prices ranging from $74.03 to $93.93 and $57.29 to $71.29, were outstanding for the nine-month periods ended September 30, 2017 and 2016, respectively, but were not included in the computation of diluted earnings per common share in those periods.

3. Acquisition

On January 3, 2017, the Company acquired SquareTrade Holding Company, Inc. (“SquareTrade”), a consumer product protection plan provider that distributes through many of America’s major retailers and Europe’s mobile operators, for $1.4 billion in cash. SquareTrade provides protection plans primarily covering consumer appliances and electronics, such as TVs, smartphones and computers. This acquisition broadens Allstate’s unique product offerings to better meet consumers’ needs.

In connection with the acquisition, the Company recorded goodwill of $1.08 billion, commissions paid to retailers (reported in deferred policy acquisition costs) of $70 million, other intangible assets (reported in other assets) of $555 million, contractual liability insurance policy premium expenses (reported in other assets) of $201 million, unearned premiums of $373 million and net deferred income tax liability of $140 million. The Company increased goodwill by $14 million through third quarter 2017 related to an adjustment to the fair value of the opening balance sheet liabilities.

As of September 30, 2017, the Company has $30 million of restricted cash related to an escrow account in connection with the acquisition that is recorded in other assets.

4. Reportable Segments

Summarized revenue data for each of the Company's reportable segments are as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Property-Liability				
Property-liability insurance premiums				
Auto	$5,502	$5,353	$16,327	$15,879
Homeowners	1,832	1,813	5,462	5,438
Other personal lines	439	426	1,306	1,271
Commercial lines	124	127	367	383
Other business lines	146	150	429	435
SquareTrade	78	—	207	—
Allstate Protection	8,121	7,869	24,098	23,406
Discontinued Lines and Coverages	—	—	—	—
Total property-liability insurance premiums	8,121	7,869	24,098	23,406
Net investment income	372	310	1,074	928
Realized capital gains and losses	82	53	302	(20)
Total Property-Liability	8,575	8,232	25,474	24,314
Allstate Financial				
Life and annuity premiums and contract charges				
Premiums				
Traditional life insurance	153	145	450	422
Accident and health insurance	232	216	697	646
Total premiums	385	361	1,147	1,068
Contract charges				
Interest-sensitive life insurance	204	206	620	623
Fixed annuities	4	4	10	10
Total contract charges	208	210	630	633
Total life and annuity premiums and contract charges	593	571	1,777	1,701
Net investment income	461	427	1,383	1,281
Realized capital gains and losses	21	(21)	16	(70)
Total Allstate Financial	1,075	977	3,176	2,912
Corporate and Other				
Net investment income	10	11	31	32
Realized capital gains and losses	—	1	—	(2)
Total Corporate and Other	10	12	31	30
Consolidated revenues	$9,660	$9,221	$28,681	$27,256

Summarized financial performance data for each of the Company's reportable segments are as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Property-Liability				
Underwriting income				
Allstate Protection	$517	$455	$1,258	$518
Discontinued Lines and Coverages	(88)	(100)	(95)	(104)
Total underwriting income	429	355	1,163	414
Net investment income	372	310	1,074	928
Income tax expense on operations	(252)	(218)	(703)	(429)
Realized capital gains and losses, after-tax	54	36	199	(10)
Gain on disposition of operations, after-tax	1	—	7	—
Property-Liability net income applicable to common shareholders	604	483	1,740	903
Allstate Financial				
Life and annuity premiums and contract charges	593	571	1,777	1,701
Net investment income	461	427	1,383	1,281
Contract benefits and interest credited to contractholder funds	(629)	(667)	(1,935)	(1,939)
Operating costs and expenses and amortization of deferred policy acquisition costs	(188)	(194)	(597)	(577)
Restructuring and related charges	(1)	—	(2)	(1)
Income tax expense on operations	(79)	(43)	(206)	(147)
Operating income	157	94	420	318
Realized capital gains and losses, after-tax	13	(14)	9	(46)
Valuation changes on embedded derivatives that are not hedged, after-tax	(1)	—	(2)	(8)
DAC and DSI amortization related to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax	(2)	(1)	(8)	(3)
Gain on disposition of operations, after-tax	1	1	3	3
Allstate Financial net income applicable to common shareholders	168	80	422	264
Corporate and Other				
Net investment income	10	11	31	32
Operating costs and expenses	(175)	(80)	(360)	(238)
Income tax benefit on operations	60	26	121	77
Preferred stock dividends	(29)	(29)	(87)	(87)
Operating loss	(134)	(72)	(295)	(216)
Realized capital gains and losses, after-tax	—	—	—	(1)
Business combination expenses, after-tax	(1)	—	(14)	—
Corporate and Other net loss applicable to common shareholders	(135)	(72)	(309)	(217)
Consolidated net income applicable to common shareholders	$637	$491	$1,853	$950

5. Investments

Fair values

The amortized cost, gross unrealized gains and losses and fair value for fixed income securities are as follows:

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
September 30, 2017				
U.S. government and agencies	$ 3,843	$ 65	$ (8)	$ 3,900
Municipal	7,484	332	(22)	7,794
Corporate	43,259	1,419	(132)	44,546
Foreign government	1,077	30	(14)	1,093
Asset-backed securities (“ABS”)	1,263	16	(9)	1,270
Residential mortgage-backed securities (“RMBS”)	512	101	(2)	611
Commercial mortgage-backed securities (“CMBS”)	149	8	(4)	153
Redeemable preferred stock	21	3	—	24
Total fixed income securities	$ 57,608	$ 1,974	$ (191)	$ 59,391
December 31, 2016				
U.S. government and agencies	$ 3,572	$ 74	$ (9)	$ 3,637
Municipal	7,116	304	(87)	7,333
Corporate	42,742	1,178	(319)	43,601
Foreign government	1,043	36	(4)	1,075
ABS	1,169	13	(11)	1,171
RMBS	651	85	(8)	728
CMBS	262	17	(9)	270
Redeemable preferred stock	21	3	—	24
Total fixed income securities	$ 56,576	$ 1,710	$ (447)	$ 57,839

Scheduled maturities

The scheduled maturities for fixed income securities are as follows as of September 30, 2017:

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 4,392	$ 4,415
Due after one year through five years	29,466	30,044
Due after five years through ten years	16,604	17,042
Due after ten years	5,222	5,856
	55,684	57,357
ABS, RMBS and CMBS	1,924	2,034
Total	$ 57,608	$ 59,391

Actual maturities may differ from those scheduled as a result of calls and make-whole payments by the issuers. ABS, RMBS and CMBS are shown separately because of the potential for prepayment of principal prior to contractual maturity dates.

