ALLSTATE CORP
Form 10-Q
August 03, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______
Commission file number 1-11840
THE ALLSTATE CORPORATION
(Exact name of registrant as specified in its charter)

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

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

(847) 402-5000
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No ___
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes X No ___
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer X		Accelerated filer	____
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company	____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No X
As of July 18, 2016, the registrant had 371,460,919 common shares, $.01 par value, outstanding.

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

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in millions, except par value data)	June 30, 2016	December 31, 2015
Assets	(unaudited)	
Investments		
Fixed income securities, at fair value (amortized cost $55,770 and $57,201)	$ 58,129	$ 57,948
Equity securities, at fair value (cost $4,924 and $4,806)	5,265	5,082
Mortgage loans	4,453	4,338
Limited partnership interests	5,407	4,874
Short-term, at fair value (amortized cost $2,850 and $2,122)	2,850	2,122
Other	3,590	3,394
Total investments	79,694	77,758
Cash	446	495
Premium installment receivables, net	5,593	5,544
Deferred policy acquisition costs	3,819	3,861
Reinsurance recoverables, net	8,650	8,518
Accrued investment income	564	569
Property and equipment, net	1,011	1,024
Goodwill	1,219	1,219
Other assets	2,850	2,010
Separate Accounts	3,438	3,658
Total assets	$ 107,284	$ 104,656
Liabilities		
Reserve for property-liability insurance claims and claims expense	$ 24,904	$ 23,869
Reserve for life-contingent contract benefits	12,215	12,247
Contractholder funds	20,845	21,295
Unearned premiums	12,300	12,202
Claim payments outstanding	946	842
Deferred income taxes	782	90
Other liabilities and accrued expenses	6,192	5,304
Long-term debt	5,109	5,124
Separate Accounts	3,438	3,658
Total liabilities	86,731	84,631
Commitments and Contingent Liabilities (Note 10)		
Shareholders' equity		
Preferred stock and additional capital paid-in, $1 par value, 25 million shares authorized, 72.2 thousand shares issued and outstanding, and $1,805 aggregate liquidation preference	1,746	1,746
Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 371 million and 381 million shares outstanding	9	9
Additional capital paid-in	3,203	3,245
Retained income	39,623	39,413
Deferred ESOP expense	(13)	(13)
Treasury stock, at cost (529 million and 519 million shares)	(24,310)	(23,620)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	49	56
Other unrealized net capital gains and losses	1,702	608
Unrealized adjustment to DAC, DSI and insurance reserves	(127)	(44)
Total unrealized net capital gains and losses	1,624	620

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

See notes to condensed consolidated financial statements.

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

($ in millions)	Six months ended June 30, 2016	2015
	(unaudited)	
Preferred stock par value	$—	$—
Preferred stock additional capital paid-in	1,746	1,746
Common stock	9	9
Additional capital paid-in		
Balance, beginning of period	3,245	3,199
Forward contract on accelerated share repurchase agreement	(52)	—
Equity incentive plans activity	10	6
Balance, end of period	3,203	3,205
Retained income		
Balance, beginning of period	39,413	37,842
Net income	517	1,032
Dividends on common stock	(249)	(249)
Dividends on preferred stock	(58)	(58)
Balance, end of period	39,623	38,567
Deferred ESOP expense		
Balance, beginning of period	(13)	(23)
Payments	—	—
Balance, end of period	(13)	(23)
Treasury stock		
Balance, beginning of period	(23,620)	(21,030)
Shares acquired	(829)	(1,432)
Shares reissued under equity incentive plans, net	139	189
Balance, end of period	(24,310)	(22,273)
Accumulated other comprehensive income		
Balance, beginning of period	(755)	561
Change in unrealized net capital gains and losses	1,004	(507)
Change in unrealized foreign currency translation adjustments	19	(36)
Change in unrecognized pension and other postretirement benefit cost	27	49
Balance, end of period	295	67
Total shareholders' equity	$20,553	$21,298

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

Basis of presentation

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

The condensed consolidated financial statements and notes as of June 30, 2016 and for the three-month and six-month periods ended June 30, 2016 and 2015 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year. All significant intercompany accounts and transactions have been eliminated.

Adopted accounting standards

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

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

Amendments to the Consolidation Analysis

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

Pending accounting standards

Revenue from Contracts with Customers

In May 2014, the FASB issued guidance which revises the criteria for revenue recognition. Insurance contracts are excluded from the scope of the new guidance. Under the guidance, the transaction price is attributed to underlying performance obligations in the contract and revenue is recognized as the entity satisfies the performance obligations and transfers control of a good or service to the customer. Incremental costs of obtaining a contract may be capitalized to the extent the entity expects to recover those costs. The guidance is effective for reporting periods beginning after December 15, 2017 and is to be applied retrospectively. The Company is in the process of evaluating the impact of adoption, which is not expected to be material to the Company’s results of operations or financial position.

