ALLSTATE CORP
Form 10-Q
August 03, 2016
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 June 30, 2016
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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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	____

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 July 18, 2016, the registrant had 371,460,919 common shares, $.01 par value, outstanding.

THE ALLSTATE CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
June 30, 2016

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Revenues				
Property-liability insurance premiums	$7,814	$7,549	$15,537	$14,975
Life and annuity premiums and contract charges	564	536	1,130	1,073
Net investment income	762	789	1,493	1,639
Realized capital gains and losses:				
Total other-than-temporary impairment (“OTTI”) losses	(77)	(47)	(168)	(100)
OTTI losses reclassified to (from) other comprehensive income	(2)	4	8	8
Net OTTI losses recognized in earnings	(79)	(43)	(160)	(92)
Sales and other realized capital gains and losses	103	151	35	339
Total realized capital gains and losses	24	108	(125)	247
	9,164	8,982	18,035	17,934
Costs and expenses				
Property-liability insurance claims and claims expense	5,901	5,587	11,585	10,580
Life and annuity contract benefits	454	446	909	887
Interest credited to contractholder funds	185	185	375	384
Amortization of deferred policy acquisition costs	1,126	1,086	2,255	2,156
Operating costs and expenses	1,040	1,061	2,022	2,151
Restructuring and related charges	11	19	16	23
Interest expense	72	73	145	146
	8,789	8,457	17,307	16,327
Gain on disposition of operations	1	1	3	—
Income from operations before income tax expense	376	526	731	1,607
Income tax expense	105	171	214	575
Net income	271	355	517	1,032
Preferred stock dividends	29	29	58	58
Net income applicable to common shareholders	$242	$326	$459	$974
Earnings per common share:				
Net income applicable to common shareholders per common share - Basic	$0.65	$0.80	$1.22	$2.37
Weighted average common shares - Basic	373.6	407.0	375.8	411.4
Net income applicable to common shareholders per common share - Diluted	$0.64	$0.79	$1.21	$2.33
Weighted average common shares - Diluted	378.1	412.6	380.5	417.6
Cash dividends declared per common share	$0.33	$0.30	$0.66	$0.60

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Net income	$271	$355	$517	$1,032
Other comprehensive income (loss), after-tax				
Changes in:				
Unrealized net capital gains and losses	424	(718)	1,004	(507)
Unrealized foreign currency translation adjustments	5	(9)	19	(36)
Unrecognized pension and other postretirement benefit cost	16	20	27	49
Other comprehensive income (loss), after-tax	445	(707)	1,050	(494)
Comprehensive income (loss)	$716	$(352)	$1,567	$538

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in millions, except par value data)	June 30, 2016	December 31, 2015
Assets	(unaudited)	
Investments		
Fixed income securities, at fair value (amortized cost $55,770 and $57,201)	$ 58,129	$ 57,948
Equity securities, at fair value (cost $4,924 and $4,806)	5,265	5,082
Mortgage loans	4,453	4,338
Limited partnership interests	5,407	4,874
Short-term, at fair value (amortized cost $2,850 and $2,122)	2,850	2,122
Other	3,590	3,394
Total investments	79,694	77,758
Cash	446	495
Premium installment receivables, net	5,593	5,544
Deferred policy acquisition costs	3,819	3,861
Reinsurance recoverables, net	8,650	8,518
Accrued investment income	564	569
Property and equipment, net	1,011	1,024
Goodwill	1,219	1,219
Other assets	2,850	2,010
Separate Accounts	3,438	3,658
Total assets	$ 107,284	$ 104,656
Liabilities		
Reserve for property-liability insurance claims and claims expense	$ 24,904	$ 23,869
Reserve for life-contingent contract benefits	12,215	12,247
Contractholder funds	20,845	21,295
Unearned premiums	12,300	12,202
Claim payments outstanding	946	842
Deferred income taxes	782	90
Other liabilities and accrued expenses	6,192	5,304
Long-term debt	5,109	5,124
Separate Accounts	3,438	3,658
Total liabilities	86,731	84,631
Commitments and Contingent Liabilities (Note 10)		
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, 371 million and 381 million shares outstanding	9	9
Additional capital paid-in	3,203	3,245
Retained income	39,623	39,413
Deferred ESOP expense	(13)	(13)
Treasury stock, at cost (529 million and 519 million shares)	(24,310)	(23,620)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	49	56
Other unrealized net capital gains and losses	1,702	608
Unrealized adjustment to DAC, DSI and insurance reserves	(127)	(44)
Total unrealized net capital gains and losses	1,624	620

Unrealized foreign currency translation adjustments	(41)	(60)
Unrecognized pension and other postretirement benefit cost	(1,288)	(1,315)
Total accumulated other comprehensive income (loss)	295	(755)
Total shareholders' equity	20,553	20,025
Total liabilities and shareholders' equity	$ 107,284	$ 104,656

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

($ in millions)	Six months ended June 30, 2016	2015
	(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	3,245	3,199
Forward contract on accelerated share repurchase agreement	(52)	—
Equity incentive plans activity	10	6
Balance, end of period	3,203	3,205
Retained income		
Balance, beginning of period	39,413	37,842
Net income	517	1,032
Dividends on common stock	(249)	(249)
Dividends on preferred stock	(58)	(58)
Balance, end of period	39,623	38,567
Deferred ESOP expense		
Balance, beginning of period	(13)	(23)
Payments	—	—
Balance, end of period	(13)	(23)
Treasury stock		
Balance, beginning of period	(23,620)	(21,030)
Shares acquired	(829)	(1,432)
Shares reissued under equity incentive plans, net	139	189
Balance, end of period	(24,310)	(22,273)
Accumulated other comprehensive income		
Balance, beginning of period	(755)	561
Change in unrealized net capital gains and losses	1,004	(507)
Change in unrealized foreign currency translation adjustments	19	(36)
Change in unrecognized pension and other postretirement benefit cost	27	49
Balance, end of period	295	67
Total shareholders' equity	$20,553	$21,298