Net investment income

Net investment income is as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Fixed income securities	$519	$508	$1,564	$1,546
Equity securities	37	31	130	103
Mortgage loans	52	56	157	162
Limited partnership interests	223	136	596	383
Short-term investments	9	4	21	11
Other	58	55	174	163
Investment income, before expense	898	790	2,642	2,368
Investment expense	(55)	(42)	(154)	(127)
Net investment income	$843	$748	$2,488	$2,241

Realized capital gains and losses

Realized capital gains and losses by asset type are as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Fixed income securities	$41	$(1)	$78	$(48)
Equity securities	57	45	182	(34)
Mortgage loans	1	—	1	1
Limited partnership interests	21	12	92	25
Derivatives	(17)	(15)	(40)	(22)
Other	—	(8)	5	(14)
Realized capital gains and losses	$103	$33	$318	$(92)

Realized capital gains and losses by transaction type are as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Impairment write-downs	$(23)	$(63)	$(94)	$(185)
Change in intent write-downs	(5)	(10)	(43)	(48)
Net other-than-temporary impairment losses recognized in earnings	(28)	(73)	(137)	(233)
Sales and other	148	121	495	166
Valuation and settlements of derivative instruments	(17)	(15)	(40)	(25)
Realized capital gains and losses	$103	$33	$318	$(92)

Gross gains of $145 million and $150 million and gross losses of $36 million and $62 million were realized on sales of fixed income and equity securities during the three months ended September 30, 2017 and 2016, respectively. Gross gains of $521 million and $456 million and gross losses of $161 million and $347 million were realized on sales of fixed income and equity securities during the nine months ended September 30, 2017 and 2016, respectively.

Other-than-temporary impairment losses by asset type are as follows:

($ in millions)	Three months ended September 30, 2017			Three months ended September 30, 2016		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Corporate	$—	$ —	$—	$(13)	$ —	$(13)
ABS	—	(1)	(1)	—	—	—
RMBS	—	—	—	(1)	—	(1)
CMBS	(1)	(1)	(2)	(3)	—	(3)
Total fixed income securities	(1)	(2)	(3)	(17)	—	(17)
Equity securities	(8)	—	(8)	(27)	—	(27)
Mortgage loans	(1)	—	(1)	—	—	—
Limited partnership interests	(16)	—	(16)	(22)	—	(22)
Other	—	—	—	(7)	—	(7)
Other-than-temporary impairment losses	$(26)	$ (2)	$(28)	$(73)	$ —	$(73)

	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$(1)	$ (2)	$(3)	$—	$ —	$—
Corporate	(9)	3	(6)	(30)	7	(23)
ABS	(1)	(1)	(2)	(6)	—	(6)
RMBS	(1)	(3)	(4)	(1)	—	(1)
CMBS	(9)	1	(8)	(7)	1	(6)
Total fixed income securities	(21)	(2)	(23)	(44)	8	(36)
Equity securities	(77)	—	(77)	(155)	—	(155)
Mortgage loans	(1)	—	(1)	—	—	—
Limited partnership interests	(32)	—	(32)	(33)	—	(33)
Other	(4)	—	(4)	(9)	—	(9)
Other-than-temporary impairment losses	$(135)	$ (2)	$(137)	$(241)	$ 8	$(233)

The total amount of other-than-temporary impairment losses included in accumulated other comprehensive income at the time of impairment for fixed income securities, which were not included in earnings, are presented in the following table. The amounts exclude $213 million and $221 million as of September 30, 2017 and December 31, 2016, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

($ in millions)	September 30, 2017	December 31, 2016
Municipal	$ (5)	$ (8)
Corporate	(3)	(7)
ABS	(15)	(21)
RMBS	(80)	(90)
CMBS	(5)	(7)
Total	$ (108)	$ (133)

Rollforwards of the cumulative credit losses recognized in earnings for fixed income securities held as of the end of the period are as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Beginning balance	$(281)	$(331)	$(318)	$(392)
Additional credit loss for securities previously other-than-temporarily impaired	(3)	(3)	(15)	(14)
Additional credit loss for securities not previously other-than-temporarily impaired	—	(14)	(8)	(22)
Reduction in credit loss for securities disposed or collected	20	12	76	92
Change in credit loss due to accretion of increase in cash flows	—	—	1	—
Ending balance	$(264)	$(336)	$(264)	$(336)

The Company uses its best estimate of future cash flows expected to be collected from the fixed income security, discounted at the security's original or current effective rate, as appropriate, to calculate a recovery value and determine whether a credit loss exists. The determination of cash flow estimates is inherently subjective and methodologies may vary depending on facts and circumstances specific to the security. All reasonably available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable assumptions and forecasts, are considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, foreign exchange rates, the financial condition and future earnings potential of the issue or issuer, expected defaults, expected recoveries, the value of underlying collateral, vintage, geographic concentration of underlying collateral, available reserves or escrows, current subordination levels, third party guarantees and other credit enhancements. Other information, such as industry analyst reports and forecasts, sector credit ratings, financial condition of the bond insurer for insured fixed income securities, and other market data relevant to the realizability of contractual cash flows, may also be considered. The estimated fair value of collateral will be used to estimate recovery value if the Company determines that the security is dependent on the liquidation of collateral for ultimate settlement. If the estimated recovery value is less than the amortized cost of the security, a credit loss exists and an other-than-temporary impairment for the difference between the estimated recovery value and amortized cost is recorded in earnings. The portion of the unrealized loss related to factors other than credit remains classified in accumulated other comprehensive income. If the Company determines that the fixed income security does not have sufficient cash flow or other information to estimate a recovery value for the security, the Company may conclude that the entire decline in fair value is deemed to be credit related and the loss is recorded in earnings.

Unrealized net capital gains and losses

Unrealized net capital gains and losses included in accumulated other comprehensive income are as follows:

($ in millions)	Fair	Gross unrealized		Unrealized net
September 30, 2017	value	Gains	Losses	gains (losses)
Fixed income securities	$ 59,391	$ 1,974	$ (191)	$ 1,783
Equity securities	6,434	1,006	(40)	966
Short-term investments	2,198	—	—	—
Derivative instruments [1]	1	2	(4)	(2)
Equity method ("EMA") limited partnerships [2]				—
Unrealized net capital gains and losses, pre-tax				2,747
Amounts recognized for:				
Insurance reserves [3]				—
DAC and DSI [4]				(203)
Amounts recognized				(203)
Deferred income taxes				(893)
Unrealized net capital gains and losses, after-tax				$ 1,651

(1) Included in the fair value of derivative instruments is $1 million classified as assets.

(2) Unrealized net capital gains and losses for limited partnership interests represent the Company's share of EMA limited partnerships' other comprehensive income. Fair value and gross unrealized gains and losses are not applicable.

(3) The insurance reserves adjustment represents the amount by which the reserve balance would increase if the net unrealized gains in the applicable product portfolios were realized and reinvested at current lower interest rates, resulting in a premium deficiency. Although the Company evaluates premium deficiencies on the combined performance of life insurance and immediate annuities with life contingencies, the adjustment, if any, primarily relates to structured settlement annuities with life contingencies, in addition to annuity buy-outs and certain payout annuities with life contingencies.

(4) The DAC and DSI adjustment balance represents the amount by which the amortization of DAC and DSI would increase or decrease if the unrealized gains or losses in the respective product portfolios were realized.

