ALLSTATE CORP
Form 10-Q
October 31, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes X No ___
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	X	Accelerated filer	____
Non-accelerated filer		Smaller reporting company	____
		Emerging growth company	____

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ____
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No X
As of October 15, 2018, the registrant had 344,442,270 common shares, $.01 par value, outstanding.

The Allstate Corporation
Index to Quarterly Report on Form 10-Q
September 30, 2018

Condensed Consolidated Financial Statements

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

($ in millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Revenues				
Property and casualty insurance premiums	$8,595	$8,121	$25,341	$24,098
Life premiums and contract charges	612	593	1,840	1,777
Other revenue	238	228	682	664
Net investment income	844	843	2,454	2,488
Realized capital gains and losses:				
Total other-than-temporary impairment (“OTTI”) losses	(4)	(26)	(8)	(135)
OTTI losses reclassified (from) to other comprehensive income (“OCI”)	(1)	(2)	(2)	(2)
Net OTTI losses recognized in earnings	(5)	(28)	(10)	(137)
Sales and valuation changes on equity investments and derivatives	181	131	27	455
Total realized capital gains and losses	176	103	17	318
Total revenues	10,465	9,888	30,334	29,345
Costs and expenses				
Property and casualty insurance claims and claims expense	5,817	5,545	16,758	16,650
Life contract benefits	498	456	1,485	1,416
Interest credited to contractholder funds	163	174	489	522
Amortization of deferred policy acquisition costs	1,317	1,200	3,886	3,545
Operating costs and expenses	1,534	1,446	4,296	4,065
Restructuring and related charges	16	14	65	77
Interest expense	82	83	251	251
Total costs and expenses	9,427	8,918	27,230	26,526
Gain on disposition of operations	1	1	4	15
Income from operations before income tax expense	1,039	971	3,108	2,834
Income tax expense	169	305	587	894
Net income	870	666	2,521	1,940
Preferred stock dividends	37	29	105	87
Net income applicable to common shareholders	$833	$637	$2,416	$1,853
Earnings per common share:				
Net income applicable to common shareholders per common share - Basic	$2.41	$1.76	$6.91	$5.10
Weighted average common shares - Basic	346.0	361.3	349.7	363.5
Net income applicable to common shareholders per common share - Diluted	$2.37	$1.74	$6.80	$5.02
Weighted average common shares - Diluted	351.7	367.1	355.4	369.1

Cash dividends declared per common share	$0.46	$0.37	$1.38	$1.11

See notes to condensed consolidated financial statements.

Condensed Consolidated Financial Statements

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Net income	$870	$666	$2,521	$1,940
Other comprehensive (loss) income, after-tax				
Changes in:				
Unrealized net capital gains and losses	(70)	125	(768)	598
Unrealized foreign currency translation adjustments	(14)	28	(25)	36
Unrecognized pension and other postretirement benefit cost	68	73	113	110
Other comprehensive (loss) income, after-tax	(16)	226	(680)	744
Comprehensive income	$854	$892	$1,841	$2,684

See notes to condensed consolidated financial statements.

Condensed Consolidated Financial Statements

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Financial Position

($ in millions, except par value data)	September 30, 2018	December 31, 2017
Assets	(unaudited)	
Investments		
Fixed income securities, at fair value (amortized cost $57,618 and $57,525)	$ 57,663	$ 58,992
Equity securities, at fair value (cost $5,741 and $5,461)	6,965	6,621
Mortgage loans	4,592	4,534
Limited partnership interests	7,602	6,740
Short-term, at fair value (amortized cost $3,071 and $1,944)	3,071	1,944
Other	4,075	3,972
Total investments	83,968	82,803
Cash	460	617
Premium installment receivables, net	6,196	5,786
Deferred policy acquisition costs	4,667	4,191
Reinsurance recoverables, net	8,994	8,921
Accrued investment income	616	569
Property and equipment, net	1,032	1,072
Goodwill	2,189	2,181
Other assets	3,061	2,838
Separate Accounts	3,307	3,444
Total assets	$ 114,490	$ 112,422
Liabilities		
Reserve for property and casualty insurance claims and claims expense	$ 26,939	$ 26,325
Reserve for life-contingent contract benefits	12,214	12,549
Contractholder funds	18,650	19,434
Unearned premiums	14,408	13,473
Claim payments outstanding	904	875
Deferred income taxes	660	782
Other liabilities and accrued expenses	7,325	6,639
Long-term debt	6,450	6,350
Separate Accounts	3,307	3,444
Total liabilities	90,857	89,871
Commitments and Contingent Liabilities (Note 12)		
Shareholders' equity		
Preferred stock and additional capital paid-in, $1 par value, 25 million shares authorized, 95.2 thousand and 72.2 thousand shares issued and outstanding, $2,380 and $1,805 aggregate liquidation preference	2,303	1,746
Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 345 million and 355 million shares outstanding	9	9
Additional capital paid-in	3,441	3,313
Retained income	46,178	43,162
Deferred Employee Stock Ownership Plan ("ESOP") expense	(3)	(3)
Treasury stock, at cost (555 million and 545 million shares)	(27,011)	(25,982)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	86	85
Other unrealized net capital gains and losses	(53)	1,981

Unrealized adjustment to DAC, DSI and insurance reserves	(49)	(404)
Total unrealized net capital gains and losses	(16)	1,662
Unrealized foreign currency translation adjustments	(34)	(9)
Unrecognized pension and other postretirement benefit cost	(1,234)	(1,347)
Total accumulated other comprehensive income (“AOCI”)	(1,284)	306
Total shareholders’ equity	23,633	22,551
Total liabilities and shareholders’ equity	$ 114,490	$ 112,422

See notes to condensed consolidated financial statements.

Condensed Consolidated Financial Statements

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

($ in millions)	Nine months ended September 30,	
	2018	2017
	(unaudited)	
Preferred stock par value	$—	$—
Preferred stock additional capital paid-in		
Balance, beginning of period	1,746	1,746
Preferred stock issuance	557	—
Balance, end of period	2,303	1,746
Common stock par value	9	9
Common stock additional capital paid-in		
Balance, beginning of period	3,313	3,303
Forward contract on accelerated share repurchase agreement	45	—
Equity incentive plans activity	83	27
Balance, end of period	3,441	3,330
Retained income		
Balance, beginning of period	43,162	40,678
Cumulative effect of change in accounting principle	1,088	—
Net income	2,521	1,940
Dividends on common stock	(488)	(406)
Dividends on preferred stock	(105)	(87)
Balance, end of period	46,178	42,125
Deferred ESOP expense	(3)	(6)
Treasury stock		
Balance, beginning of period	(25,982)	(24,741)
Shares acquired	(1,117)	(845)
Shares reissued under equity incentive plans, net	88	173
Balance, end of period	(27,011)	(25,413)
Accumulated other comprehensive income		
Balance, beginning of period	306	(416)
Cumulative effect of change in accounting principle	(910)	—
Change in unrealized net capital gains and losses	(768)	598
Change in unrealized foreign currency translation adjustments	(25)	36
Change in unrecognized pension and other postretirement benefit cost	113	110
Balance, end of period	(1,284)	328
Total shareholders' equity	$23,633	$22,119

See notes to condensed consolidated financial statements.

