UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

The registrant meets the conditions set forth in General Instructions I (1)(a) and (b) of Form 10-K and is therefore filing this form with the reduced disclosure format.

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

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 0-31248

ALLSTATE LIFE INSURANCE COMPANY
(Exact name of registrant as specified in its charter)

Illinois	**36-2554642**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

3100 Sanders Road, Northbrook, Illinois 60062
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (847) 402-5000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $227.00 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes __ No _X_

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes __ No _X_

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. _X_

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 ____	Accelerated filer ____
Non-accelerated filer _X_ (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_

None of the common equity of the registrant is held by non-affiliates. Therefore, the aggregate market value of the common equity held by non-affiliates of the registrant is zero.

As of March 4, 2015, the registrant had 23,800 common shares, $227 par value, outstanding, all of which are held by Allstate Insurance Company.

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* Omitted pursuant to General Instruction I(2) of Form 10-K

Part I

Item 1. Business

Allstate Life Insurance Company was organized in 1957 as a stock life insurance company under the laws of the State of Illinois. Allstate Life Insurance Company, together with its subsidiaries, provides life insurance and voluntary accident and health insurance. It conducts substantially all of its operations directly or through wholly owned United States subsidiaries. In this document, we refer to Allstate Life Insurance Company as "Allstate Life" or "ALIC" and to Allstate Life and its wholly owned subsidiaries as the "Allstate Life Group" or the "Company".

Allstate Life is a wholly owned subsidiary of Allstate Insurance Company, a stock property-liability insurance company organized under the laws of the State of Illinois. All of the outstanding stock of Allstate Insurance Company is owned by Allstate Insurance Holdings, LLC, which is wholly owned by The Allstate Corporation, a publicly owned holding company incorporated under the laws of the State of Delaware. In this document, we refer to Allstate Insurance Company as "AIC" and to The Allstate Corporation and its consolidated subsidiaries as "Allstate", the "Parent Group" or the "Corporation". The Allstate Corporation is the largest publicly held personal lines insurer in the United States. Widely known through the "You're In Good Hands With Allstate®" slogan, Allstate's strategy is to reinvent protection and retirement to help consumers protect what they have today and better prepare for tomorrow. Allstate is the 2nd largest personal property and casualty insurer in the United States on the basis of 2013 statutory direct premiums earned according to A.M. Best. In addition, according to A.M. Best, it is the nation's 16th largest issuer of life insurance business on the basis of 2013 ordinary life insurance in force and 29th largest on the basis of 2013 statutory admitted assets.

The Parent Group has four business segments, one of which is Allstate Financial. Allstate Financial, which is not a separate legal entity, is comprised of the Allstate Life Group together with the majority of American Heritage Life Insurance Company. This document describes the Allstate Life Group. It does not describe the entire group of companies that form the Allstate Financial segment of the Parent Group.

In this annual report on Form 10-K, we occasionally refer to statutory financial information. All domestic United States insurance companies are required to prepare statutory-basis financial statements. As a result, industry data is available that enables comparisons between insurance companies, including competitors that are not subject to the requirement to prepare financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). We frequently use industry publications containing statutory financial information to assess our competitive position.

Products and Distribution

The Allstate Life Group sells traditional, interest-sensitive and variable life insurance through Allstate exclusive agencies and exclusive financial specialists. The majority of life insurance business written involves exclusive financial specialists, including referrals from exclusive agencies and licensed sales professionals. We also sell voluntary accident and health insurance through workplace enrolling independent agents in New York. We previously offered and continue to have in force fixed annuities such as deferred and immediate annuities, and institutional products consisting of funding agreements sold to unaffiliated trusts that use them to back medium-term notes. The table below lists our current distribution channels with the associated products and target customers.