($ in millions)	Fair	Gross unrealized		Unrealized net
December 31, 2016	value	Gains	Losses	gains (losses)
Fixed income securities	$ 57,839	$ 1,710	$ (447)	$ 1,263
Equity securities	5,666	594	(85)	509
Short-term investments	4,288	—	—	—
Derivative instruments [1]	5	5	(3)	2
EMA limited partnerships				(4)
Unrealized net capital gains and losses, pre-tax				1,770
Amounts recognized for:				
Insurance reserves				—
DAC and DSI				(146)
Amounts recognized				(146)
Deferred income taxes				(571)
Unrealized net capital gains and losses, after-tax				$ 1,053

(1) Included in the fair value of derivative instruments is $5 million classified as assets.

Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the nine months ended September 30, 2017 is as follows:

($ in millions)	
Fixed income securities	$520
Equity securities	457
Derivative instruments	(4)
EMA limited partnerships	4
Total	977
Amounts recognized for:	
Insurance reserves	—
DAC and DSI	(57)
Amounts recognized	(57)
Deferred income taxes	(322)
Increase in unrealized net capital gains and losses, after-tax	$598

Portfolio monitoring

The Company has a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value may be other-than-temporarily impaired.

For each fixed income security in an unrealized loss position, the Company assesses whether management with the appropriate authority has made the decision to sell or whether it is more likely than not the Company will be required to sell the security before recovery of the amortized cost basis for reasons such as liquidity, contractual or regulatory purposes. If a security meets either of these criteria, the security’s decline in fair value is considered other than temporary and is recorded in earnings.

If the Company has not made the decision to sell the fixed income security and it is not more likely than not the Company will be required to sell the fixed income security before recovery of its amortized cost basis, the Company evaluates whether it expects to receive cash flows sufficient to recover the entire amortized cost basis of the security. The Company calculates the estimated recovery value by discounting the best estimate of future cash flows at the security’s original or current effective rate, as appropriate, and compares this to the amortized cost of the security. If the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the fixed income security, the credit loss component of the impairment is recorded in earnings, with the remaining amount of the unrealized loss related to other factors recognized in other comprehensive income.

For equity securities, the Company considers various factors, including whether it has the intent and ability to hold the equity security for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the equity security’s decline in fair value is considered other than temporary and is recorded in earnings.

For fixed income and equity securities managed by third parties, either the Company has contractually retained its decision making authority as it pertains to selling securities that are in an unrealized loss position or it recognizes any unrealized loss at the end of the period through a charge to earnings.

The Company’s portfolio monitoring process includes a quarterly review of all securities to identify instances where the fair value of a security compared to its amortized cost (for fixed income securities) or cost (for equity securities) is below established thresholds. The process also includes the monitoring of other impairment indicators such as ratings, ratings downgrades and payment defaults. The securities identified, in addition to other securities for which the Company may have a concern, are evaluated for potential other-than-temporary impairment using all reasonably available information relevant to the collectability or recovery of the security. Inherent in the Company’s evaluation of other-than-temporary impairment for these fixed income and equity securities are assumptions and estimates about the financial condition and future earnings potential of the issue or issuer. Some of the factors that may be considered in evaluating whether a decline in fair value is other than temporary are: 1) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; 2) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity; and 3) the length of time and extent to which the fair value has been less than amortized cost or cost.

The following table summarizes the gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position.

($ in millions)	Less than 12 months			12 months or more			Total
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	unrealized losses
September 30, 2017							
Fixed income securities							
U.S. government and agencies	64	$2,625	$ (7)	7	$93	$ (1)	$ (8)
Municipal	938	1,736	(14)	83	172	(8)	(22)
Corporate	560	7,468	(74)	94	1,370	(58)	(132)
Foreign government	68	697	(14)	—	—	—	(14)
ABS	44	379	(1)	10	34	(8)	(9)
RMBS	84	42	—	176	57	(2)	(2)
CMBS	5	20	(2)	4	15	(2)	(4)
Total fixed income securities	1,763	12,967	(112)	374	1,741	(79)	(191)
Equity securities	129	544	(30)	17	48	(10)	(40)
Total fixed income and equity securities	1,892	$13,511	$ (142)	391	$1,789	$ (89)	$ (231)
Investment grade fixed income securities	1,689	$12,345	$ (96)	323	$1,530	$ (53)	$ (149)
Below investment grade fixed income securities	74	622	(16)	51	211	(26)	(42)
Total fixed income securities	1,763	$12,967	$ (112)	374	$1,741	$ (79)	$ (191)
December 31, 2016							
Fixed income securities							
U.S. government and agencies	46	$943	$ (9)	—	$—	$ —	$ (9)
Municipal	1,310	3,073	(76)	8	29	(11)	(87)
Corporate	862	13,343	(256)	83	678	(63)	(319)
Foreign government	41	225	(4)	—	—	—	(4)
ABS	31	222	(1)	14	109	(10)	(11)
RMBS	89	53	(1)	179	91	(7)	(8)
CMBS	15	59	(4)	4	15	(5)	(9)
Redeemable preferred stock	1	—	—	—	—	—	—
Total fixed income securities	2,395	17,918	(351)	288	922	(96)	(447)
Equity securities	195	654	(56)	46	165	(29)	(85)
Total fixed income and equity securities	2,590	$18,572	$ (407)	334	$1,087	$ (125)	$ (532)
Investment grade fixed income securities	2,202	$15,678	$ (293)	201	$493	$ (51)	$ (344)
Below investment grade fixed income securities	193	2,240	(58)	87	429	(45)	(103)
Total fixed income securities	2,395	$17,918	$ (351)	288	$922	$ (96)	$ (447)

As of September 30, 2017, $188 million of the $231 million unrealized losses are related to securities with an unrealized loss position less than 20% of amortized cost or cost, the degree of which suggests that these securities do not pose a high risk of being other-than-temporarily impaired. Of the $188 million, $133 million are related to unrealized losses on investment grade fixed income securities and $28 million are related to equity securities. Of the remaining $27 million, $16 million have been in an unrealized loss position for less than 12 months. Investment grade is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P Global Ratings ("S&P"), a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third party rating. Unrealized losses on investment grade securities are principally related to an increase in market yields which may include increased risk-free interest rates and/or wider credit spreads since the time of initial purchase.

As of September 30, 2017, the remaining $43 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost. Investment grade fixed income securities comprising

$16 million of these unrealized losses were evaluated based on factors such as discounted cash flows and the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations. Of the $43 million, $15 million are related to below investment grade fixed income securities and $12 million are related to equity securities. Of these amounts, $2 million are related to below investment grade fixed income securities that had been in an unrealized loss position greater than or equal to 20% of amortized cost for a period of twelve or more consecutive months as of September 30, 2017.

ABS, RMBS and CMBS in an unrealized loss position were evaluated based on actual and projected collateral losses relative to the securities' positions in the respective securitization trusts, security specific expectations of cash flows, and credit ratings. This evaluation also takes into consideration credit enhancement, measured in terms of (i) subordination from other classes of securities in the trust that are contractually obligated to absorb losses before the class of security the Company owns, and (ii) the expected impact of other structural features embedded in the securitization trust beneficial to the class of securities the Company owns, such as overcollateralization and excess spread. Municipal bonds in an unrealized loss position were evaluated based on the underlying credit quality of the primary obligor, obligation type and quality of the underlying assets. Unrealized losses on equity securities are primarily related to temporary equity market fluctuations of securities that are expected to recover.