Condensed Consolidated Financial Statements

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows

($ in millions)	Nine months ended September 30,	
	2018	2017
Cash flows from operating activities	(unaudited)	
Net income	$2,521	$1,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	376	358
Realized capital gains and losses	(17)	(318)
Gain on disposition of operations	(4)	(15)
Interest credited to contractholder funds	489	522
Changes in:		
Policy benefits and other insurance reserves	90	1,276
Unearned premiums	785	525
Deferred policy acquisition costs	(203)	(176)
Premium installment receivables, net	(422)	(267)
Reinsurance recoverables, net	(103)	(1,017)
Income taxes	(227)	119
Other operating assets and liabilities	533	267
Net cash provided by operating activities	3,818	3,214
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	26,223	19,508
Equity securities	4,637	5,179
Limited partnership interests	490	767
Other investments	234	170
Investment collections		
Fixed income securities	2,388	3,038
Mortgage loans	378	477
Other investments	370	458
Investment purchases		
Fixed income securities	(29,049)	(23,935)
Equity securities	(4,791)	(5,296)
Limited partnership interests	(1,317)	(1,082)
Mortgage loans	(435)	(311)
Other investments	(686)	(700)
Change in short-term investments, net	(665)	2,257
Change in other investments, net	(28)	(28)
Purchases of property and equipment, net	(195)	(216)
Acquisition of operations	(10)	(1,356)
Net cash used in investing activities	(2,456)	(1,070)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	498	—
Redemption and repayment of long-term debt	(401)	—
Proceeds from issuance of preferred stock	557	—
Contractholder fund deposits	756	767
Contractholder fund withdrawals	(1,474)	(1,416)

Dividends paid on common stock	(455)	(391)
Dividends paid on preferred stock	(97)	(87)
Treasury stock purchases	(1,062)	(848)
Shares reissued under equity incentive plans, net	66	132
Other	93	(47)
Net cash used in financing activities	(1,519)	(1,890)
Net (decrease) increase in cash	(157)	254
Cash at beginning of period	617	436
Cash at end of period	$460	$690

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)
Note 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 and casualty insurance company with various property and casualty and life and investment subsidiaries, including Allstate Life Insurance Company ("ALIC") (collectively referred to as the "Company" or "Allstate"). These condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").
The condensed consolidated financial statements and notes as of September 30, 2018 and for the three month and nine month periods ended September 30, 2018 and 2017 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, 2017. 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
Recognition and Measurement of Financial Assets and Financial Liabilities
Effective January 1, 2018, the Company adopted new Financial Accounting Standards Board ("FASB") guidance requiring equity investments, including equity securities and limited partnership interests not accounted for under the equity method of accounting or that do not result in consolidation to be measured at fair value with changes in fair value recognized in net income. The guidance clarifies that an entity should evaluate the realizability of deferred tax assets related to available-for-sale fixed income securities in combination with the entity's other deferred tax assets. The Company's adoption of the new FASB guidance included adoption of the relevant elements of Technical Corrections and Improvements to Financial Instruments, issued in February 2018.
Upon adoption of the new guidance on January 1, 2018, \$1.16 billion of pre-tax unrealized net capital gains for equity securities were reclassified from AOCI to retained income. The after-tax change in accounting for equity securities did not affect the Company's total shareholders' equity and the unrealized net capital

gains of \$910 million, reclassified to retained income will never be recognized in net income.
Upon adoption of the new guidance on January 1, 2018, the carrying value of cost method limited partnership interests increased \$224 million, pre-tax, to fair value. The after-tax cumulative-effect increase in retained income of \$177 million increased the Company's shareholders' equity but will never be recognized in net income thereby negatively impacting calculations of returns on equity.
Revenue from Contracts with Customers
Effective January 1, 2018, the Company adopted new FASB guidance which revises the criteria for revenue recognition. Insurance contracts are excluded from the scope of the new guidance. The Company's principal activities impacted by the new guidance are those related to the issuance of protection plans for consumer products and automobiles and service contracts that provide roadside assistance. Under the guidance, the transaction price is attributed to underlying performance obligations in the contract and revenue is recognized as the entity satisfies performance obligations and transfers control of a good or service to the customer. Incremental costs of obtaining a contract may be capitalized and amortized to the extent the entity expects to recover those costs.
Adoption of the guidance on January 1, 2018 under the modified retrospective approach resulted in the recognition of an immaterial after-tax net cumulative effect increase to the beginning balance of retained income. In addition to the net cumulative effect, the Company also recorded in the statement of financial position an increase of approximately

$160 million pre-tax in unearned premiums with a corresponding $160 million pre-tax increase in deferred policy acquisition costs (“DAC”) for protection plans sold directly to retailers for which SquareTrade Holding Company, Inc. (“SquareTrade”) is deemed to be the principal in the transaction. This impact offsets fully and did not impact retained income at the date of adoption.

Presentation of Net Periodic Pension and Postretirement Benefits Costs

Effective January 1, 2018, the Company adopted new FASB guidance requiring identification, on the statement of operations or in disclosures, the line items in which the components of net periodic pension and postretirement benefits costs are presented. The new guidance permits only the service cost component to be eligible for capitalization where applicable. The adoption had no impact on the Company’s results of operations or financial position.

Goodwill Impairment

In January 2017, the FASB issued guidance to simplify the accounting for goodwill impairment which removes the second step of the goodwill impairment test that requires a hypothetical purchase price allocation. Under the new guidance, goodwill impairment will be measured and recognized as the amount by which a reporting unit's carrying value, including goodwill, exceeds its fair value, not to exceed the carrying amount of goodwill allocated to the reporting unit. The revised guidance does not affect a reporting entity's ability to first assess qualitative factors by reporting unit to determine whether to perform the quantitative goodwill impairment test. The guidance is to be applied on a prospective basis, with the effects, if any, recognized in net income in the period of adoption. The Company elected to early adopt the new guidance as of January 1, 2018. The adoption had no impact on the Company's results of operations or financial position.

Changes to significant accounting policies

Investments

Changes were made to the Company's Significant Accounting Policies upon adoption of new FASB guidance related to the recognition and measurement of financial assets. Equity securities primarily include common stocks, exchange traded and mutual funds, non-redeemable preferred stocks and real estate investment trust equity investments. Equity securities are carried at fair value. Equity securities without readily determinable or estimable fair values are measured using the measurement alternative of cost less impairment, if any, and adjustments resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The periodic change in fair value of equity securities is recognized within realized capital gains and losses on the Condensed Consolidated Statements of Operations effective January 1, 2018.

Investments in limited partnership interests include interests in private equity funds, real estate funds and other funds. Where the Company's interest is so minor that it exercises virtually no influence over operating and financial policies, investments in limited partnership interests purchased prior to January 1, 2018 are accounted for at fair value primarily utilizing the net asset value ("NAV") as a practical expedient to determine fair value. All other investments in limited partnership interests, including those purchased subsequent to January 1, 2018, are accounted for in accordance with the equity method of accounting ("EMA").

Investment income from limited partnership interests carried at fair value is recognized based upon the changes in fair value of the investee's equity primarily determined using NAV. Income from EMA limited partnership interests is recognized based on the Company's share of the partnerships' earnings. Income from EMA limited partnership interests is generally recognized on a three month delay due to the availability of the related financial statements from investees.