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	Six months ended June 30,	
	2016	2015
Cash flows from operating activities	(unaudited)	
Net income	$517	$1,032
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	188	179
Realized capital gains and losses	125	(247)
Gain on disposition of operations	(3)	—
Interest credited to contractholder funds	375	384
Changes in:		
Policy benefits and other insurance reserves	577	526
Unearned premiums	62	244
Deferred policy acquisition costs	(72)	(132)
Premium installment receivables, net	(27)	(158)
Reinsurance recoverables, net	(120)	(144)
Income taxes	(176)	(283)
Other operating assets and liabilities	(88)	(98)
Net cash provided by operating activities	1,358	1,303
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	12,589	16,012
Equity securities	2,487	2,074
Limited partnership interests	363	591
Other investments	144	132
Investment collections		
Fixed income securities	2,138	2,243
Mortgage loans	150	357
Other investments	168	177
Investment purchases		
Fixed income securities	(12,947)	(16,482)
Equity securities	(2,672)	(1,920)
Limited partnership interests	(703)	(563)
Mortgage loans	(264)	(509)
Other investments	(449)	(518)
Change in short-term investments, net	(669)	(391)
Change in other investments, net	(39)	(16)
Purchases of property and equipment, net	(120)	(133)
Net cash provided by investing activities	176	1,054
Cash flows from financing activities		
Repayments of long-term debt	(16)	(9)
Contractholder fund deposits	522	527
Contractholder fund withdrawals	(1,013)	(1,152)
Dividends paid on common stock	(240)	(243)
Dividends paid on preferred stock	(58)	(58)
Treasury stock purchases	(904)	(1,424)
Shares reissued under equity incentive plans, net	72	109
Excess tax benefits on share-based payment arrangements	20	43

Other	34	(2)
Net cash used in financing activities	(1,583)	(2,209)
Net (decrease) increase in cash	(49)	148
Cash at beginning of period	495	657
Cash at end of period	$446	$805

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 June 30, 2016 and for the three-month and six-month periods ended June 30, 2016 and 2015 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, 2015. 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

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014, the Financial Accounting Standards Board (“FASB”) issued guidance which clarifies that a performance target that affects vesting and could be achieved after the requisite service period should be treated as a performance condition and not reflected in estimating the grant-date fair value of the award. Compensation costs should reflect the amount attributable to the periods for which the requisite service has been rendered. Total compensation expense recognized during and after the requisite service period (which may differ from the vesting period) should reflect the number of awards that are expected to vest and should be adjusted to reflect the number of awards that ultimately vest. The Company’s existing accounting policy for performance targets that affect the vesting of share-based payment awards is consistent with the new guidance and as such, the adoption as of January 1, 2016 had no impact on the Company’s results of operations or financial position.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued guidance affecting the consolidation evaluation for limited partnerships and similar entities, fees paid to a decision maker or service provider, and variable interests in a variable interest entity held by related parties of the reporting enterprise. The adoption of this guidance as of January 1, 2016 did not have a material 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 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.

Disclosures about Short-Duration Contracts

In May 2015, the FASB issued guidance requiring expanded disclosures for insurance entities that issue short-duration contracts. The expanded disclosures are designed to provide additional insight into an insurance entity’s significant estimates made in measuring the liability for unpaid claims and claim adjustment expenses. The disclosures include information about incurred and paid claims development by accident year, on a net basis after reinsurance, for the number of years claims incurred typically remain outstanding, not to exceed ten years. Each period presented in the disclosure about claims development that precedes the current reporting period is considered required supplementary information. The expanded disclosures also include information about significant changes in methodologies and assumptions, a reconciliation of incurred and paid claims development to the carrying amount of the liability for unpaid claims and claim adjustment expenses, the total amount of incurred but not reported liabilities plus expected development, the incidence of claims including the methodology used to determine the incidence of claims, and claim duration. The guidance is effective for annual periods beginning after December 15, 2015, and interim periods beginning after December 15, 2016, and is to be applied retrospectively. The new guidance affects disclosures only and will have no impact on 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 as of the beginning of the period of adoption. The new guidance related to equity investments without readily determinable fair values is to be applied prospectively as of the date of adoption. The Company is in the process of evaluating the impact of adoption. The most significant impacts, using values as of June 30, 2016, are expected to be the change in accounting for equity securities where $341 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 would increase by approximately $202 million, pre-tax, with the adjustment recorded in retained income.

Accounting for Leases

In February 2016, the FASB issued guidance that revises 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 will be computed separately thereby producing greater up-front expense 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.

Employee Share-Based Payment Accounting

In March 2016, the FASB issued guidance to amend the accounting for share-based payments. Under the new guidance, reporting entities will be required to recognize all tax effects related to share-based payments at settlement (or expiration) through the income statement and will no longer be permitted to recognize excess tax benefits and tax deficiencies in additional paid in capital. The change will be applied on a modified retrospective basis, with a cumulative effect adjustment to beginning retained income. In addition, all tax-related cash flows resulting from share-based payments will be reported as operating activities on the statement of cash flows, with either prospective or retrospective transition permitted. The new guidance will permit employers to withhold shares upon settlement of an award to satisfy the employer's tax withholding requirement (up to the employee's maximum individual statutory tax rate) without causing liability classification of the award. The new guidance clarifies that all cash payments made to taxing authorities on an employee's behalf for withheld shares should be presented as financing activities on the statement of cash flows. Also under the new guidance, reporting entities are permitted to make an accounting policy election to estimate forfeitures or recognize them when they occur. If elected, the change to recognize forfeitures when they occur must be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to beginning retained income. The new guidance is effective for reporting periods beginning after December 15, 2016. 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.

Transition to Equity Method Accounting

In March 2016, the FASB issued 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 effective for interim and annual periods beginning after December 15, 2016, and is to be applied prospectively. The guidance will principally affect the future accounting for investments that qualify for EMA after application of the cost method of accounting. 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. 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 contractual 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 an 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.