As of September 30, 2017, the Company has not made the decision to sell and it is not more likely than not the Company will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis. As of September 30, 2017, the Company had the intent and ability to hold equity securities with unrealized losses for a period of time sufficient for them to recover.

Limited partnerships

As of September 30, 2017 and December 31, 2016, the carrying value of equity method limited partnerships totaled $5.26 billion and $4.53 billion, respectively. The Company recognizes an impairment loss for equity method limited partnerships when evidence demonstrates that the loss is other than temporary. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment.

As of September 30, 2017 and December 31, 2016, the carrying value for cost method limited partnerships was $1.34 billion and $1.28 billion, respectively. To determine if an other-than-temporary impairment has occurred, the Company evaluates whether an impairment indicator has occurred in the period that may have a significant adverse effect on the carrying value of the investment. Impairment indicators may include: significantly reduced valuations of the investments held by the limited partnerships; actual recent cash flows received being significantly less than expected cash flows; reduced valuations based on financing completed at a lower value; completed sale of a material underlying investment at a price significantly lower than expected; or any other adverse events since the last financial statements received that might affect the fair value of the investee's capital. Additionally, the Company's portfolio monitoring process includes a quarterly review of all cost method limited partnerships to identify instances where the net asset value is below established thresholds for certain periods of time, as well as investments that are performing below expectations, for further impairment consideration. If a cost method limited partnership is other-than-temporarily impaired, the carrying value is written down to fair value, generally estimated to be equivalent to the reported net asset value.

Mortgage loans

Mortgage loans are evaluated for impairment on a specific loan basis through a quarterly credit monitoring process and review of key credit quality indicators. Mortgage loans are considered impaired when it is probable that the Company will not collect the contractual principal and interest. Valuation allowances are established for impaired loans to reduce the carrying value to the fair value of the collateral less costs to sell or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate. Impaired mortgage loans may not have a valuation allowance when the fair value of the collateral less costs to sell is higher than the carrying value. Valuation allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell or present value of the loan's expected future repayment cash flows. Mortgage loans are charged off against their corresponding valuation allowances when there is no reasonable expectation of recovery. The impairment evaluation is non-statistical in respect to the aggregate portfolio but considers facts and circumstances attributable to each loan. It is not considered probable that additional impairment losses, beyond those identified on a specific loan basis, have been incurred as of September 30, 2017.

Accrual of income is suspended for mortgage loans that are in default or when full and timely collection of principal and interest payments is not probable. Cash receipts on mortgage loans on nonaccrual status are generally recorded as a reduction of carrying value.

Debt service coverage ratio is considered a key credit quality indicator when mortgage loans are evaluated for impairment. Debt service coverage ratio represents the amount of estimated cash flows from the property available to the borrower to meet principal and interest payment obligations. Debt service coverage ratio estimates are updated annually or more frequently if conditions are warranted based on the Company's credit monitoring process.

The following table reflects the carrying value of non-impaired fixed rate and variable rate mortgage loans summarized by debt service coverage ratio distribution.

($ in millions)	September 30, 2017			December 31, 2016		
Debt service coverage ratio distribution	Fixed rate mortgage loans	Variable rate mortgage loans	Total	Fixed rate mortgage loans	Variable rate mortgage loans	Total
Below 1.0	$4	$ —	$4	$60	$ —	$60
1.0 - 1.25	349	—	349	324	—	324
1.26 - 1.50	1,111	—	1,111	1,293	—	1,293
Above 1.50	2,804	39	2,843	2,765	39	2,804
Total non-impaired mortgage loans	$4,268	$ 39	$4,307	$4,442	$ 39	$4,481

Mortgage loans with a debt service coverage ratio below 1.0 that are not considered impaired primarily relate to instances where the borrower has the financial capacity to fund the revenue shortfalls from the properties for the foreseeable term, the decrease in cash flows from the properties is considered temporary, or there are other risk mitigating circumstances such as additional collateral, escrow balances or borrower guarantees.

The net carrying value of impaired mortgage loans is as follows:

($ in millions)	September 30, 2017	December 31, 2016
Impaired mortgage loans with a valuation allowance	$ 15	$ 5
Impaired mortgage loans without a valuation allowance	—	—
Total impaired mortgage loans	$ 15	$ 5
Valuation allowance on impaired mortgage loans	$ 4	$ 3

The average balance of impaired loans was $8 million and $6 million for the nine months ended September 30, 2017 and 2016, respectively.

The rollforward of the valuation allowance on impaired mortgage loans is as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Beginning balance	$ 3	$ 3	$ 3	$ 3
Net increase in valuation allowance	1	—	1	—
Charge offs	—	—	—	—
Ending balance	$ 4	$ 3	$ 4	$ 3

Payments on all mortgage loans were current as of September 30, 2017 and December 31, 2016.

6. Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy for inputs used in determining fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Assets and liabilities recorded on the Condensed Consolidated Statements of Financial Position at fair value are categorized in the fair value hierarchy based on the observability of inputs to the valuation techniques as follows:

Level 1: Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access.

Level 2: Assets and liabilities whose values are based on the following:

(a) Quoted prices for similar assets or liabilities in active markets;

(b) Quoted prices for identical or similar assets or liabilities in markets that are not active; or

(c)

Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Unobservable inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the assets and liabilities.

The availability of observable inputs varies by instrument. In situations where fair value is based on internally developed pricing models or inputs that are unobservable in the market, the determination of fair value requires more judgment. The degree of judgment exercised by the Company in determining fair value is typically greatest for instruments categorized in Level 3. In many instances, valuation inputs used to measure fair value fall into different levels of the fair value hierarchy. The category level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company uses prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments.

The Company is responsible for the determination of fair value and the supporting assumptions and methodologies. The Company gains assurance that assets and liabilities are appropriately valued through the execution of various processes and controls designed to ensure the overall reasonableness and consistent application of valuation methodologies, including inputs and assumptions, and compliance with accounting standards. For fair values received from third parties or internally estimated, the Company's processes and controls are designed to ensure that the valuation methodologies are appropriate and consistently applied, the inputs and assumptions are reasonable and consistent with the objective of determining fair value, and the fair values are accurately recorded. For example, on a continuing basis, the Company assesses the reasonableness of individual fair values that have stale security prices or that exceed certain thresholds as compared to previous fair values received from valuation service providers or brokers or derived from internal models. The Company performs procedures to understand and assess the methodologies, processes and controls of valuation service providers. In addition, the Company may validate the reasonableness of fair values by comparing information obtained from valuation service providers or brokers to other third party valuation sources for selected securities. The Company performs ongoing price validation procedures such as back-testing of actual sales, which corroborate the various inputs used in internal models to market observable data. When fair value determinations are expected to be more variable, the Company validates them through reviews by members of management who have relevant expertise and who are independent of those charged with executing investment transactions.