Recognition of Revenue

Revenues related to protection plans, other contracts (primarily finance and insurance products) and roadside assistance are deferred and earned over the term of the contract in a manner that recognizes revenue as obligations under the contracts are performed. Revenues from these products are classified as premiums as the products are backed by insurance. Protection plans and finance and insurance premiums are recognized using a cost-based incurrence method. Roadside assistance premiums are recognized evenly over the term of the contract as performance obligations are fulfilled.

Tax Reform

On December 22, 2017, Public Law 115-97, known as the Tax Cuts and Jobs Act of 2017 ("Tax Legislation") became effective, permanently reducing the U.S. corporate income tax rate from 35% to 21% beginning January 1, 2018. As a result, the corporate tax rate is not comparable between periods. During 2017, the Company revalued its deferred tax assets and liabilities and recorded liabilities related to the transition to the modified territorial system for international taxation. The impact of the Tax Legislation was adjusted from the Company's preliminary estimate due to, among other things, changes in interpretations and assumptions the Company previously made, guidance that was issued and actions the Company took as a result of the Tax Legislation. During the third quarter of 2018, the Company recorded a reduction of $31 million to income tax expense related to these provisional amounts. The Company may make adjustments to these provisional amounts as additional information becomes available and future guidance is issued by the Internal Revenue Service.

Pending accounting standards

Accounting for Leases

In February 2016, the FASB issued guidance revising the accounting for leases. Under the new guidance, lessees will be required to recognize a right-of-use (“ROU”) asset and lease liability for all leases other than those with a term less than one year. The lease liability will be equal to the present value of lease payments. A ROU asset will be based on the lease liability adjusted for qualifying initial direct costs. The Company currently estimates that the recognition of the ROU asset and lease liability will result in an increase in both total assets and liabilities in the Condensed Consolidated Statement of Financial Position of approximately $525 million. The new guidance requires sellers in a sale-leaseback transaction to recognize the entire gain from the sale of an underlying asset at the time the sale is recognized rather than over the leaseback term. The carrying value of unrecognized gains on sale-leaseback transactions executed prior to January 1, 2019 are approximately $20 million, after-tax, and will be recorded as an increase to retained income.

The expense of operating leases under the new guidance will be recognized in the income statement on a straight-line basis by adjusting the amortization of the ROU asset to produce a straight-line expense when combined with the interest expense on the lease liability. For finance leases, the expense components are computed separately and produce greater up-front expense compared to operating leases as interest expense on the lease liability is higher in early years and the ROU 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, and will be implemented using the optional transition method that allows application of the transition provisions at the adoption date instead of the earliest date presented.

Measurement of Credit Losses on Financial Instruments

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

Accounting for Hedging Activities

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

Changes to the Disclosure Requirements for Deferred Benefit Plans

In August 2018, the FASB issued amendments to modify certain disclosure requirements for defined benefit plans. Disclosure additions relate to the weighted-average interest crediting rates for cash balance plans and other plans with interest crediting rates and explanations for significant gains and losses related to changes in the benefit obligation for the period. Disclosures to be removed include those that identify amounts that are expected to be reclassified out of AOCI and into the income statement in the coming year and the anticipated impact of a one-percentage point change in assumed health care cost trend rate on service and interest cost and on the accumulated benefit obligation. The amendments are effective for annual reporting periods beginning after December 15, 2020. The impacts of adoption are to the Company’s disclosures only.

Accounting for Long-Duration Insurance Contracts

In August 2018, the FASB issued guidance revising the accounting for certain long-duration insurance contracts. The new guidance changes the measurement of the Company’s reserves for traditional life, life-contingent immediate annuities and certain voluntary accident and health insurance products.

Under the new guidance, measurement assumptions, including those for mortality, morbidity and policy terminations, will be required to be reviewed and updated at least annually. The effect of updating measurement assumptions other than the discount rate are required to be determined on a retrospective basis and reported in net income. In addition, cash flows under the new guidance are required to be discounted using an upper-medium grade fixed income instrument yield that is updated through OCI at each reporting date. These changes will replace current GAAP, which utilizes assumptions set at policy issuance until such time as the assumptions result in reserves that are deficient when compared to reserves computed using current assumptions. When this occurs under current GAAP, premium deficiency reserves are recognized by unlocking reserve assumptions to eliminate a reserve deficiency.

The new guidance requires DAC and other capitalized balances currently amortized in proportion to premiums or gross profits to be amortized on a constant level basis over the expected term for all long-duration insurance contracts. DAC will not be subject to loss recognition testing but rather will be

Notes to Condensed Consolidated Financial Statements

reduced when actual experience exceeds expected experience (i.e. as a result of unexpected contract terminations). The new guidance will no longer require adjustments to DAC and deferred sales inducement costs (“DSI”) related to unrealized gains and losses.
Market risk benefit product features are required to be measured at fair value with changes in fair value recorded in net income with the exception of changes in the fair value attributable to a change in the instrument’s credit risk, which are required to be recognized in OCI. Substantially all of the Company’s market risk benefits are reinsured and therefore these impacts are not expected to be material to the Company.
The guidance is to be included in the comparable financial statements issued in reporting periods beginning after December 15, 2020, thereby requiring restatement of prior periods presented. Early adoption is permitted. The new guidance will be applied to affected contracts and DAC on the basis of existing carrying amounts at the earliest period presented or the new guidance may be applied retrospectively using actual historical experience as of contract inception. The guidance for market risk benefits is required to be adopted retrospectively.
The Company is evaluating the anticipated impacts of applying the new guidance to both retained income and AOCI. While the requirements of the new guidance represent a material change from existing GAAP, the underlying economics of the business and related cash flows are unchanged. The Company has

not completed an evaluation of the specific impacts of adopting the new guidance, but anticipates the financial statement impact of migrating from existing GAAP to that required by the new guidance to be material, largely attributed to the impact of transitioning from an original investment-based discount rate to one based on an upper-medium grade fixed income investment yield and updates to mortality assumptions that had previously been locked in at issuance. The Company expects the most significant impacts will occur in the run-off annuity segment. The revised accounting for DAC will be applied prospectively using the new model and any DAC effects existing in AOCI as a result of applying existing GAAP at the date of adoption will be reversed.
Other revenue presentation
Concurrent with the adoption of new FASB guidance on revenue from contracts with customers and the Company’s objective of providing more information related to revenues for our Service Businesses, the Company revised the presentation of total revenue to include other revenue. Previously, components of other revenue were presented within operating costs and expenses and primarily represent fees collected from policyholders relating to premium installment payments, commissions on sales of non-proprietary products, fee-based services and other revenue transactions. Other revenue is recognized when performance obligations are fulfilled. Prior periods have been reclassified to conform to current separate presentation of other revenue.
Note 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.
Computation of basic and diluted earnings per common share

($ in millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net income	$870	$666	$2,521	$1,940

Less: Preferred stock dividends	37	29	105	87
Net income applicable to common shareholders [1]	$833	$637	$2,416	$1,853
Denominator:				
Weighted average common shares outstanding	346.0	361.3	349.7	363.5
Effect of dilutive potential common shares:				
Stock options	3.8	4.4	3.8	4.3
Restricted stock units (non-participating) and performance stock awards	1.9	1.4	1.9	1.3
Weighted average common and dilutive potential common shares outstanding	351.7	367.1	355.4	369.1
Earnings per common share - Basic	$2.41	$1.76	$6.91	$5.10
Earnings per common share - Diluted	$2.37	$1.74	$6.80	$5.02

[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 2.3 million and 0.2 million Allstate common shares, with exercise prices ranging from $84.93 to $102.84 and $78.35 to $93.93, were outstanding for the three month periods ended

September 30, 2018 and 2017, respectively, but were not included in the computation of diluted earnings per common share in those periods. Options to purchase 1.9 million and 2.5 million Allstate common shares, with exercise prices ranging from $84.93 to $102.84 and $74.03 to $93.93, were outstanding for the nine month periods ended September 30, 2018 and 2017, respectively, but were not included in the computation of diluted earnings per common share in those periods.