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Numerator:				
Net income	$271	$355	$517	$1,032
Less: Preferred stock dividends	29	29	58	58
Net income applicable to common shareholders [(1)]	$242	$326	$459	$974
Denominator:				
Weighted average common shares outstanding	373.6	407.0	375.8	411.4
Effect of dilutive potential common shares:				
Stock options	3.4	4.2	3.4	4.5
Restricted stock units (non-participating) and performance stock awards	1.1	1.4	1.3	1.7
Weighted average common and dilutive potential common shares outstanding	378.1	412.6	380.5	417.6
Earnings per common share - Basic	$0.65	$0.80	$1.22	$2.37
Earnings per common share - Diluted	$0.64	$0.79	$1.21	$2.33

(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 4.8 million and 2.2 million Allstate common shares, with exercise prices ranging from $57.29 to $71.29 and $60.81 to $71.29, were outstanding for both the three-month and six month periods ended June 30, 2016 and 2015, respectively, but were not included in the computation of diluted earnings per common share in those periods.

3. Supplemental Cash Flow Information

Non-cash investing activities include $270 million and $54 million related to mergers and exchanges completed with equity securities and modifications of other investments for the six months ended June 30, 2016 and 2015, respectively. Non-cash financing activities include $39 million and $72 million related to the issuance of Allstate common shares for vested equity awards for the six months ended June 30, 2016 and 2015, respectively. Non-cash financing activities also include $34 million related to debt acquired in conjunction with the purchase of an investment for the six months ended June 30, 2016.

Liabilities for collateral received in conjunction with the Company's securities lending program and over-the-counter ("OTC") and cleared derivatives are reported in other liabilities and accrued expenses or other investments. The accompanying cash flows are included in cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows along with the activities resulting from management of the proceeds, which are as follows:

($ in millions)	Six months ended June 30,	
	2016	2015
Net change in proceeds managed		
Net change in short-term investments	$(56)	$34
Operating cash flow (used) provided	(56)	34
Net change in cash	—	(3)
Net change in proceeds managed	$(56)	$31
Net change in liabilities		
Liabilities for collateral, beginning of period	$(840)	$(782)
Liabilities for collateral, end of period	(896)	(751)
Operating cash flow provided (used)	$56	$(31)

4. 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		Fair value
		Gains	Losses	
June 30, 2016				
U.S. government and agencies	$ 3,401	$122	$—	$3,523
Municipal	7,286	543	(11)	7,818
Corporate	41,134	1,839	(273)	42,700
Foreign government	1,091	61	—	1,152
Asset-backed securities ("ABS")	1,737	11	(22)	1,726
Residential mortgage-backed securities ("RMBS")	748	81	(11)	818
Commercial mortgage-backed securities ("CMBS")	352	23	(7)	368
Redeemable preferred stock	21	3	—	24
Total fixed income securities	$ 55,770	$2,683	$(324)	$58,129
December 31, 2015				
U.S. government and agencies	$ 3,836	$90	$(4)	$3,922
Municipal	7,032	389	(20)	7,401
Corporate	41,674	1,032	(879)	41,827
Foreign government	983	50	—	1,033
ABS	2,359	11	(43)	2,327
RMBS	857	100	(10)	947

CMBS	438	32	(4)	466
Redeemable preferred stock	22	3	—	25
Total fixed income securities	$ 57,201	$ 1,707	$ (960)	$ 57,948

Scheduled maturities

The scheduled maturities for fixed income securities are as follows as of June 30, 2016:

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 4,394	$4,423
Due after one year through five years	26,870	27,753
Due after five years through ten years	16,262	16,854
Due after ten years	5,407	6,187
	52,933	55,217
ABS, RMBS and CMBS	2,837	2,912
Total	$ 55,770	$58,129

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Fixed income securities	$520	$567	$1,038	$1,135
Equity securities	44	31	72	54
Mortgage loans	53	57	106	112
Limited partnership interests	126	118	247	316
Short-term investments	3	3	7	4
Other	57	49	108	94
Investment income, before expense	803	825	1,578	1,715
Investment expense	(41)	(36)	(85)	(76)
Net investment income	$762	$789	$1,493	$1,639

Realized capital gains and losses

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

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Fixed income securities	$24	$60	$(47)	$140
Equity securities	11	48	(79)	126
Mortgage loans	1	1	1	1
Limited partnership interests	(13)	(3)	13	3
Derivatives	2	5	(7)	(20)
Other	(1)	(3)	(6)	(3)
Realized capital gains and losses	$24	$108	$(125)	$247

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

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015

Impairment write-downs	$(63)	$(11)	$(122)	$(30)
Change in intent write-downs	(16)	(32)	(38)	(62)
Net other-than-temporary impairment losses recognized in earnings	(79)	(43)	(160)	(92)
Sales and other	104	146	45	362
Valuation and settlements of derivative instruments	(1)	5	(10)	(23)
Realized capital gains and losses	$24	$108	$(125)	$247

Gross gains of $163 million and $194 million and gross losses of $74 million and $46 million were realized on sales of fixed income and equity securities during the three months ended June 30, 2016 and 2015, respectively. Gross gains of $306 million and $471 million and gross losses of $285 million and $121 million were realized on sales of fixed income and equity securities during the six months ended June 30, 2016 and 2015, respectively.

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

($ in millions)	Three months ended June 30, 2016			Three months ended June 30, 2015		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Corporate	$(1)	$ —	$(1)	$(5)	$ 4	$(1)
ABS	—	(1)	(1)	(3)	—	(3)
CMBS	—	(1)	(1)	—	—	—
Total fixed income securities	(1)	(2)	(3)	(8)	4	(4)
Equity securities	(51)	—	(51)	(36)	—	(36)
Limited partnership interests	(24)	—	(24)	—	—	—
Other	(1)	—	(1)	(3)	—	(3)
Other-than-temporary impairment losses	$(77)	$ (2)	$(79)	$(47)	$ 4	$(43)

	Six months ended June 30, 2016			Six months ended June 30, 2015		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$—	$ —	$—	$(4)	$ 4	$—
Corporate	(17)	7	(10)	(10)	4	(6)
ABS	(6)	—	(6)	(4)	1	(3)
RMBS	—	—	—	1	(1)	—
CMBS	(4)	1	(3)	—	—	—
Total fixed income securities	(27)	8	(19)	(17)	8	(9)
Equity securities	(128)	—	(128)	(75)	—	(75)
Limited partnership interests	(11)	—	(11)	(5)	—	(5)
Other	(2)	—	(2)	(3)	—	(3)
Other-than-temporary impairment losses	$(168)	$ 8	$(160)	$(100)	$ 8	$(92)