Distribution Channels	Proprietary Products	Target Customers
Allstate exclusive agencies and exclusive financial specialists	Term life insurance Whole life insurance Interest-sensitive life insurance Variable life insurance	Customers who prefer local personalized advice and service and are brand-sensitive
Workplace enrolling independent agents in New York	Workplace life and voluntary accident and health insurance: Interest-sensitive and term life insurance Disability income insurance Cancer, accident and critical illness insurance	Middle market consumers in New York with family financial protection needs employed by small, medium, and large size firms

Competition

We compete on a wide variety of factors, including product offerings, brand recognition, financial strength and ratings, price, distribution and the level of customer service. The market for life insurance continues to be highly fragmented and competitive. As of December 31, 2013, there were approximately 400 groups of life insurance companies in the United States, most of which offered one or more similar products. According to A.M. Best, as of December 31, 2013, the Allstate Life Group is the nation's 16th largest issuer of life insurance and related business on the basis of 2013 ordinary life insurance in force and 29th largest on the basis of 2013 statutory admitted assets.

Geographic Markets

We sell life insurance throughout the United States and voluntary accident and health insurance in New York. The Allstate Life Group is authorized to sell various types of these products in all 50 states, the District of Columbia and Puerto Rico.

The following table reflects, in percentages, the principal geographic distribution of statutory premiums and annuity considerations for the Allstate Life Group for 2014, based on information contained in statements filed with state insurance departments. No other jurisdiction accounted for more than 5 percent of the statutory premiums and annuity considerations.

California	13.4%
Texas	9.2
New York	8.9
Florida	7.1
Illinois	5.3

REGULATION

The Allstate Life Group is subject to extensive regulation, primarily at the state level. The method, extent, and substance of such regulation varies by state but generally has its source in statutes that establish standards and requirements for conducting the business of insurance and that delegate regulatory authority to a state agency. These rules have a substantial effect on our business and relate to a wide variety of matters, including insurer solvency, reserve adequacy, insurance company licensing and examination, agent licensing, policy forms, rate setting, the nature and amount of investments, claims practices, participation in guaranty funds, transactions with affiliates, the payment of dividends, underwriting standards, statutory accounting methods, trade practices, and corporate governance. Some of these matters are discussed in more detail below. For a discussion of statutory financial information, see Note 15 of the consolidated financial statements. For a discussion of regulatory contingencies, see Note 12 of the consolidated financial statements. Notes 12 and 15 are incorporated in this Part I, Item 1 by reference.

In recent years, the state insurance regulatory framework has come under increased federal scrutiny. As part of an effort to strengthen the regulation of the financial services market, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") was enacted in 2010. Some regulations required pursuant to this law must still be finalized, and we cannot predict what the final regulations will require but do not expect a material impact on the Allstate Life Group's operations. Dodd-Frank also created the Federal Insurance Office ("FIO") within the Treasury Department. The FIO monitors the insurance industry, provides advice to the Financial Stability Oversight Council ("FSOC"), represents the U.S. on international insurance matters, and studies the current regulatory system. FIO submitted reports to Congress in 2013 and 2014 addressing how to improve and modernize the system of insurance regulation. In addition, state legislators and insurance regulators continue to examine the appropriate nature and scope of state insurance regulation. We cannot predict whether any specific state or federal measures will be adopted to change the nature or scope of the regulation of insurance or what effect any such measures would have on the Allstate Life Group.

Additional regulations or new requirements may emerge from activities of various regulatory entities, including the Federal Reserve Board, FIO, FSOC, the National Association of Insurance Commissioners ("NAIC"), and the International Association of Insurance Supervisors ("IAIS"), that are evaluating solvency and capital standards for insurance company groups. In addition, the NAIC has proposed amendments to their model holding company law, which has not yet been adopted by any jurisdiction. The outcome of these actions is uncertain; however, these actions may result in an increase in the level of capital and liquidity required by insurance holding companies.