Note 3 Acquisitions

On January 3, 2017, the Company acquired SquareTrade, a consumer product protection plan provider that distributes through many of America's major retailers and Europe's mobile operators, for $1.4 billion in cash. SquareTrade provides protection plans covering a variety of consumer electronics and appliances. This acquisition broadened Allstate's unique product offerings to better meet consumers' needs.

In connection with the SquareTrade acquisition, the Company recorded goodwill of $1.10 billion, commissions paid to retailers (reported in deferred policy acquisition costs) of $66 million, other intangible assets (reported in other assets) of $555 million, contractual liability insurance policy premium expenses (reported in other assets) of $205 million, unearned premiums of $389 million and net deferred income tax liability of $138 million. These amounts reflect re-measurement adjustments to the fair value of the opening balance sheet assets and liabilities.

Of the $555 million assigned to other intangible assets, $465 million was attributable to acquired customer relationships and $69 million was assigned to

the SquareTrade trade name which is considered to have an indefinite useful life. The amortization expense of intangible assets was $20 million and $23 million for the three months ended September 30, 2018 and 2017, respectively, and was $61 million and $69 million for the nine months ended September 30, 2018 and 2017, respectively.

Subsequent event On October 5, 2018, the Company acquired InfoArmor, Inc. ("InfoArmor"), a leading provider of identity protection in the employee benefits market, for $525 million in cash. InfoArmor primarily offers identity protection to employees and their family members through voluntary benefit programs at over 1,400 firms, including more than 100 of the Fortune 500 companies. Due to the limited time since the closing date, the Company is currently evaluating the allocation of the purchase price and is unable to provide amounts recognized as of the closing date for the major classes of assets acquired and liabilities assumed. The Company will include this information in its annual report on Form 10-K for the year ended December 31, 2018.

Notes to Condensed Consolidated Financial Statements

Note 4 Reportable Segments
Reportable segments revenue information

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Property-Liability				
Insurance premiums				
Auto	$5,798	$5,501	$17,094	$16,327
Homeowners	1,891	1,832	5,603	5,462
Other personal lines	455	439	1,354	1,306
Commercial lines	176	124	477	367
Allstate Protection	8,320	7,896	24,528	23,462
Discontinued Lines and Coverages	—	—	—	—
Total property-liability insurance premiums	8,320	7,896	24,528	23,462
Other revenue	192	185	550	533
Net investment income	410	368	1,100	1,063
Realized capital gains and losses	126	82	16	302
Total Property-Liability	9,048	8,531	26,194	25,360
Service Businesses				
Consumer product protection plans	125	78	369	207
Roadside assistance	66	69	198	204
Finance and insurance products	84	78	246	225
Intersegment premiums and service fees [1]	31	26	89	82
Other revenue	16	17	48	50
Net investment income	7	4	18	11
Realized capital gains and losses	—	—	(6)	—
Total Service Businesses	329	272	962	779
Allstate Life				
Traditional life insurance premiums	149	141	443	420
Accident and health insurance premiums	—	—	1	1
Interest-sensitive life insurance contract charges	173	175	531	535
Other revenue	30	26	84	81
Net investment income	128	119	380	362
Realized capital gains and losses	(3)	2	(9)	4
Total Allstate Life	477	463	1,430	1,403
Allstate Benefits				
Traditional life insurance premiums	13	12	32	30
Accident and health insurance premiums	246	232	739	696
Interest-sensitive life insurance contract charges	26	29	83	85
Net investment income	19	18	57	54
Realized capital gains and losses	2	1	—	1
Total Allstate Benefits	306	292	911	866
Allstate Annuities				

Fixed annuities contract charges	5	4	11	10
Net investment income	260	324	843	967
Realized capital gains and losses	51	18	28	11
Total Allstate Annuities	316	346	882	988
Corporate and Other				
Net investment income	20	10	56	31
Realized capital gains and losses	—	—	(12)	—
Total Corporate and Other	20	10	44	31
Intersegment eliminations [(1)]	(31)	(26)	(89)	(82)
Consolidated revenues	$10,465	$9,888	$30,334	$29,345

[(1)] Intersegment insurance premiums and service fees are primarily related to Arity and Allstate Roadside Services and are eliminated in the condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

Reportable segments financial performance

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2018	2017	2018	2017
Property-Liability				
Allstate Protection	$553	$572	$1,934	$1,392
Discontinued Lines and Coverages	(80)	(88)	(86)	(95)
Total underwriting income	473	484	1,848	1,297
Net investment income	410	368	1,100	1,063
Income tax expense on operations	(178)	(271)	(603)	(746)
Realized capital gains and losses, after-tax	103	54	16	199
Gain on disposition of operations, after-tax	—	1	—	7
Tax Legislation expense	(3)	—	(3)	—
Property-Liability net income applicable to common shareholders	805	636	2,358	1,820
Service Businesses				
Adjusted net income (loss)	—	(17)	(4)	(35)
Realized capital gains and losses, after-tax	(1)	—	(5)	—
Amortization of purchased intangible assets, after-tax	(16)	(15)	(48)	(45)
Tax Legislation expense	(4)	—	(4)	—
Service Businesses net loss applicable to common shareholders	(21)	(32)	(61)	(80)
Allstate Life				
Adjusted net income	74	74	221	196
Realized capital gains and losses, after-tax	(3)	1	(7)	2
DAC and DSI amortization related to realized capital gains and losses, after-tax	(1)	(2)	(6)	(8)
Tax Legislation expense	(16)	—	(16)	—
Allstate Life net income applicable to common shareholders	54	73	192	190
Allstate Benefits				
Adjusted net income	32	28	94	75
Realized capital gains and losses, after-tax	2	1	—	1
Allstate Benefits net income applicable to common shareholders	34	29	94	76
Allstate Annuities				
Adjusted net income	20	55	99	149
Realized capital gains and losses, after-tax	40	11	22	6
Valuation changes on embedded derivatives not hedged, after-tax	1	(1)	5	(2)
Gain on disposition of operations, after-tax	1	1	3	3
Tax Legislation benefit	69	—	69	—
Allstate Annuities net income applicable to common shareholders	131	66	198	156
Corporate and Other				
Adjusted net loss	(155)	(134)	(340)	(295)
Realized capital gains and losses, after-tax	—	—	(10)	—
Business combination expenses, after-tax	—	(1)	—	(14)

Tax Legislation expense	(15)	—	(15)	—
Corporate and Other net loss applicable to common shareholders	(170)	(135)	(365)	(309)
Consolidated net income applicable to common shareholders	$833	$637	$2,416	$1,853