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 $215 million and $233 million as of June 30, 2016 and December 31, 2015, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

($ in millions)	June 30, 2016	December 31, 2015
Municipal	$(8)	$ (9)
Corporate	(7)	(7)
ABS	(23)	(23)
RMBS	(95)	(102)
CMBS	(7)	(6)
Total	$(140)	$ (147)

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Beginning balance	$(350)	$(378)	$(392)	$(380)
Additional credit loss for securities previously other-than-temporarily impaired	(3)	(2)	(11)	(3)
Additional credit loss for securities not previously other-than-temporarily impaired	—	(2)	(8)	(6)
Reduction in credit loss for securities disposed or collected	22	8	80	14
Change in credit loss due to accretion of increase in cash flows	—	2	—	3
Ending balance	$(331)	$(372)	$(331)	$(372)

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.

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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
June 30, 2016	value	Gains	Losses	gains (losses)
Fixed income securities	$58,129	$2,683	$(324)	$ 2,359
Equity securities	5,265	506	(165)	341
Short-term investments	2,850	—	—	—
Derivative instruments [1]	5	5	(3)	2
Equity method ("EMA") limited partnerships [2]				(5)
Unrealized net capital gains and losses, pre-tax				2,697
Amounts recognized for:				
Insurance reserves [3]				—
DAC and DSI [4]				(195)
Amounts recognized				(195)
Deferred income taxes				(878)
Unrealized net capital gains and losses, after-tax				$ 1,624

(1) Included in the fair value of derivative instruments are $2 million classified as assets and $(3) million classified as liabilities.

(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, 2015	value	Gains	Losses	gains (losses)
Fixed income securities	$57,948	$1,707	$(960)	$ 747
Equity securities	5,082	415	(139)	276
Short-term investments	2,122	—	—	—
Derivative instruments [1]	10	10	(4)	6
EMA limited partnerships				(4)
Unrealized net capital gains and losses, pre-tax				1,025
Amounts recognized for:				
Insurance reserves				—
DAC and DSI				(67)
Amounts recognized				(67)
Deferred income taxes				(338)
Unrealized net capital gains and losses, after-tax				$ 620

(1) Included in the fair value of derivative instruments are $6 million classified as assets and $(4) million classified as liabilities.

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Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the six months ended June 30, 2016 is as follows:

($ in millions)	
Fixed income securities	$1,612
Equity securities	65
Derivative instruments	(4)
EMA limited partnerships	(1)
Total	1,672
Amounts recognized for:	
Insurance reserves	—
DAC and DSI	(128)
Amounts recognized	(128)
Deferred income taxes	(540)
Increase in unrealized net capital gains and losses, after-tax	$1,004

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
June 30, 2016							
Fixed income securities							
U.S. government and agencies	5	$528	$ —	—	$—	$ —	$—
Municipal	32	76	—	9	28	(11)	(11)
Corporate	296	3,524	(112)	196	1,958	(161)	(273)
Foreign government	1	2	—	—	—	—	—
ABS	40	371	(5)	24	371	(17)	(22)
RMBS	78	39	(1)	175	108	(10)	(11)
CMBS	14	78	(6)	1	2	(1)	(7)
Total fixed income securities	466	4,618	(124)	405	2,467	(200)	(324)
Equity securities	241	1,002	(130)	55	160	(35)	(165)
Total fixed income and equity securities	707	$5,620	$ (254)	460	$2,627	$ (235)	$ (489)
Investment grade fixed income securities	220	$2,249	$ (24)	256	$1,331	$ (87)	$ (111)
Below investment grade fixed income securities	246	2,369	(100)	149	1,136	(113)	(213)
Total fixed income securities	466	$4,618	$ (124)	405	$2,467	$ (200)	$ (324)
December 31, 2015							
Fixed income securities							
U.S. government and agencies	53	$1,874	$ (4)	—	$—	$ —	$ (4)
Municipal	222	810	(6)	9	36	(14)	(20)
Corporate	1,361	17,915	(696)	111	1,024	(183)	(879)
Foreign government	9	44	—	—	—	—	—
ABS	133	1,733	(24)	20	324	(19)	(43)
RMBS	88	69	—	176	125	(10)	(10)
CMBS	13	75	(2)	1	2	(2)	(4)
Total fixed income securities	1,879	22,520	(732)	317	1,511	(228)	(960)
Equity securities	265	1,397	(107)	37	143	(32)	(139)
Total fixed income and equity securities	2,144	$23,917	$ (839)	354	$1,654	$ (260)	$ (1,099)
Investment grade fixed income securities	1,405	$17,521	$ (362)	225	$972	$ (105)	$ (467)
Below investment grade fixed income securities	474	4,999	(370)	92	539	(123)	(493)
Total fixed income securities	1,879	$22,520	$ (732)	317	$1,511	$ (228)	$ (960)

As of June 30, 2016, $288 million of the $489 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 $288 million, $65 million are related to unrealized losses on investment grade fixed income securities and $79 million are related to equity securities. Of the remaining $144 million, $76 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 Standard and Poor’s (“S&P”), Fitch, Dominion, Kroll or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, 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 June 30, 2016, the remaining $201 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

$46 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 $201 million, $69 million are related to below investment grade fixed income securities and $86 million are related to equity securities. Of these amounts, $18 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 June 30, 2016.

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, (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, and (iii) for ABS and RMBS in an unrealized loss position, credit enhancements from reliable bond insurers, where applicable. 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 June 30, 2016, 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 June 30, 2016, 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 June 30, 2016 and December 31, 2015, the carrying value of equity method limited partnerships totaled $4.12 billion and $3.72 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 June 30, 2016 and December 31, 2015, the carrying value for cost method limited partnerships was $1.28 billion and $1.15 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 June 30, 2016.

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 mortgage loans summarized by debt service coverage ratio distribution.