The Company has two types of situations where investments are classified as Level 3 in the fair value hierarchy. The first is where specific inputs significant to the fair value estimation models are not market observable. This primarily occurs in the Company's use of broker quotes to value certain securities where the inputs have not been corroborated to be market observable, and the use of valuation models that use significant non-market observable inputs.

The second situation where the Company classifies securities in Level 3 is where quotes continue to be received from independent third-party valuation service providers and all significant inputs are market observable; however, there has been a significant decrease in the volume and level of activity for the asset when compared to normal market activity such that the degree of market observability has declined to a point where categorization as a Level 3 measurement is considered appropriate. The indicators considered in determining whether a significant decrease in the volume and level of activity for a specific asset has occurred include the level of new issuances in the primary market, trading volume in the secondary market, the level of credit spreads over historical levels, applicable bid-ask spreads, and price consensus among market participants and other pricing sources.

Certain assets are not carried at fair value on a recurring basis, including investments such as mortgage loans, cost method limited partnership interests, bank loans, agent loans and policy loans. Accordingly, such investments are only included in the fair value hierarchy disclosure when the investment is subject to remeasurement at fair value after initial recognition and the resulting remeasurement is reflected in the condensed consolidated financial statements.

In determining fair value, the Company principally uses the market approach which generally utilizes market transaction data for the same or similar instruments. To a lesser extent, the Company uses the income approach which involves determining fair values from discounted cash flow methodologies. For the majority of Level 2 and Level 3 valuations, a combination of the market and income approaches is used.

Summary of significant valuation techniques for assets and liabilities measured at fair value on a recurring basis

Level 1 measurements

- Fixed income securities: Comprise certain U.S. Treasury fixed income securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.
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- Equity securities: Comprise actively traded, exchange-listed equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.
- Short-term: Comprise U.S. Treasury bills valued based on unadjusted quoted prices for identical assets in active markets that the Company can access and actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access.
- Separate account assets: Comprise actively traded mutual funds that have daily quoted net asset values for identical assets that the Company can access. Net asset values for the actively traded mutual funds in which the separate account assets are invested are obtained daily from the fund managers.

Level 2 measurements

- Fixed income securities:

U.S. government and agencies: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Municipal: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Corporate - public: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Corporate - privately placed: Valued using a discounted cash flow model that is widely accepted in the financial services industry and uses market observable inputs and inputs derived principally from, or corroborated by, observable market data. The primary inputs to the discounted cash flow model include an interest rate yield curve, as well as published credit spreads for similar assets in markets that are not active that incorporate the credit quality and industry sector of the issuer.

Foreign government: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

ABS - collateralized debt obligations ("CDO") and ABS - consumer and other: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, prepayment speeds, collateral performance and credit spreads. Certain ABS - CDO and ABS - consumer and other are valued based on non-binding broker quotes whose inputs have been corroborated to be market observable.

RMBS: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, prepayment speeds, collateral performance and credit spreads.

CMBS: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, collateral performance and credit spreads.

Redeemable preferred stock: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, underlying stock prices and credit spreads.

- Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that are not active.
- Short-term: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. For certain short-term investments, amortized cost is used as the best estimate of fair value.
- Other investments: Free-standing exchange listed derivatives that are not actively traded are valued based on quoted prices for identical instruments in markets that are not active.

Over-the-counter ("OTC") derivatives, including interest rate swaps, foreign currency swaps, foreign exchange forward contracts, certain options and certain credit default swaps, are valued using models that rely on inputs such as interest rate yield curves, implied volatilities, currency rates, and credit spreads that are observable for substantially the full term of the contract. The valuation techniques underlying the models are widely accepted in the financial services industry and do not involve significant judgment.

Level 3 measurements

- Fixed income securities:

Municipal: Comprise municipal bonds that are not rated by third party credit rating agencies. The primary inputs to the valuation of these municipal bonds include quoted prices for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements, contractual cash flows, benchmark yields and credit spreads. Also included are municipal bonds valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and municipal bonds in default valued based on the present value of expected cash flows.

Corporate - public and Corporate - privately placed: Primarily valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. Other inputs include an interest rate yield curve, as well as published credit spreads for similar assets that incorporate the credit quality and industry sector of the issuer.

ABS - CDO, ABS - consumer and other, RMBS and CMBS: Valued based on non-binding broker quotes received from brokers who are familiar with the investments and where the inputs have not been corroborated to be market observable.

- Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements.
- Other investments: Certain OTC derivatives, such as interest rate caps, certain credit default swaps and certain options (including swaptions), are valued using models that are widely accepted in the financial services industry. These are categorized as Level 3 as a result of the significance of non-market observable inputs such as volatility. Other primary inputs include interest rate yield curves and credit spreads.
- Contractholder funds: Derivatives embedded in certain life and annuity contracts are valued internally using models widely accepted in the financial services industry that determine a single best estimate of fair value for the embedded derivatives within a block of contractholder liabilities. The models primarily use stochastically determined cash flows based on the contractual elements of embedded derivatives, projected option cost and applicable market data, such as interest rate yield curves and equity index volatility assumptions. These are categorized as Level 3 as a result of the significance of non-market observable inputs.

Assets and liabilities measured at fair value on a non-recurring basis

Mortgage loans written-down to fair value in connection with recognizing impairments are valued based on the fair value of the underlying collateral less costs to sell. Limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments are generally valued using net asset values.

The following table summarizes the Company’s assets and liabilities measured at fair value on a recurring and non-recurring basis as of September 30, 2017.

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of September 30, 2017
Assets					
Fixed income securities:					
U.S. government and agencies	$ 3,190	$ 710	$ —		$ 3,900
Municipal	—	7,687	107		7,794
Corporate - public	—	32,269	104		32,373
Corporate - privately placed	—	11,923	250		12,173
Foreign government	—	1,093	—		1,093
ABS - CDO	—	545	19		564
ABS - consumer and other	—	640	66		706
RMBS	—	611	—		611
CMBS	—	127	26		153
Redeemable preferred stock	—	24	—		24
Total fixed income securities	3,190	55,629	572		59,391
Equity securities	5,938	328	168		6,434
Short-term investments	380	1,818	—		2,198
Other investments: Free-standing derivatives	—	109	1	$ (9)	101
Separate account assets	3,422	—	—		3,422
Other assets	1	—	—		1
Total recurring basis assets	12,931	57,884	741	(9)	71,547
Non-recurring basis [(1)]	—	—	24		24
Total assets at fair value	$ 12,931	$ 57,884	$ 765	$ (9)	$ 71,571
% of total assets at fair value	18.0 %	80.9 %	1.1 %	— %	100 %
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (292)		$ (292)

Other liabilities: Free-standing derivatives	(1)	(69)	—	$ 21	(49)
Total liabilities at fair value	$ (1)	$ (69)	$ (292)	$ 21	$ (341)
% of total liabilities at fair value	0.3 %	20.2 %	85.6 %	(6.1)%	100 %

(1) Includes $14 million of limited partnership interests and $10 million of mortgage loans written-down to fair value in connection with recognizing other-than-temporary impairments.

The following table summarizes the Company’s assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2016.