Notes to Condensed Consolidated Financial Statements

Note 5 Investments

Amortized cost, gross unrealized gains and losses and fair value for fixed income securities

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
September 30, 2018				
U.S. government and agencies	$ 3,142	$36	$(27)	$3,151
Municipal	9,316	204	(105)	9,415
Corporate	42,828	557	(723)	42,662
Foreign government	854	12	(12)	854
Asset-backed securities (“ABS”)	979	8	(8)	979
Residential mortgage-backed securities (“RMBS”)	404	98	(2)	500
Commercial mortgage-backed securities (“CMBS”)	74	7	(1)	80
Redeemable preferred stock	21	1	—	22
Total fixed income securities	$ 57,618	$923	$(878)	$57,663
December 31, 2017				
U.S. government and agencies	$ 3,580	$56	$(20)	$3,616
Municipal	8,053	311	(36)	8,328
Corporate	42,996	1,234	(204)	44,026
Foreign government	1,005	27	(11)	1,021
ABS	1,266	13	(7)	1,272
RMBS	480	101	(3)	578
CMBS	124	6	(2)	128
Redeemable preferred stock	21	2	—	23
Total fixed income securities	$ 57,525	$1,750	$(283)	$58,992

Scheduled maturities for fixed income securities

($ in millions)	As of September 30, 2018 Amortized cost	Fair value
Due in one year or less	$4,038	$4,042
Due after one year through five years	28,963	28,812
Due after five years through ten years	16,216	15,987
Due after ten years	6,944	7,263
	56,161	56,104
ABS, RMBS and CMBS	1,457	1,559
Total	$57,618	$57,663

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017

Fixed income securities	$527	$519	$1,544	$1,564
Equity securities	35	37	130	130
Mortgage loans	52	52	163	157
Limited partnership interests [(1)(2)]	210	223	563	596
Short-term investments	19	9	50	21
Other	71	58	205	174
Investment income, before expense	914	898	2,655	2,642
Investment expense	(70)	(55)	(201)	(154)
Net investment income	$844	$843	$2,454	$2,488

(1) Due to the adoption of the recognition and measurement accounting standard, limited partnerships previously reported using the cost method are now reported at fair value with changes in fair value recognized in net investment income.

(2) Includes net investment income of $135 million and $381 million for EMA limited partnership interests and $75 million and $182 million for limited partnership interests carried at fair value for the three and nine months ended September 30, 2018, respectively.

Notes to Condensed Consolidated Financial Statements

Realized capital gains and losses by asset type

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Fixed income securities	$(30)	$41	$(153)	$78
Equity securities	223	57	204	182
Mortgage loans	—	1	2	1
Limited partnership interests	(23)	21	(56)	92
Derivatives	5	(17)	20	(40)
Other	1	—	—	5
Realized capital gains and losses	$176	$103	$17	$318

Realized capital gains and losses by transaction type

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Impairment write-downs [1]	$(5)	$(23)	$(10)	$(94)
Change in intent write-downs [1]	—	(5)	—	(43)
Net OTTI losses recognized in earnings	(5)	(28)	(10)	(137)
Sales [1]	(22)	148	(139)	495
Valuation of equity investments [1]	198	—	149	—
Valuation and settlements of derivative instruments	5	(17)	17	(40)
Realized capital gains and losses	$176	$103	$17	$318

(1) Due to the adoption of the recognition and measurement accounting standard, equity securities are reported at fair value with changes in fair value recognized in valuation of equity investments and are no longer included in impairment write-downs, change in intent write-downs and sales.

Gross gains of $21 million and gross losses of $48 million were realized on sales of fixed income securities during the three months ended September 30, 2018. Gross gains of $145 million and gross losses of $36 million were realized on sales of fixed income and equity securities during the three months ended September 30, 2017.

Gross gains of $95 million and gross losses of $242 million were realized on sales of fixed income securities during the nine months ended September 30, 2018. Gross gains of $521 million and gross losses of $161 million were realized on sales of fixed income and equity securities during the nine months ended September 30, 2017.

Valuation changes included in net income for investments still held as of September 30, 2018

($ in millions)	Three months ended September 30, 2018	Nine months ended September 30, 2018
Equity securities [1]	$ 234	$ 321
Limited partnership interests carried at fair value [1]	75	181
Total valuation changes	$ 309	$ 502

(1) Investments held at the end of a prior quarter that were sold in the current quarter are not included in the year-to-date amounts shown in the table above; therefore, the sum of the quarterly amounts may not equal the

year-to-date amount.

Notes to Condensed Consolidated Financial Statements

OTTI losses by asset type

($ in millions)	Three months ended September 30, 2018			Three months ended September 30, 2017		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$—	$ —	$—	$—	$ —	$—
ABS	—	(1)	(1)	—	(1)	(1)
RMBS	—	—	—	—	—	—
CMBS	(2)	—	(2)	(1)	(1)	(2)
Total fixed income securities	(2)	(1)	(3)	(1)	(2)	(3)
Equity securities (1)	—	—	—	(8)	—	(8)
Mortgage loans	—	—	—	(1)	—	(1)
Limited partnership interests (1)	(2)	—	(2)	(16)	—	(16)
Other	—	—	—	—	—	—
OTTI losses	$(4)	$ (1)	$(5)	$(26)	$ (2)	$(28)

	Nine months ended September 30, 2018			Nine months ended September 30, 2017		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$—	$ —	$—	$(1)	$ (2)	$(3)
Corporate	—	—	—	(9)	3	(6)
ABS	(1)	(1)	(2)	(1)	(1)	(2)
RMBS	(1)	—	(1)	(1)	(3)	(4)
CMBS	(2)	(1)	(3)	(9)	1	(8)
Total fixed income securities	(4)	(2)	(6)	(21)	(2)	(23)
Equity securities (1)	—	—	—	(77)	—	(77)
Mortgage loans	—	—	—	(1)	—	(1)
Limited partnership interests (1)	(3)	—	(3)	(32)	—	(32)
Other	(1)	—	(1)	(4)	—	(4)
OTTI losses	$(8)	$ (2)	$(10)	$(135)	$ (2)	$(137)

(1) Due to the adoption of the recognition and measurement accounting standard, equity securities and limited partnerships previously reported using the cost method are now reported at fair value with changes in fair value recognized in net income and are no longer included in the table above.

The total amount of OTTI losses included in AOCI at the time of impairment for fixed income securities, which were not included in earnings, are presented in the following table. The amounts exclude $195 million and $208 million as of September 30, 2018 and

December 31, 2017, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

OTTI losses included in AOCI at the time of impairment for fixed income securities

($ in millions)	September 30, 2018	December 31, 2017
Municipal	$ (5)	$ (5)
ABS	(11)	(15)

RMBS	(68)	(77)
CMBS	(3)	(4)
Total	$ (87)	$ (101)

Notes to Condensed Consolidated Financial Statements

Rollforward of the cumulative credit losses recognized in earnings for fixed income securities held as of September 30,

($ in millions)	Three months ended		Nine months ended September 30,	
	2018	2017	2018	2017
Beginning balance	$(206)	$(281)	$(226)	$(318)
Additional credit loss for securities previously other-than-temporarily impaired	(3)	(3)	(5)	(15)
Additional credit loss for securities not previously other-than-temporarily impaired	—	—	(1)	(8)
Reduction in credit loss for securities disposed or collected	4	20	26	76
Change in credit loss due to accretion of increase in cash flows	—	—	1	1
Ending balance	$(205)	$(264)	$(205)	$(264)

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 OTTI 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 AOCI. If the Company determines that the fixed income security does not have sufficient cash flow or other information to estimate a recovery value for the security, the Company may conclude that the entire decline in fair value is deemed to be credit related and the loss is recorded in earnings.