($ in millions)	June 30, 2016	December 31, 2015
Below 1.0	$43	$ 64
1.0 - 1.25	309	382
1.26 - 1.50	1,221	1,219
Above 1.50	2,874	2,667
Total non-impaired mortgage loans	$4,447	$ 4,332

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)	June 30, 2016	December 31, 2015
Impaired mortgage loans with a valuation allowance	$ 6	$ 6
Impaired mortgage loans without a valuation allowance	—	—
Total impaired mortgage loans	$ 6	$ 6
Valuation allowance on impaired mortgage loans	$ 3	$ 3

The average balance of impaired loans was $6 million and $13 million for the six months ended June 30, 2016 and 2015, respectively.

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

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Beginning balance	$3	$ 8	$3	$ 8
Charge offs	—	(1)	—	(1)
Ending balance	$3	$ 7	$3	$ 7

The payment status of mortgage loans is as follows:

($ in millions)	June 30, 2016	December 31, 2015
Less than 90 days past due	$6	$ —
90 days or greater past due	—	—
Total past due	6	—
Current loans	4,447	4,338
Total mortgage loans	$4,453	$ 4,338

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5. 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, 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 addition, derivatives embedded in fixed income securities are not disclosed in the hierarchy as free-standing derivatives since they are presented with the host contracts in fixed income securities.

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.
- 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.

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, currency rates, and counterparty 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 but are rated by the National Association of Insurance Commissioners ("NAIC"). 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.

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The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of June 30, 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 June 30, 2016
Assets					
Fixed income securities:					
U.S. government and agencies	$ 2,658	$ 865	$ —		$ 3,523
Municipal	—	7,669	149		7,818
Corporate - public	—	30,798	74		30,872
Corporate - privately placed	—	11,243	585		11,828
Foreign government	—	1,152	—		1,152
ABS - CDO	—	691	33		724
ABS - consumer and other	—	957	45		1,002
RMBS	—	817	1		818
CMBS	—	348	20		368
Redeemable preferred stock	—	24	—		24
Total fixed income securities	2,658	54,564	907		58,129
Equity securities	4,972	175	118		5,265
Short-term investments	733	2,117	—		2,850
Other investments: Free-standing derivatives	—	88	1	$ (18)	71
Separate account assets	3,438	—	—		3,438
Other assets	2	—	1		3
Total recurring basis assets	11,803	56,944	1,027	(18)	69,756
Non-recurring basis [(1)]	—	—	38		38
Total assets at fair value	$ 11,803	$ 56,944	$ 1,065	$ (18)	$ 69,794
% of total assets at fair value	16.9 %	81.6 %	1.5 %	— %	100 %
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (304)		$ (304)
Other liabilities: Free-standing derivatives	(3)	(55)	(8)	$ 33	(33)
Total liabilities at fair value	$ (3)	$ (55)	$ (312)	$ 33	$ (337)
% of total liabilities at fair value	0.9 %	16.3 %	92.6 %	(9.8)%	100 %

(1) Includes $36 million of limited partnership interests and $2 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

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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, 2015.

($ 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, 2015
Assets					
Fixed income securities:					
U.S. government and agencies	$ 3,056	$ 861	$ 5		$ 3,922
Municipal	—	7,240	161		7,401
Corporate - public	—	30,356	46		30,402
Corporate - privately placed	—	10,923	502		11,425
Foreign government	—	1,033	—		1,033
ABS - CDO	—	716	61		777
ABS - consumer and other	—	1,500	50		1,550
RMBS	—	946	1		947
CMBS	—	446	20		466
Redeemable preferred stock	—	25	—		25
Total fixed income securities	3,056	54,046	846		57,948
Equity securities	4,786	163	133		5,082
Short-term investments	615	1,507	—		2,122
Other investments: Free-standing derivatives	—	65	1	$ (13)	53
Separate account assets	3,658	—	—		3,658
Other assets	2	—	1		3
Total recurring basis assets	12,117	55,781	981	(13)	68,866
Non-recurring basis [1]	—	—	55		55
Total assets at fair value	$ 12,117	$ 55,781	$ 1,036	$ (13)	$ 68,921
% of total assets at fair value	17.6 %	80.9 %	1.5 %	— %	100 %
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (299)		$ (299)
Other liabilities: Free-standing derivatives	(1)	(23)	(8)	$ 7	(25)
Total liabilities at fair value	$ (1)	$ (23)	$ (307)	$ 7	$ (324)
% of total liabilities at fair value	0.3 %	7.1 %	94.8 %	(2.2)%	100 %

(1) Includes $42 million of limited partnership interests and $13 million of other investments 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
June 30, 2016					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$ (250)	Stochastic cash flow model	Projected option cost	1.0 - 2.2%	1.75%
December 31, 2015					
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%	1.76%

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 June 30, 2016 and December 31, 2015, Level 3 fair value measurements of fixed income securities total $907 million and $846 million, respectively, and include $350 million and $625 million, respectively, of securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and $92 million and $96 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 June 30, 2016.

($ in millions)	Balance as of March 31, 2016	Total gains (losses) included in: Net income	OCI [1]	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
U.S. government and agencies	$ 4	$ —	$ —	$ —	$ (4)
Municipal	146	—	3	6	—
Corporate - public	63	—	—	—	—
Corporate - privately placed	549	3	8	16	(69)
ABS - CDO	58	—	3	6	(3)
ABS - consumer and other	44	—	(1)	3	—
RMBS	1	—	—	—	—
CMBS	20	—	—	—	—
Total fixed income securities	885	3	13	31	(76)
Equity securities	125	(8)	1	—	—
Free-standing derivatives, net	(8)	1	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	$ 1,003	$ (4)	$ 14	$ 31	$ (76)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (313)	$ 7	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (313)	$ 7	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of June 30, 2016
Assets					
Fixed income securities:					
U.S. government and agencies	$ —	$ —	$ —	$ —	$ —
Municipal	—	(6)	—	—	149
Corporate - public	7	4	—	—	74
Corporate - privately placed	80	—	—	(2)	585
ABS - CDO	—	—	—	(31)	33
ABS - consumer and other	—	—	—	(1)	45
RMBS	—	—	—	—	1
CMBS	—	—	—	—	20
Total fixed income securities	87	(2)	—	(34)	907
Equity securities	—	—	—	—	118

Free-standing derivatives, net	—	—	—	—	(7) [2]
Other assets	—	—	—	—	1
Total recurring Level 3 assets	$ 87	$ (2)	$ —	$ (34)	$ 1,019
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ —	$ 2	$ (304)
Total recurring Level 3 liabilities	$ —	$ —	$ —	$ 2	$ (304)

(1) The effect to net income totals $3 million and is reported in the Condensed Consolidated Statements of Operations as follows: $(9) million in realized capital gains and losses, $5 million in net investment income, $(7) million in interest credited to contractholder funds and $14 million in life and annuity contract benefits.