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of December 31, 2016
Assets					
Fixed income securities:					
U.S. government and agencies	$ 2,918	$ 719	$ —		$ 3,637
Municipal	—	7,208	125		7,333
Corporate - public	—	31,414	78		31,492
Corporate - privately placed	—	11,846	263		12,109
Foreign government	—	1,075	—		1,075
ABS - CDO	—	650	27		677
ABS - consumer and other	—	452	42		494
RMBS	—	727	1		728
CMBS	—	248	22		270
Redeemable preferred stock	—	24	—		24
Total fixed income securities	2,918	54,363	558		57,839
Equity securities	5,247	256	163		5,666
Short-term investments	850	3,423	15		4,288
Other investments: Free-standing derivatives	—	119	1	$ (9)	111
Separate account assets	3,393	—	—		3,393
Other assets	—	—	1		1
Total recurring basis assets	12,408	58,161	738	(9)	71,298
Non-recurring basis [(1)]	—	—	24		24
Total assets at fair value	$ 12,408	$ 58,161	$ 762	$ (9)	$ 71,322
% of total assets at fair value	17.4 %	81.5 %	1.1 %	— %	100 %
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (290)		$ (290)
Other liabilities: Free-standing derivatives	(1)	(68)	(3)	$ 28	(44)
Total liabilities at fair value	$ (1)	$ (68)	$ (293)	$ 28	$ (334)
% of total liabilities at fair value	0.3 %	20.4 %	87.7 %	(8.4)%	100 %

(1) Includes $24 million of limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments.

The following table summarizes quantitative information about the significant unobservable inputs used in Level 3 fair value measurements.

($ in millions)	Fair value	Valuation technique	Unobservable input	Range	Weighted average
September 30, 2017					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$ (253)	Stochastic cash flow model	Projected option cost	1.0 - 2.2%	1.74%
December 31, 2016					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$ (247)	Stochastic cash flow model	Projected option cost	1.0 - 2.2%	1.75%

The embedded derivatives are equity-indexed and forward starting options in certain life and annuity products that provide customers with interest crediting rates based on the performance of the S&P 500. If the projected option cost increased (decreased), it would result in a higher (lower) liability fair value.

As of September 30, 2017 and December 31, 2016, Level 3 fair value measurements of fixed income securities total $572 million and $558 million, respectively, and include $304 million and $307 million, respectively, of securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and $62 million and $80 million, respectively, of municipal fixed income securities that are not rated by third party credit rating agencies. The Company does not develop the unobservable inputs used in measuring fair value; therefore, these are not included in the table above. However, an

increase (decrease) in credit spreads for fixed income securities valued based on non-binding broker quotes would result in a lower (higher) fair value, and an increase (decrease) in the credit rating of municipal bonds that are not rated by third party credit rating agencies would result in a higher (lower) fair value.
The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three months ended September 30, 2017.

($ in millions)		Total gains (losses) included in:			
	Balance as of June 30, 2017	Net income [1]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 114	$ —	$ —	$ —	$ (4)
Corporate - public	60	—	—	—	(4)
Corporate - privately placed	266	1	2	—	(34)
ABS - CDO	91	—	1	—	(68)
ABS - consumer and other	120	—	—	—	(62)
CMBS	24	—	—	—	—
Total fixed income securities	675	1	3	—	(172)
Equity securities	166	2	1	—	(1)
Free-standing derivatives, net	1	—	—	—	—
Total recurring Level 3 assets	$ 842	$ 3	$ 4	$ —	$ (173)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (285)	$ (9)	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (285)	$ (9)	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2017
Assets					
Fixed income securities:					
Municipal	$ 1	$ (3)	$ —	$ (1)	$ 107
Corporate - public	51	(1)	—	(2)	104
Corporate - privately placed	18	(1)	—	(2)	250
ABS - CDO	—	—	—	(5)	19
ABS - consumer and other	10	—	—	(2)	66
CMBS	3	—	—	(1)	26
Total fixed income securities	83	(5)	—	(13)	572
Equity securities	—	—	—	—	168
Free-standing derivatives, net	—	—	—	—	1 [2]
Total recurring Level 3 assets	$ 83	$ (5)	$ —	$ (13)	$ 741
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ —	$ 2	$ (292)
Total recurring Level 3 liabilities	$ —	$ —	$ —	$ 2	$ (292)

(1) The effect to net income totals $(6) million and is reported in the Condensed Consolidated Statements of Operations as follows: $3 million in net investment income, $(5) million in interest credited to contractholder funds and $(4) million in life and annuity contract benefits.

(2) Comprises $1 million of assets.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the nine months ended September 30, 2017.

($ in millions)		Total gains (losses) included in:			
	Balance as of December 31, 2016	Net income	OCI [1]	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 125	$ (1)	$ 6	$ —	$ (5)
Corporate - public	78	—	—	—	(20)
Corporate - privately placed	263	7	—	30	(34)
ABS - CDO	27	—	3	30	(190)
ABS - consumer and other	42	—	—	—	(69)
RMBS	1	—	—	—	—
CMBS	22	—	—	—	—
Total fixed income securities	558	6	9	60	(318)
Equity securities	163	15	4	—	(4)
Short-term investments	15	—	—	—	—
Free-standing derivatives, net	(2)	3	—	—	—
Other assets	1	(1)	—	—	—
Total recurring Level 3 assets	$ 735	$ 23	$ 13	$ 60	$ (322)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (290)	$ (6)	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (290)	$ (6)	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2017
Assets					
Fixed income securities:					
Municipal	$ 6	$ (23)	$ —	$ (1)	$ 107
Corporate - public	50	—	—	(4)	104
Corporate - privately placed	22	(30)	—	(8)	250
ABS - CDO	160	—	—	(11)	19
ABS - consumer and other	99	—	—	(6)	66
RMBS	—	—	—	(1)	—
CMBS	6	—	—	(2)	26
Total fixed income securities	343	(53)	—	(33)	572
Equity securities	3	(13)	—	—	168
Short-term investments	25	(40)	—	—	—
Free-standing derivatives, net	—	—	—	—	1 [2]
Other assets	—	—	—	—	—
Total recurring Level 3 assets	$ 371	$ (106)	$ —	$ (33)	$ 741
Liabilities					
	$ —	$ —	$ (1)	$ 5	$ (292)

Contractholder funds: Derivatives embedded in life and annuity contracts					
Total recurring Level 3 liabilities	$ —	$—	$ (1)	$ 5	$ (292)

(1) The effect to net income totals $17 million and is reported in the Condensed Consolidated Statements of Operations as follows: $7 million in realized capital gains and losses, $17 million in net investment income, $(11) million in interest credited to contractholder funds and $4 million in life and annuity contract benefits.

(2) Comprises $1 million of assets.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three months ended September 30, 2016.