Unrealized net capital gains and losses included in AOCI

($ in millions)	Fair	Gross unrealized		Unrealized net
September 30, 2018	value	Gains	Losses	gains (losses)
Fixed income securities	$57,663	$ 923	$ (878)	$ 45
Short-term investments	3,071	—	—	—
Derivative instruments	—	—	(3)	(3)
EMA limited partnerships [1]				2
Unrealized net capital gains and losses, pre-tax				44
Amounts recognized for:				
Insurance reserves [2]				—
DAC and DSI [3]				(62)
Amounts recognized				(62)
Deferred income taxes				2
Unrealized net capital gains and losses, after-tax				$ (16)

(1) Unrealized net capital gains and losses for limited partnership interests represent the Company’s share of EMA limited partnerships’ OCI. Fair value and gross unrealized gains and losses are not applicable.

(2) 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 lower interest rates, resulting in a premium deficiency. This adjustment primarily relates to structured settlement annuities with life contingencies (a type of immediate fixed annuities).

(3) 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.

Notes to Condensed Consolidated Financial Statements

Unrealized net capital gains and losses included in AOCI

($ in millions)	Fair	Gross unrealized		Unrealized net
December 31, 2017	value	Gains	Losses	gains (losses)
Fixed income securities	$58,992	$1,750	$(283)	$ 1,467
Equity securities	6,621	1,172	(12)	1,160
Short-term investments	1,944	—	—	—
Derivative instruments [1]	2	2	(3)	(1)
EMA limited partnerships				1
Unrealized net capital gains and losses, pre-tax				2,627
Amounts recognized for:				
Insurance reserves				(315)
DAC and DSI				(196)
Amounts recognized				(511)
Deferred income taxes				(454)
Unrealized net capital gains and losses, after-tax				$ 1,662

[1] Included in the fair value of derivative instruments is $2 million classified as liabilities.

Change in unrealized net capital gains and losses

($ in millions)	Nine months ended September 30, 2018
Fixed income securities	$ (1,422)
Equity securities [1]	—
Derivative instruments	(2)
EMA limited partnerships	1
Total	(1,423)
Amounts recognized for:	
Insurance reserves	315
DAC and DSI	134
Amounts recognized	449
Deferred income taxes	206
Decrease in unrealized net capital gains and losses, after-tax	$ (768)

[1] Upon adoption of the recognition and measurement accounting standard on January 1, 2018, $1.16 billion of pre-tax unrealized net capital gains for equity securities were reclassified from AOCI to retained income. See Note 1 of the condensed consolidated financial statements.

Portfolio monitoring

The Company has a comprehensive portfolio monitoring process to identify and evaluate each fixed income 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 OCI.
For fixed income 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 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 OTTI using all reasonably available information relevant to the collectability or recovery of the security.
Inherent in the Company's evaluation of

Notes to Condensed Consolidated Financial Statements

OTTI for these 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.

Gross unrealized losses and fair value by type and length of time held in a continuous unrealized loss position

($ in millions)	Less than 12 months Number of issues	Fair value	Unrealized losses	12 months or more Number of issues	Fair value	Unrealized losses	Total unrealized losses
September 30, 2018							
Fixed income securities							
U.S. government and agencies	65	$2,517	$ (23)	26	$175	$ (4)	$ (27)
Municipal	3,192	5,600	(75)	480	667	(30)	(105)
Corporate	1,823	24,061	(500)	329	4,274	(223)	(723)
Foreign government	26	166	(2)	25	432	(10)	(12)
ABS	68	442	(3)	19	107	(5)	(8)
RMBS	97	21	—	182	53	(2)	(2)
CMBS	5	18	—	3	1	(1)	(1)
Total fixed income securities	5,276	$32,825	$ (603)	1,064	$5,709	$ (275)	$ (878)
Investment grade fixed income securities	4,939	$30,338	$ (529)	1,015	$5,461	$ (253)	$ (782)
Below investment grade fixed income securities	337	2,487	(74)	49	248	(22)	(96)
Total fixed income securities	5,276	$32,825	$ (603)	1,064	$5,709	$ (275)	$ (878)
December 31, 2017							
Fixed income securities							
U.S. government and agencies	66	$2,829	$ (18)	18	$182	$ (2)	$ (20)
Municipal	1,756	3,143	(24)	165	349	(12)	(36)
Corporate	781	11,616	(102)	208	3,289	(102)	(204)
Foreign government	45	580	(10)	5	44	(1)	(11)
ABS	57	476	(3)	9	34	(4)	(7)
RMBS	118	35	(1)	181	50	(2)	(3)
CMBS	2	1	—	6	23	(2)	(2)
Redeemable preferred stock	1	—	—	—	—	—	—
Total fixed income securities	2,826	18,680	(158)	592	3,971	(125)	(283)
Equity securities	127	369	(12)	2	—	—	(12)
Total fixed income and equity securities	2,953	$19,049	$ (170)	594	$3,971	$ (125)	$ (295)
Investment grade fixed income securities	2,706	$17,668	$ (134)	535	$3,751	$ (98)	$ (232)
Below investment grade fixed income securities	120	1,012	(24)	57	220	(27)	(51)
Total fixed income securities	2,826	$18,680	$ (158)	592	$3,971	$ (125)	$ (283)

As of September 30, 2018, $862 million of the $878 million unrealized losses are related to securities with an unrealized loss position less than 20% of amortized cost, the degree of which suggests that these securities do not pose a high risk of being other-than-temporarily impaired. Of the $862 million, $770 million are related to unrealized losses on investment grade fixed income securities. Of the remaining $92 million, $58 million have been in an unrealized loss position for less than 12 months. Investment grade is defined as a security having a rating of Aaa, Aa, A or Baa from Moody’s, a rating of AAA, AA, A or BBB from S&P Global Ratings (“S&P”), a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third party rating. Unrealized

losses on investment grade securities are principally related to an increase in market yields which may include increased risk-free interest rates and/or wider credit spreads since the time of initial purchase. The unrealized losses are expected to reverse as the securities approach maturity.

As of September 30, 2018, the remaining $16 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost. Investment grade fixed income securities comprising $12 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 $16 million, $4 million are related to below investment

Notes to Condensed Consolidated Financial Statements

grade fixed income securities. Of these amounts, $1 million are related to below investment grade fixed income securities that had been in an unrealized loss position greater than or equal to 20% of amortized cost for a period of twelve or more consecutive months as of September 30, 2018.

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

As of September 30, 2018, 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.

Limited partnerships

Investments in limited partnership interests include interests in private equity funds, real estate funds and other funds. As of September 30, 2018 and December 31, 2017, the carrying value of EMA limited partnerships totaled $5.89 billion and $5.41 billion, respectively, and limited partnerships carried at fair value as of September 30, 2018, while at cost method as of December 31, 2017, totaled $1.71 billion and $1.33 billion, respectively.