(2) Comprises $1 million of assets and $8 million of liabilities.

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

($ in millions)	Balance as of December 31, 2015	Total gains (losses) included in: Net income	OCI [1]	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
U.S. government and agencies	$ 5	$—	$ —	$ —	$ (4)
Municipal	161	10	(5)	6	—
Corporate - public	46	—	1	25	(7)
Corporate - privately placed	502	4	13	16	(83)
ABS - CDO	61	—	2	10	(3)
ABS - consumer and other	50	—	(2)	3	—
RMBS	1	—	—	—	—
CMBS	20	—	—	—	—
Total fixed income securities	846	14	9	60	(97)
Equity securities	133	(32)	8	—	—
Free-standing derivatives, net	(7)	—	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	$ 973	$(18)	$ 17	$ 60	$ (97)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (299)	$(8)	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (299)	$(8)	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of June 30, 2016
Assets					
Fixed income securities:					
U.S. government and agencies	$ —	$—	$ —	$ (1)	$ —
Municipal	—	(22)	—	(1)	149
Corporate - public	7	4	—	(2)	74
Corporate - privately placed	143	—	—	(10)	585
ABS - CDO	—	(2)	—	(35)	33
ABS - consumer and other	—	(5)	—	(1)	45
RMBS	—	—	—	—	1
CMBS	2	—	—	(2)	20
Total fixed income securities	152	(25)	—	(52)	907
Equity securities	9	—	—	—	118
Free-standing derivatives, net	—	—	—	—	(7) [2]
Other assets	—	—	—	—	1
Total recurring Level 3 assets	$ 161	$(25)	$ —	$ (52)	$ 1,019
Liabilities					

Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$—	$ (1)	$ 4	$ (304)
Total recurring Level 3 liabilities	$ —	$—	$ (1)	$ 4	$ (304)

(1) The effect to net income totals $(26) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(25) million in realized capital gains and losses, $7 million in net investment income, $(6) million in interest credited to contractholder funds and $(2) million in life and annuity contract benefits.

(2) Comprises $1 million of assets and $8 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 three months ended June 30, 2015.

($ in millions)	Balance as of March 31, 2015	Total gains (losses) included in: Net income [1]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
U.S. government and agencies	$ 5	$ —	$ —	$ —	$ —
Municipal	238	2	(6)	—	(2)
Corporate	878	3	2	—	(208)
ABS	137	(1)	2	—	(11)
RMBS	1	—	—	—	—
CMBS	28	—	—	—	—
Total fixed income securities	1,287	4	(2)	—	(221)
Equity securities	93	1	2	—	—
Short-term investments	10	—	—	—	—
Free-standing derivatives, net	(7)	1	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	$ 1,384	$ 6	$ —	$ —	$ (221)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (326)	$ 9	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (326)	$ 9	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of June 30, 2015
Assets					
Fixed income securities:					
U.S. government and agencies	$ —	$ —	$ —	$ —	$ 5
Municipal	—	(16)	—	(1)	215
Corporate	—	—	—	(49)	626
ABS	—	(5)	—	(2)	120
RMBS	—	—	—	—	1
CMBS	—	—	—	—	28
Total fixed income securities	—	(21)	—	(52)	995
Equity securities	12	—	—	—	108
Short-term investments	25	—	—	—	35
Free-standing derivatives, net	—	—	—	(1)	(7) [2]
Other assets	—	—	—	—	1
Total recurring Level 3 assets	$ 37	$ (21)	$ —	$ (53)	$ 1,132
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ —	$ 2	$ (315)
Total recurring Level 3 liabilities	$ —	$ —	$ —	$ 2	$ (315)

(1) The effect to net income totals $15 million and is reported in the Condensed Consolidated Statements of Operations as follows: $2 million in realized capital gains and losses, $4 million in net investment income and $9 million in interest credited to contractholder funds.

(2) Comprises $2 million of assets and $9 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 six months ended June 30, 2015.

($ in millions)	Balance as of December 31, 2014	Total gains (losses) included in: Net income [1]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
U.S. government and agencies	$ 6	$ —	$ —	$ —	$ —
Municipal	270	2	(4)	—	(2)
Corporate	891	—	(6)	5	(208)
ABS	196	(2)	2	12	(84)
RMBS	1	—	—	—	—
CMBS	23	—	—	—	—
Total fixed income securities	1,387	—	(8)	17	(294)
Equity securities	83	1	4	—	—
Short-term investments	5	—	—	—	—
Free-standing derivatives, net	(7)	1	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	$ 1,469	$ 2	$ (4)	$ 17	$ (294)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (323)	$ 5	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (323)	$ 5	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of June 30, 2015
Assets					
Fixed income securities:					
U.S. government and agencies	$ —	$ —	$ —	$ (1)	$ 5
Municipal	—	(49)	—	(2)	215
Corporate	60	(46)	—	(70)	626
ABS	10	(5)	—	(9)	120
RMBS	—	—	—	—	1
CMBS	5	—	—	—	28
Total fixed income securities	75	(100)	—	(82)	995
Equity securities	20	—	—	—	108
Short-term investments	30	—	—	—	35
Free-standing derivatives, net	—	—	—	(1)	(7) [2]
Other assets	—	—	—	—	1
Total recurring Level 3 assets	$ 125	$ (100)	$ —	$ (83)	$ 1,132
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (1)	$ 4	$ (315)
Total recurring Level 3 liabilities	$ —	$ —	$ (1)	$ 4	$ (315)

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(1) The effect to net income totals $7 million and is reported in the Condensed Consolidated Statements of Operations as follows: $(4) million in realized capital gains and losses, $6 million in net investment income and $5 million in interest credited to contractholder funds.