Disclosures about Short-Duration Contracts

In May 2015, the FASB issued guidance requiring expanded disclosures for insurance entities that issue short-duration contracts. The expanded disclosures are designed to provide additional insight into an insurance entity’s significant estimates made in measuring the liability for unpaid claims and claim adjustment expenses. The disclosures include information about incurred and paid claims development by accident year, on a net basis after reinsurance, for the number of years claims incurred typically remain outstanding, not to exceed ten years. Each period presented in the disclosure about claims development that precedes the current reporting period is considered required supplementary information. The expanded disclosures also include information about significant changes in methodologies and assumptions, a reconciliation of incurred and paid claims development to the carrying amount of the liability for unpaid claims and claim adjustment expenses, the total amount of incurred but not reported liabilities plus expected development, the incidence of claims including the methodology used to determine the incidence of claims, and claim duration. The guidance is effective for annual periods beginning after December 15, 2015, and interim periods beginning after December 15, 2016, and is to be applied retrospectively. The new guidance affects disclosures only and will have no impact on the Company's results of operations or financial position.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued guidance requiring equity investments, including equity securities and limited partnership interests, that are not accounted for under the equity method of accounting or result in consolidation to be measured at fair value with changes in fair value recognized in net income. Equity investments without readily determinable fair values may be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. When a qualitative assessment of equity investments without readily determinable fair values indicates that impairment exists, the carrying value is required to be adjusted to fair value, if lower. The guidance clarifies that an entity should evaluate the realizability of a deferred tax asset related to available-for-sale fixed income securities in combination with the entity's other deferred tax assets. The guidance also changes certain disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2017, and is to be applied through a cumulative-effect adjustment to beginning retained income as of the beginning of the period of adoption. The new guidance related to equity investments without readily determinable fair values is to be applied prospectively as of the date of adoption. The Company is in the process of evaluating the impact of adoption. The most significant impacts, using values as of June 30, 2016, are expected to be the change in accounting for equity securities where $341 million of pre-tax unrealized net capital gains would be reclassified from accumulated other comprehensive income to retained income and cost method limited partnership interests (excluding limited partnership interests accounted for on a cost recovery basis) where the carrying value would increase by approximately $202 million, pre-tax, with the adjustment recorded in retained income.

Accounting for Leases

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

Employee Share-Based Payment Accounting

In March 2016, the FASB issued guidance to amend the accounting for share-based payments. Under the new guidance, reporting entities will be required to recognize all tax effects related to share-based payments at settlement (or expiration) through the income statement and will no longer be permitted to recognize excess tax benefits and tax deficiencies in additional paid in capital. The change will be applied on a modified retrospective basis, with a cumulative effect adjustment to beginning retained income. In addition, all tax-related cash flows resulting from share-based payments will be reported as operating activities on the statement of cash flows, with either prospective or retrospective transition permitted. The new guidance will permit employers to withhold shares upon settlement of an award to satisfy the employer's tax withholding requirement (up to the employee's maximum individual statutory tax rate) without causing liability classification of the award. The new guidance clarifies that all cash payments made to taxing authorities on an employee's behalf for withheld shares should be presented as financing activities on the statement of cash flows. Also under the new guidance, reporting entities are permitted to make an accounting policy election to estimate forfeitures or recognize them when they occur. If elected, the change to recognize forfeitures when they occur must be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to beginning retained income. The new guidance is effective for reporting periods beginning after December 15, 2016. The Company is in the process of evaluating the impact of adoption, which is not expected to be material to the Company's results of operations or financial position.

Transition to Equity Method Accounting

In March 2016, the FASB issued guidance amending the accounting requirements for transitioning to the equity method of accounting ("EMA"), including a transition from the cost method. The guidance requires the cost of acquiring an additional interest in an investee to be added to the existing carrying value to establish the initial basis of the EMA investment. Under the new guidance, no retroactive adjustment is required when an investment initially qualifies for EMA treatment. The guidance is

7

effective for interim and annual periods beginning after December 15, 2016, and is to be applied prospectively. The guidance will principally affect the future accounting for investments that qualify for EMA after application of the cost method of accounting. The Company is in the process of evaluating the impact of adoption, which is not expected to be material to the Company’s results of operations or financial position.

Measurement of Credit Losses on Financial Instruments

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

2. Earnings per Common Share

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

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

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

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

The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per common share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect. Options to purchase 4.8 million and 2.2 million Allstate common shares, with exercise prices ranging from $57.29 to $71.29 and $60.81 to $71.29, were outstanding for both the three-month and six month periods ended June 30, 2016 and 2015, respectively, but were not included in the computation of diluted earnings per common share in those periods.

3. Supplemental Cash Flow Information

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

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

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

4. Investments

Fair values

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

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

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

9

Scheduled maturities

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

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

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

Net investment income

Net investment income is as follows:

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

Realized capital gains and losses

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

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

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

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

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

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

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

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

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

The total amount of other-than-temporary impairment losses included in accumulated other comprehensive income at the time of impairment for fixed income securities, which were not included in earnings, are presented in the following table. The amounts exclude $215 million and $233 million as of June 30, 2016 and December 31, 2015, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

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

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

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

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

Unrealized net capital gains and losses

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

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

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

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

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

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

($ in millions)	Fair	Gross unrealized		Unrealized net
December 31, 2015	value	Gains	Losses	gains (losses)
Fixed income securities	$57,948	$1,707	$(960)	$ 747
Equity securities	5,082	415	(139)	276
Short-term investments	2,122	—	—	—
Derivative instruments [1]	10	10	(4)	6
EMA limited partnerships				(4)
Unrealized net capital gains and losses, pre-tax				1,025
Amounts recognized for:				
Insurance reserves				—
DAC and DSI				(67)
Amounts recognized				(67)
Deferred income taxes				(338)
Unrealized net capital gains and losses, after-tax				$ 620

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

13

Change in unrealized net capital gains and losses

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

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

Portfolio monitoring

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

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

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

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

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

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

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

($ in millions)	Less than 12 months			12 months or more			Total
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	unrealized losses
June 30, 2016							
Fixed income securities							
U.S. government and agencies	5	$ 528	$ —	—	$ —	$ —	$ —
Municipal	32	76	—	9			