Mortgage loans

Mortgage loans are evaluated for impairment on a specific loan basis through a quarterly credit monitoring process and review of key credit quality indicators. Mortgage loans are considered impaired when it is probable that the Company will not collect the contractual principal and interest. Valuation allowances are established for impaired loans to reduce the carrying value to the fair value of the collateral less costs to sell or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate. Impaired mortgage loans may not have a valuation allowance when the fair value of the collateral less costs to sell is higher than the carrying value. Valuation allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell or present value of the loan's expected future repayment cash flows. Mortgage loans are charged off against their corresponding valuation allowances when there is no reasonable expectation of recovery. The impairment evaluation is non-statistical in respect to the aggregate portfolio but considers facts and circumstances attributable to each loan. It is not considered probable that additional impairment losses, beyond those identified on a specific loan basis, have been incurred as of September 30, 2018.

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.

Carrying value of non-impaired mortgage loans summarized by debt service coverage ratio distribution

($ in millions)	September 30, 2018			December 31, 2017		
Debt service coverage ratio distribution	Fixed rate mortgage loans	Variable rate mortgage loans	Total	Fixed rate mortgage loans	Variable rate mortgage loans	Total
Below 1.0	$2	$ 30	$32	$3	$ —	$3
1.0 - 1.25	218	—	218	345	—	345

1.26 - 1.50	1,216	—	1,216	1,141	30	1,171
Above 1.50	3,021	101	3,122	2,949	62	3,011
Total non-impaired mortgage loans	$4,457	$ 131	$4,588	$4,438	$ 92	$4,530

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.

Notes to Condensed Consolidated Financial Statements

Net carrying value of impaired mortgage loans

($ in millions)	September 30, 2018	December 31, 2017
Impaired mortgage loans with a valuation allowance	$ 4	$ 4
Impaired mortgage loans without a valuation allowance	—	—
Total impaired mortgage loans	$ 4	$ 4
Valuation allowance on impaired mortgage loans	$ 3	$ 3

The valuation allowance on impaired loans had no activity for the three months and nine months ended September 30, 2018 and 2017. The average balance of impaired loans was $4 million and $8 million for the nine months ended September 30, 2018 and 2017, respectively.

Payments on all mortgage loans were current as of September 30, 2018 and December 31, 2017.

Short-term investments

Short-term investments, including commercial paper, U.S. Treasury bills, money market funds and other short-term investments, are carried at fair value.

As of September 30, 2018 and December 31, 2017, the fair value of short-term investments totaled $3.07 billion and $1.94 billion, respectively.

Other investments

Other investments primarily consist of bank loans, policy loans, real estate, agent loans and derivatives. Bank loans are primarily senior secured corporate loans and are carried at amortized cost. Policy loans are carried at unpaid principal balances. Real estate is carried at cost less accumulated depreciation. Agent loans are loans issued to exclusive Allstate agents and are carried at unpaid principal balances, net of valuation allowances and unamortized deferred fees or costs. Derivatives are carried at fair value.

Other investments by asset type

($ in millions)	September 30, 2018	December 31, 2017
Bank loans	$ 1,608	$ 1,702
Policy loans	900	905
Real estate	776	632
Agent loans	597	538
Other	194	195
Total	$ 4,075	$ 3,972

Note 6 Fair Value of Assets and Liabilities

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

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

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

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

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

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

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

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

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

The Company has two types of situations where investments are classified as Level 3 in the fair value hierarchy. The first is where specific inputs significant to the fair value estimation models are not market observable. This primarily occurs in the Company's use of broker quotes to value certain securities where the inputs have not been corroborated to be market observable, and the use of valuation models that use significant non-market observable inputs. The second situation where the Company classifies securities in Level 3 is where quotes continue to be received from independent third-party valuation service providers and all significant inputs are market observable; however, there has been a significant decrease in the volume and level of activity for the asset when compared to normal market activity such that the degree of market observability has declined to a point where categorization as a Level 3 measurement is considered appropriate. The indicators considered in determining whether a significant decrease in the volume and level of activity for a specific asset has occurred include the level of new issuances in the primary market, trading volume in the secondary market, the level of credit spreads over historical levels, applicable bid-ask spreads, and price consensus among market participants and other pricing sources.

Certain assets are not carried at fair value on a recurring basis, including investments such as mortgage loans, bank loans, agent loans and policy

loans. Accordingly, such investments are only included in the fair value hierarchy disclosure when the investment is subject to remeasurement at fair value after initial recognition and the resulting remeasurement is reflected in the condensed consolidated financial statements.

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

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

Level 1 measurements

- Fixed income securities: Comprise certain U.S. Treasury fixed income securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.
- 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 that are readily determinable 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.

Notes to Condensed Consolidated Financial Statements

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

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

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

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

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

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

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

Over-the-counter ("OTC") derivatives, including interest rate swaps, foreign currency swaps, total return swaps, foreign exchange forward contracts, certain options and certain credit default swaps, are valued using models that rely on inputs such

as interest rate yield curves, implied volatilities, index price levels, currency rates, and credit spreads that are observable for substantially the full term of the contract. The valuation techniques underlying the models are widely accepted in the financial services industry and do not involve significant judgment.

Level 3 measurements

- Fixed income securities:

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

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

ABS - CDO, ABS - consumer and other, 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

Notes to Condensed Consolidated Financial Statements

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. EMA limited partnership interests written-down to fair value in connection with recognizing OTTI losses are generally valued using net asset values.

Investments excluded from the fair value hierarchy
Limited partnerships carried at fair value, which do not have readily determinable fair values, use NAV provided by the investees and are excluded from the fair value hierarchy. These investments are generally not redeemable by the investees and generally cannot be sold without approval of the general partner. We receive distributions of income and from liquidation of the underlying assets of the investees over the life of these investments, typically 10-12 years. As of September 30, 2018, the Company has commitments to invest $775 million in these limited partnership interests.
Assets and liabilities measured at fair value

	As of September 30, 2018				
($ 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	Total
Assets					
Fixed income securities:					
U.S. government and agencies	$2,693	$458	$ —		$3,151
Municipal	—	9,326	89		9,415
Corporate - public	—	30,758	92		30,850
Corporate - privately placed	—	11,645	167		11,812
Foreign government	—	854	—		854
ABS - CDO	—	310	29		339
ABS - consumer and other	—	588	52		640
RMBS	—	500	—		500
CMBS	—	54	26		80
Redeemable preferred stock	—	22	—		22
Total fixed income securities	2,693	54,515	455		57,663
Equity securities	6,286	359	320		6,965
Short-term investments	1,228	1,823	20		3,071
Other investments: Free-standing derivatives	—	120	1	$ (13)	108
Separate account assets	3,307	—	—		3,307
Total recurring assets at fair value	$13,514	$56,817	$ 796	$ (13)	$71,114
% of total assets at fair value	19.0 %	79.9 %	1.1 %	— %	100 %
Investments reported at NAV					1,709
Total					$72,823
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$—	$—	$ (266)		$(266)
Other liabilities: Free-standing derivatives	—	(47)	—	$ 6	(41)
Total recurring liabilities at fair value	$—	$(47)	$ (266)	$ 6	$(307)
% of total liabilities at fair value	— %	15.3 %	86.7 %	(2.0)%	100 %

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Assets and liabilities measured at fair value