(2) Comprises $2 million of assets and $9 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 six months ended June 30, 2016 or 2015.

Transfers into Level 3 during the three months and six months ended June 30, 2016 and 2015 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 six months ended June 30, 2016 and 2015 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 June 30.

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Assets				
Fixed income securities:				
Municipal	$ 1	$ —	$ 1	$ (1)
Corporate	3	3	1	5
ABS	—	(1)	—	(1)
Total fixed income securities	4	2	2	3
Equity securities	(8)	1	(32)	—
Free-standing derivatives, net	1	1	—	1
Total recurring Level 3 assets	$ (3)	$ 4	$ (30)	$ 4
Liabilities				
Contractholder funds: Derivatives embedded in life and annuity contracts	$ 7	$ 9	$ (8)	$ 5
Total recurring Level 3 liabilities	$ 7	$ 9	$ (8)	$ 5

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 $4 million for the three months ended June 30, 2016 and are reported as follows: $(9) million in realized capital gains and losses, $6 million in net investment income, $(7) million in interest credited to contractholder funds and $14 million in life and annuity contract benefits. These gains and losses total $13 million for the three months ended June 30, 2015 and are reported as follows: $4 million in net investment income and $9 million in interest credited to contractholder funds. These gains and losses total $(38) million for the six months ended June 30, 2016 and are reported as follows: $(38) million in realized capital gains and losses, $8 million in net investment income, $(6) million in interest credited to contractholder funds and $(2) million in life and annuity contract benefits. These gains and losses total $9 million for the six months ended June 30, 2015 and are reported as follows: $(2) million in realized capital gains and losses, $6 million in net investment income and $5 million in interest credited to contractholder funds.

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

Financial assets

($ in millions)	June 30, 2016		December 31, 2015	
	Carrying	Fair	Carrying	Fair

	value	value	value	value
Mortgage loans	$4,453	$4,666	$4,338	$4,489
Cost method limited partnerships	1,284	1,511	1,154	1,450
Bank loans	1,635	1,614	1,565	1,527
Agent loans	452	444	422	408

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 that use discount rates with a spread over U.S. Treasury rates. Assumptions used in developing estimated cash flows and discount rates consider the loan’s credit and liquidity risks. 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)	June 30, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	$11,919	$12,420	$12,424	$12,874
Long-term debt	5,109	5,868	5,124	5,648
Liability for collateral	896	896	840	840

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 and funding agreements 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, in certain cases, 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.

6. 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.

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 to offset valuation losses in the equity portfolio during periods of declining equity market values. Interest rate swaps are used to hedge interest rate risk inherent in funding agreements. Foreign currency swaps and forwards are primarily used by Allstate Financial to reduce the foreign currency risk associated with holding foreign currency denominated investments.

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 to increase equity exposure.

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, and conversion options in fixed income securities, which provide the Company with the right to convert the instrument into a predetermined number of shares of common stock.

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 June 30, 2016, the Company pledged $14 million of cash 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 June 30, 2016.

($ in millions, except number of contracts)		Volume [(1)]				
	Balance sheet location	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	$30	n/a	$2	$ 2	$—
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other investments	24	n/a	—	—	—
Equity and index contracts						
Options	Other investments	—	4,106	66	66	—
Financial futures contracts	Other assets	—	807	2	2	—
Foreign currency contracts						
Foreign currency forwards	Other investments	399	n/a	(17)	8	(25)
Credit default contracts						
Credit default swaps – buying protection	Other investments	30	n/a	—	—	—
Credit default swaps – selling protection	Other investments	80	n/a	1	1	—
Other contracts						
Other contracts	Other assets	3	n/a	1	1	—
Subtotal		536	4,913	53	78	(25)
Total asset derivatives		$566	4,913	$55	$ 80	$ (25)
Liability derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$19	n/a	$3	$ 3	$—
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	85	n/a	—	—	—
Interest rate cap agreements	Other liabilities & accrued expenses	51	n/a	1	1	—
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	—	6,350	(21)	—	(21)
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	434	n/a	(1)	7	(8)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	429	n/a	(40)	—	(40)
Guaranteed withdrawal benefits	Contractholder funds	304	n/a	(14)	—	(14)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,754	n/a	(250)	—	(250)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	—	—	—
Credit default contracts						
Credit default swaps – buying protection		248	n/a	(4)	—	(4)

	Other liabilities & accrued expenses					
Credit default swaps – selling protection	Other liabilities & accrued expenses	165	n/a	(7)	1	(8)
Subtotal		3,555	6,350	(336)	9	(345)
Total liability derivatives		3,574	6,350	(333)	$ 12	$ (345)
Total derivatives		$ 4,140	11,263	$ (278)		

(1) Volume for OTC and cleared derivative contracts is represented by their notional amounts. Volume for exchange traded derivatives is represented by the number of contracts, which is the basis on which they are traded. (n/a = not applicable)

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The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Consolidated Statement of Financial Position as of December 31, 2015.

($ in millions, except number of contracts)		Volume [1]				
	Balance sheet location	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	$45	n/a	$6	$ 6	$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other investments	42	n/a	—	—	—
Equity and index contracts						
Options and warrants [2]	Other investments	—	3,730	44	44	—
Financial futures contracts	Other assets	—	1,897	2	2	—
Foreign currency contracts						
Foreign currency forwards	Other investments	185	n/a	1	2	(1)
Embedded derivative financial instruments						
Other embedded derivative financial instruments	Other investments	1,000	n/a	—	—	—
Credit default contracts						
Credit default swaps – buying protection	Other investments	112	n/a	4	5	(1)
Credit default swaps – selling protection	Other investments	150	n/a	2	2	—
Other contracts						
Other contracts	Other investments	31	n/a	1	1	—
Other contracts	Other assets	3	n/a	1	1	—
Subtotal		1,523	5,627	55	57	(2)
Total asset derivatives		$1,568	5,627	$61	$ 63	$ (2)
Liability derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$19	n/a	$4	$ 4	$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	85	n/a	—	—	—
Interest rate cap agreements	Other liabilities & accrued expenses	72	n/a	1	1	—
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	—	4,406	(7)	—	(7)
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	361	n/a	(12)	1	(13)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	481	n/a	(38)	—	(38)
Guaranteed withdrawal benefits	Contractholder funds	332	n/a	(14)	—	(14)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,781	n/a	(247)	—	(247)