($ in millions)	Balance as of June 30, 2016	Total gains (losses) included in: Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 149	$ 1	$ (1)	$ —	$ —
Corporate - public	74	—	—	—	(6)
Corporate - privately placed	585	—	2	—	(280)
ABS - CDO	33	—	3	—	—
ABS - consumer and other	45	—	—	—	—
RMBS	1	—	—	—	—
CMBS	20	—	—	—	—
Total fixed income securities	907	1	4	—	(286)
Equity securities	118	(1)	—	—	—
Free-standing derivatives, net	(7)	4	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	$ 1,019	$ 4	$ 4	$ —	$ (286)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (304)	$ (3)	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (304)	$ (3)	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2016
Assets					
Fixed income securities:					
Municipal	$ 22	$ (11)	$ —	$ —	$ 160
Corporate - public	40	(10)	—	—	98
Corporate - privately placed	38	—	—	(29)	316
ABS - CDO	40	—	—	(2)	74
ABS - consumer and other	35	—	—	(1)	79
RMBS	—	—	—	—	1
CMBS	3	—	—	—	23
Total fixed income securities	178	(21)	—	(32)	751
Equity securities	43	—	—	—	160
Free-standing derivatives, net	—	—	—	—	(3) (2)
Other assets	—	—	—	—	1
Total recurring Level 3 assets	$ 221	$ (21)	$ —	$ (32)	$ 909
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (1)	$ 1	$ (307)
Total recurring Level 3 liabilities	$ —	$ —	$ (1)	$ 1	$ (307)

(1) The effect to net income totals $1 million and is reported in the Condensed Consolidated Statements of Operations as follows: $1 million in realized capital gains and losses, $3 million in net investment income, $(6) million in interest credited to contractholder funds and $3 million in life and annuity contract benefits.

(2) Comprises $1 million of assets and $4 million of liabilities.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the nine months ended September 30, 2016.

($ in millions)		Total gains (losses) included in:			
	Balance as of December 31, 2015	Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
U.S. government and agencies	$ 5	$ —	$ —	$ —	$ (4)
Municipal	161	11	(6)	6	—
Corporate - public	46	—	1	25	(13)
Corporate - privately placed	502	4	15	16	(363)
ABS - CDO	61	—	5	10	(3)
ABS - consumer and other	50	—	(2)	3	—
RMBS	1	—	—	—	—
CMBS	20	—	—	—	—
Total fixed income securities	846	15	13	60	(383)
Equity securities	133	(33)	8	—	—
Free-standing derivatives, net	(7)	4	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	$ 973	$ (14)	$ 21	$ 60	$ (383)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ (299)	$ (11)	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (299)	$ (11)	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2016
Assets					
Fixed income securities:					
	$ —	$ —	$ —	$ (1)	$ —

U.S. government and agencies					
Municipal	22	(33)	—	(1)	160
Corporate - public	47	(6)	—	(2)	98
Corporate - privately placed	181	—	—	(39)	316
ABS - CDO	40	(2)	—	(37)	74
ABS - consumer and other	35	(5)	—	(2)	79
RMBS	—	—	—	—	1
CMBS	5	—	—	(2)	23
Total fixed income securities	330	(46)	—	(84)	751
Equity securities	52	—	—	—	160
Free-standing derivatives, net	—	—	—	—	(3) [2]
Other assets	—	—	—	—	1
Total recurring Level 3 assets	$ 382	$ (46)	$ —	$ (84)	$ 909
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ —	$ —	$ (2)	$ 5	$ (307)
Total recurring Level 3 liabilities	$ —	$ —	$ (2)	$ 5	$ (307)

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(1) The effect to net income totals $(25) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(24) million in realized capital gains and losses, $10 million in net investment income, $(12) million in interest credited to contractholder funds and $1 million in life and annuity contract benefits.

(2) Comprises $1 million of assets and $4 million of liabilities.

Transfers between level categorizations may occur due to changes in the availability of market observable inputs, which generally are caused by changes in market conditions such as liquidity, trading volume or bid-ask spreads. Transfers between level categorizations may also occur due to changes in the valuation source. For example, in situations where a fair value quote is not provided by the Company's independent third-party valuation service provider and as a result the price is stale or has been replaced with a broker quote whose inputs have not been corroborated to be market observable, the security is transferred into Level 3. Transfers in and out of level categorizations are reported as having occurred at the beginning of the quarter in which the transfer occurred. Therefore, for all transfers into Level 3, all realized and changes in unrealized gains and losses in the quarter of transfer are reflected in the Level 3 rollforward table.

There were no transfers between Level 1 and Level 2 during the three months and nine months ended September 30, 2017 or 2016.

Transfers into Level 3 during the nine months ended September 30, 2017 and 2016 included situations where a fair value quote was not provided by the Company's independent third-party valuation service provider and as a result the price was stale or had been replaced with a broker quote where the inputs had not been corroborated to be market observable resulting in the security being classified as Level 3. Transfers out of Level 3 during the three months and nine months ended September 30, 2017 and 2016 included situations where a broker quote was used in the prior period and a fair value quote became available from the Company's independent third-party valuation service provider in the current period. A quote utilizing the new pricing source was not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities were not significant.

The following table provides the change in unrealized gains and losses included in net income for Level 3 assets and liabilities held as of September 30.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Assets				
Fixed income securities:				
Municipal	$ —	$ 1	$ (3)	$ 2
Corporate	1	—	1	1
Total fixed income securities	1	1	(2)	3
Equity securities	2	(1)	16	(33)
Free-standing derivatives, net	(3)	4	—	4
Other assets	—	—	(1)	—
Total recurring Level 3 assets	$ —	$ 4	$ 13	$ (26)
Liabilities				
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (9)	$ (3)	$ (6)	$ (11)
Total recurring Level 3 liabilities	$ (9)	$ (3)	$ (6)	$ (11)

The amounts in the table above represent the change in unrealized gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total $(9) million for the three months ended September 30, 2017 and are reported as follows: $(3) million in realized capital gains and losses, $3 million in net investment income, $(5) million in interest credited to contractholder funds and $(4) million in life and annuity contract benefits. These gains and losses total $1 million for the three months ended September 30, 2016 and are reported as follows: $1 million in realized capital gains and losses, $3 million in net investment income, $(6) million in interest credited to contractholder funds and $3 million in life and annuity contract benefits. These gains and losses total $7 million for the nine months ended September 30, 2017 and are reported as follows: $(3) million in realized capital gains and losses, $17 million in net investment income, $(11) million in interest credited to contractholder funds and $4 million in life and annuity contract benefits. These gains and losses total $(37) million for the nine months ended September 30, 2016 and are reported as follows: $(37) million in realized capital gains and losses, $11 million in net investment income, $(12) million in interest credited to contractholder funds and $1 million in life and annuity contract benefits.

Presented below are the carrying values and fair value estimates of financial instruments not carried at fair value.
Financial assets

($ in millions)	September 30, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Mortgage loans	$4,322	$4,535	$4,486	$4,514
Cost method limited partnerships	1,339	1,579	1,282	1,493
Bank loans	1,731	1,734	1,669	1,677
Agent loans	523	520	467	467

The fair value of mortgage loans is based on discounted contractual cash flows or, if the loans are impaired due to credit reasons, the fair value of collateral less costs to sell. Risk adjusted discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics, using similar types of properties as collateral. The fair value of cost method limited partnerships is determined using reported net asset values. The fair value of bank loans, which are reported in other investments, is based on broker quotes from brokers familiar with the loans and current market conditions. The fair value of agent loans, which are reported in other investments, is based on discounted cash flow calculations. Risk adjusted discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics. The fair value measurements for mortgage loans, cost method limited partnerships, bank loans and agent loans are categorized as Level 3.