($ in millions)	As of December 31, 2017 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	Total
Assets					
Fixed income securities:					
U.S. government and agencies	$3,079	$537	$ —		$3,616
Municipal	—	8,227	101		8,328
Corporate - public	—	31,963	108		32,071
Corporate - privately placed	—	11,731	224		11,955
Foreign government	—	1,021	—		1,021
ABS - CDO	—	480	99		579
ABS - consumer and other	—	645	48		693
RMBS	—	578	—		578
CMBS	—	102	26		128
Redeemable preferred stock	—	23	—		23
Total fixed income securities	3,079	55,307	606		58,992
Equity securities	6,032	379	210		6,621
Short-term investments	264	1,660	20		1,944
Other investments: Free-standing derivatives	—	132	1	$ (6)	127
Separate account assets	3,444	—	—		3,444
Total recurring basis assets	12,819	57,478	837	(6)	71,128
Non-recurring basis [(1)]	—	—	3		3
Total assets at fair value	$12,819	$57,478	$ 840	$ (6)	$71,131
% of total assets at fair value	18.0 %	80.8 %	1.2 %	— %	100 %
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$—	$—	$ (286)		$(286)
Other liabilities: Free-standing derivatives	(1)	(83)	—	$ 14	(70)
Total liabilities at fair value	$(1)	$(83)	$ (286)	$ 14	$(356)
% of total liabilities at fair value	0.3 %	23.3 %	80.3 %	(3.9)%	100 %

(1) Includes $3 million of limited partnership interests written-down to fair value in connection with recognizing OTTI losses.

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements

($ in millions)	Fair value	Valuation technique	Unobservable input	Range	Weighted average
September 30, 2018					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$(239)	Stochastic cash flow model	Projected option cost	1.0%-2.2%	1.74%
December 31, 2017					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$(252)	Stochastic cash flow model	Projected option cost	1.0 - 2.2%	1.74%

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

As of September 30, 2018 and December 31, 2017, Level 3 fair value measurements of fixed income securities total $455 million and $606 million, respectively, and include $199 million and $271 million, respectively, of securities valued based on non-binding broker quotes where the inputs have not been

corroborated to be market observable and $48 million and $58 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.

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Rollforward of Level 3 assets and liabilities held at fair value during the three months period ended September 30, 2018

($ in millions)	Balance as of June 30, 2018	Total gains (losses) included in: Net income [1]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 106	$—	$ (1)	$ —	$ (9)
Corporate - public	76	—	(1)	12	(4)
Corporate - privately placed	195	1	(1)	—	(20)
ABS - CDO	9	—	1	20	—
ABS - consumer and other	73	—	—	12	(29)
CMBS	26	—	—	—	—
Total fixed income securities	485	1	(2)	44	(62)
Equity securities	291	8	—	—	—
Short-term investments	—	—	—	—	—
Free-standing derivatives, net	1	—	—	—	—
Total recurring Level 3 assets	$ 777	$9	$ (2)	$ 44	$ (62)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (260)	$(7)	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (260)	$(7)	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2018
Assets					
Fixed income securities:					
Municipal	$ —	$(6)	$ —	$ (1)	$ 89
Corporate - public	10	(1)	—	—	92
Corporate - privately placed	6	(2)	—	(12)	167
ABS - CDO	—	—	—	(1)	29
ABS - consumer and other	33	(20)	—	(17)	52
CMBS	—	—	—	—	26
Total fixed income securities	49	(29)	—	(31)	455
Equity securities	21	—	—	—	320
Short-term investments	20	—	—	—	20
Free-standing derivatives, net	—	—	—	—	1 [2]
Total recurring Level 3 assets	$ 90	$(29)	$ —	$ (31)	$ 796
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$—	$ —	$ 1	$ (266)
Total recurring Level 3 liabilities	$ —	$—	$ —	$ 1	$ (266)

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

and $2 million in life contract benefits.

(2) Comprises $1 million of assets.

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Rollforward of Level 3 assets and liabilities held at fair value during the nine months period ended September 30, 2018

($ in millions)	Balance as of December 31, 2017	Total gains (losses) included in: Net income [(1)]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 101	$ 1	$ (2)	$ —	$ (11)
Corporate - public	108	—	(3)	16	(9)
Corporate - privately placed	224	(1)	(2)	20	(49)
ABS - CDO	99	—	1	20	(89)
ABS - consumer and other	48	—	1	22	(45)
CMBS	26	—	—	—	—
Total fixed income securities	606	—	(5)	78	(203)
Equity securities	210	24	—	—	—
Short-term investments	20	—	—	—	—
Free-standing derivatives, net	1	—	—	—	—
Total recurring Level 3 assets	$ 837	$ 24	$ (5)	$ 78	$ (203)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (286)	$ 17	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (286)	$ 17	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2018
Assets					
Fixed income securities:					
Municipal	$ 10	$ (8)	$ —	$ (2)	$ 89
Corporate - public	10	(27)	—	(3)	92
Corporate - privately placed	21	(5)	—	(41)	167
ABS - CDO	—	—	—	(2)	29
ABS - consumer and other	108	(62)	—	(20)	52
CMBS	1	—	—	(1)	26
Total fixed income securities	150	(102)	—	(69)	455
Equity securities	100	(14)	—	—	320
Short-term investments	45	(45)	—	—	20
Free-standing derivatives, net	—	—	—	—	1 [(2)]
Total recurring Level 3 assets	$ 295	$ (161)	$ —	$ (69)	$ 796
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (1)	$ 4	$ (266)
Total recurring Level 3 liabilities	$ —	$ —	$ (1)	$ 4	$ (266)

(1)

The effect to net income totals $41 million and is reported in the Condensed Consolidated Statements of Operations as follows: $24 million in realized capital gains and losses, $10 million in interest credited to contractholder funds and $7 million in life contract benefits.

(2) Comprises $1 million of assets.

Notes to Condensed Consolidated Financial Statements

Rollforward of Level 3 assets and liabilities held at fair value during the three months period ended September 30, 2017

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

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

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

(2) Comprises $1 million of assets.

Notes to Condensed Consolidated Financial Statements

Rollforward of Level 3 assets and liabilities held at fair value during the nine months period ended September 30, 2017

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

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

Total recurring Level 3 liabilities	$ —	$ —	$ (1)	$ 5	$ (292)

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

(2) Comprises $1 million of assets.

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. Transfers in and out of level categorizations are reported as having occurred at the

beginning of the quarter in which the transfer occurred. Therefore, for all transfers into Level 3, all realized and changes in unrealized gains and losses in the quarter of transfer are reflected in the Level 3 rollforward table.
There were no transfers between Level 1 and Level 2 during the three months and nine months ended September 30, 2018 or 2017.

Notes to Condensed Consolidated Financial Statements

Transfers into Level 3 during the three months and nine months ended September 30, 2018 and 2017 included situations where a fair value quote was not provided by the Company's independent third-party valuation service provider and as a result the price was stale or had been replaced with a broker quote where the inputs had not been corroborated to be market observable resulting in the security being classified as Level 3. Transfers out of Level 3 during the three

months and nine months ended September 30, 2018 and 2017 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.

Valuation changes included in net income for Level 3 assets and liabilities held as of

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Assets				
Fixed income securities:				
Municipal	$ —	$ —	$ —	$ (3)
Corporate	—	1	—	1
Total fixed income securities	—	1		