Other embedded derivative financial instruments	Contractholder funds	85	n/a	—	—	—
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	88	n/a	(2)	—	(2)
Credit default swaps – selling protection	Other liabilities & accrued expenses	105	n/a	(8)	—	(8)
Subtotal		3,390	4,406	(327)	2	(329)
Total liability derivatives		3,409	4,406	(323)	$ 6	$ (329)
Total derivatives		$ 4,977	10,033	$ (262)		

(1) Volume for OTC and cleared derivative contracts is represented by their notional amounts. Volume for exchange traded derivatives is represented by the number of contracts, which is the basis on which they are traded. (n/a = not applicable)

(2) In addition to the number of contracts presented in the table, the Company held 220 stock rights and warrants. Stock rights and warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

The following table provides gross and net amounts for the Company's OTC derivatives, all of which are subject to enforceable master netting agreements.

($ in millions)		Offsets				
	Gross amount	Counter-party netting	Cash collateral (received) pledged	Net amount on balance sheet	Securities collateral (received) pledged	Net amount
June 30, 2016						
Asset derivatives	$ 22	$ (37)	$ 19	$ 4	$ —	$ 4
Liability derivatives	(45)	37	(4)	(12)	9	(3)
December 31, 2015						
Asset derivatives	$ 21	$ (8)	$ (5)	$ 8	$ (4)	$ 4
Liability derivatives	(25)	8	(1)	(18)	9	(9)

The following table provides a summary of the impacts of the Company's foreign currency contracts in cash flow hedging relationships. Amortization of net gains from accumulated other comprehensive income related to cash flow hedges is expected to be a gain of $1 million during the next twelve months. There was no hedge ineffectiveness reported in realized gains and losses for the three months and six months ended June 30, 2016 or 2015.

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Gain (loss) recognized in OCI on derivatives during the period	$ 1	$ (1)	$ (1)	$ 7
Gain recognized in OCI on derivatives during the term of the hedging relationship	2	3	2	3
Loss reclassified from AOCI into income (net investment income)	—	(1)	—	(1)
Gain reclassified from AOCI into income (realized capital gains and losses)	3	—	3	3

The following tables present gains and losses from valuation and settlements reported on derivatives not designated as accounting hedging instruments in the Condensed Consolidated Statements of Operations. For the three months and six months ended June 30, 2016 and 2015, the Company had no derivatives used in fair value hedging relationships.

($ in millions)	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Three months ended June 30, 2016					
Interest rate contracts	$ (1)	$ —	$ —	$ —	$ (1)
Equity and index contracts	(5)	—	2	4	1
Embedded derivative financial instruments	—	14	(5)	—	9
Foreign currency contracts	6	—	—	(16)	(10)
Credit default contracts	(1)	—	—	—	(1)
Total	$ (1)	$ 14	$ (3)	$ (12)	$ (2)
Six months ended June 30, 2016					
Interest rate contracts	$ (1)	$ —	$ —	$ —	$ (1)
Equity and index contracts	(5)	—	(5)	4	(6)
Embedded derivative financial instruments	—	(2)	(3)	—	(5)
Foreign currency contracts	1	—	—	(21)	(20)
Credit default contracts	(5)	—	—	—	(5)
Total	$ (10)	$ (2)	$ (8)	$ (17)	$ (37)
Three months ended June 30, 2015					
Interest rate contracts	$ 2	$ —	$ —	$ —	$ 2
Equity and index contracts	—	—	—	1	1
Embedded derivative financial instruments	—	—	11	—	11
Foreign currency contracts	3	—	—	12	15
Other contracts	—	—	1	—	1
Total	$ 5	$ —	$ 12	$ 13	$ 30
Six months ended June 30, 2015					
Interest rate contracts	$ 2	$ —	$ —	$ —	$ 2
Equity and index contracts	(5)	—	4	4	3
Embedded derivative financial instruments	—	—	8	—	8
Foreign currency contracts	(20)	—	—	3	(17)
Other contracts	—	—	1	—	1
Total	$ (23)	$ —	$ 13	$ 7	$ (3)

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements (“MNAs”) and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions that permit either party to net payments due for transactions and collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of June 30, 2016, counterparties pledged $6 million in cash to the Company, and the Company pledged $30 million in cash and securities to counterparties which includes $7 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and $23 million of collateral posted under MNAs for contracts without credit-risk-contingent features. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives, including futures and certain option contracts, are traded on organized exchanges which require margin deposits and guarantee the execution of trades, thereby mitigating any potential credit risk.

Counterparty credit exposure represents the Company’s potential loss if all of the counterparties concurrently fail to perform under the contractual terms of the contracts and all collateral, if any, becomes worthless. This exposure is measured by the fair value of OTC derivative contracts with a positive fair value at the reporting date reduced by the effect, if any, of legally enforceable master netting agreements.

The following table summarizes the counterparty credit exposure by counterparty credit rating as it relates to the Company's OTC derivatives.

($ in millions)	June 30, 2016				December 31, 2015			
Rating [1]	Number of counter-parties	Notional amount [2]	Credit exposure [2]	Exposure, net of collateral [2]	Number of counter-parties	Notional amount [2]	Credit exposure [2]	Exposure, net of collateral [2]
AA-	2	$ 67	$ 1	$ 1	—	$ —	$ —	$ —
A+	1	207	5	2	1	82	5	—
A	3	58	2	—	5	375	9	6
A-	—	—	—	—	1	41	3	—
BBB+	2	7	—	—	2	49	—	1
Total	8	$ 339	$ 8	$ 3	9	$ 547	$ 17	$ 7

(1) Rating is the lower of S&P or Moody's ratings.
(2) Only OTC derivatives with a net positive fair value are included for each counterparty.

Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. M