Financial liabilities

($ in millions)	September 30, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	$10,618	$11,203	$11,313	$12,009
Long-term debt	6,349	7,161	6,347	6,920
Liability for collateral	1,156	1,156	1,129	1,129

The fair value of contractholder funds on investment contracts is based on the terms of the underlying contracts incorporating current market-based crediting rates for similar contracts that reflect the Company’s own credit risk. Deferred annuities classified in contractholder funds are valued based on discounted cash flow models that incorporate current market based margins and reflect the Company’s own credit risk. Immediate annuities without life contingencies are valued based on discounted cash flow models that incorporate current market-based implied interest rates and reflect the Company’s own credit risk. The fair value measurement for contractholder funds on investment contracts is categorized as Level 3.

The fair value of long-term debt is based on market observable data (such as the fair value of the debt when traded as an asset) or is determined using discounted cash flow calculations based on current interest rates for instruments with comparable terms and considers the Company’s own credit risk. The liability for collateral is valued at carrying value due to its short-term nature. The fair value measurements for long-term debt and liability for collateral are categorized as Level 2.

7. Derivative Financial Instruments

The Company uses derivatives for risk reduction and to increase investment portfolio returns through asset replication. Risk reduction activity is focused on managing the risks with certain assets and liabilities arising from the potential adverse impacts from changes in risk-free interest rates, changes in equity market valuations, increases in credit spreads and foreign currency fluctuations. Asset replication refers to the “synthetic” creation of assets through the use of derivatives. The Company replicates fixed income securities using a combination of a credit default swap or a foreign currency forward contract and one or more highly rated fixed income securities, primarily investment grade host bonds, to synthetically replicate the economic characteristics of one or more cash market securities. The Company replicates equity securities using futures and options to increase equity exposure.

Property-Liability may use interest rate swaps, swaptions, futures and options to manage the interest rate risks of existing investments. These instruments are utilized to change the duration of the portfolio in order to offset the economic effect that interest rates would otherwise have on the fair value of its fixed income securities. Credit default swaps are typically used to mitigate the credit risk within the Property-Liability fixed income portfolio. Equity index futures and options are used by Property-Liability to offset valuation losses in the equity portfolio during periods of declining equity market values. In addition, equity futures are used to hedge the market risk related to deferred compensation liability contracts. Forward contracts are primarily used by Property-Liability to hedge foreign currency risk associated with holding foreign currency denominated investments and foreign operations.

Allstate Financial utilizes several derivative strategies to manage risk. Asset-liability management is a risk management strategy that is principally employed by Allstate Financial to balance the respective interest-rate sensitivities of its assets and liabilities. Depending upon the attributes of the assets acquired and liabilities issued, derivative instruments such as interest rate swaps, caps, swaptions and futures are utilized to change the interest rate characteristics of existing assets and liabilities to ensure the relationship is maintained within specified ranges and to reduce exposure to rising or falling interest rates. Credit default swaps are typically used to mitigate the credit risk within the Allstate Financial fixed income portfolio. Futures and options are used for hedging the equity exposure contained in Allstate Financial's equity indexed life and annuity product contracts that offer equity returns to contractholders. In addition, Allstate Financial uses equity index futures and options to offset valuation losses in the equity portfolio during periods of declining equity market values. Foreign currency swaps and forwards are primarily used by Allstate Financial to reduce the foreign currency risk associated with holding foreign currency denominated investments.

The Company also has derivatives embedded in non-derivative host contracts that are required to be separated from the host contracts and accounted for at fair value with changes in fair value of embedded derivatives reported in net income. The Company's primary embedded derivatives are equity options in life and annuity product contracts, which provide equity returns to contractholders.

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value or foreign currency cash flow hedges. Allstate Financial designates certain investment risk transfer reinsurance agreements as fair value hedges when the hedging instrument is highly effective in offsetting the risk of changes in the fair value of the hedged item. Allstate Financial designates certain of its foreign currency swap contracts as cash flow hedges when the hedging instrument is highly effective in offsetting the exposure of variations in cash flows for the hedged risk that could affect net income. Amounts are reclassified to net investment income or realized capital gains and losses as the hedged item affects net income.

The notional amounts specified in the contracts are used to calculate the exchange of contractual payments under the agreements and are generally not representative of the potential for gain or loss on these agreements. However, the notional amounts specified in credit default swaps where the Company has sold credit protection represent the maximum amount of potential loss, assuming no recoveries.

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive or pay to terminate the derivative contracts at the reporting date. The carrying value amounts for OTC derivatives are further adjusted for the effects, if any, of enforceable master netting agreements and are presented on a net basis, by counterparty agreement, in the Condensed Consolidated Statements of Financial Position. For certain exchange traded and cleared derivatives, margin deposits are required as well as daily cash settlements of margin accounts. As of September 30, 2017, the Company pledged $35 million in the form of margin deposits.

For those derivatives which qualify for fair value hedge accounting, net income includes the changes in the fair value of both the derivative instrument and the hedged risk, and therefore reflects any hedging ineffectiveness. For cash flow hedges, gains and losses are amortized from accumulated other comprehensive income and are reported in net income in the same period the forecasted transactions being hedged impact net income.

Non-hedge accounting is generally used for "portfolio" level hedging strategies where the terms of the individual hedged items do not meet the strict homogeneity requirements to permit the application of hedge accounting. For non-hedge derivatives, net income includes changes in fair value and accrued periodic settlements, when applicable. With the exception of non-hedge derivatives used for asset replication and non-hedge embedded derivatives, all of the Company's derivatives are evaluated for their ongoing effectiveness as either accounting hedge or non-hedge derivative financial instruments on at least a quarterly basis.

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statement of Financial Position as of September 30, 2017.

($ in millions, except number of contracts)	Balance sheet location	Volume [(1)] Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Asset derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other investments	$49	n/a	$ 1	$ 2	$ (1)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other investments	41	n/a	1	1	—
Equity and index contracts						
Options	Other investments	173	6,301	96	96	—
Financial futures contracts	Other assets	—	1,866	1	1	—
Foreign currency contracts						
Foreign currency forwards	Other investments	322	n/a	(6)	3	(9)
Credit default contracts						
Credit default swaps – buying protection	Other investments	104	n/a	(2)	1	(3)
Credit default swaps – selling protection	Other investments	100	n/a	1	1	—
Other contracts						
Other contracts	Other assets	3	n/a	—	—	—
Subtotal		743	8,167	91	103	(12)
Total asset derivatives		$792	8,167	$ 92	$ 105	$ (13)
Liability derivatives						
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other liabilities & accrued expenses	$11	n/a	$ —	$ —	$ —
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	595	5,895	(34)	2	(36)
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	568	n/a	(8)	3	(11)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	234	n/a	(25)	—	(25)
Guaranteed withdrawal benefits	Contractholder funds	274	n/a	(14)	—	(14)
Equity-indexed and forward starting options in life and annuity product contracts						