Agent and Broker Compensation. In recent years, several states considered new legislation or regulations regarding the compensation of agents and brokers by insurance companies. The proposals ranged in nature from new disclosure requirements to new duties on insurance agents and brokers in dealing with customers. Agents and brokers in New York are required to disclose certain information concerning compensation.

Limitations on Dividends By Insurance Subsidiaries. Allstate Life may receive dividends from time to time from its subsidiaries. When received, these dividends represent a source of cash from which Allstate Life may meet some of its obligations. If a subsidiary is an insurance company, its ability to pay dividends may be restricted by state laws regulating insurance companies. For additional information regarding those restrictions, see Note 15 of the consolidated financial statements.

Guaranty Funds. Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, in order to cover certain obligations of insolvent insurance companies.

Investment Regulation. Our insurance subsidiaries are subject to regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Failure to comply with these rules leads to the treatment of non-conforming investments as non-admitted assets for purposes of measuring statutory surplus. Further, in some instances, these rules require divestiture of non-conforming investments.

Variable Life Insurance and Registered Fixed Annuities. The sale and administration of variable life insurance and registered fixed annuities with market value adjustment features are subject to extensive regulatory oversight at the federal and state level, including regulation and supervision by the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA").

Broker-Dealers, Investment Advisors, and Investment Companies. The Allstate Life Group entities that operate as broker-dealers, registered investment advisors, and investment companies are subject to regulation and supervision by the SEC, FINRA and/or, in some cases, state securities administrators.

Privacy Regulation. Federal law and the laws of many states require financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to collection and disclosure of customer information and their policies relating to protecting the security and confidentiality of that information. Federal law and the laws of many states also regulate disclosures and disposal of customer information. Congress, state legislatures, and regulatory authorities are expected to consider additional regulation relating to privacy and other aspects of customer information.

EMPLOYEES AND OTHER SHARED SERVICES

The Allstate Life Group has no employees. Instead, we primarily use the services of employees of AIC, our direct parent. We also make use of other services and facilities provided by AIC and other members of the Parent Group. These services and facilities include space rental, utilities, building maintenance, human resources, investment management, finance, information technology and legal services. We reimburse our affiliates for these services and facilities under a variety of agreements.

OTHER INFORMATION

"Allstate" is one of the most recognized brand names in the United States. We use the name "Allstate" extensively in our business, along with related service marks, logos, and slogans, such as "Good Hands®." Our rights in the United States to these names, service marks, logos, and slogans continue so long as we continue to use them in commerce. Many service marks used by Allstate are the subject of renewable U.S. and/or foreign service mark registrations. We believe that these service marks are important to our business and we intend to maintain our rights to them through continued use.

Forward-Looking Statements

This report contains "forward-looking statements" that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets" and other words with similar meanings. These statements may address, among other things, our strategy for growth, product development, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. Forward-looking statements speak only as of the date on which they are made, and we assume no obligation to update any forward-looking statements as a result of new information or future events or developments. In addition, forward-looking statements are subject to certain risks or uncertainties that could cause actual results to differ materially from those communicated in these forward-looking statements. These risks and uncertainties include, but are not limited to, those described in Part 1, "Item 1A. Risk Factors" and elsewhere in this report and those described from time to time in our other reports filed with the Securities and Exchange Commission.

Item 1A. Risk Factors

In addition to the normal risks of business, we are subject to significant risks and uncertainties, including those listed below, which apply to us as an insurer and a provider of other products and financial services. These cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this document, in our filings with the SEC or in materials incorporated therein by reference.

Changes in underwriting and actual experience could materially affect profitability and financial condition

Our product pricing includes long-term assumptions regarding investment returns, mortality, morbidity, persistency and operating costs and expenses of the business. We establish target returns for each product based upon these factors and the average amount of capital that we must hold to support in-force contracts taking into account rating agencies and regulatory requirements. We monitor and manage our pricing and overall sales mix to achieve target new business returns on a portfolio basis, which could result in the discontinuation or de-emphasis of products and a decline in sales. Profitability from new business emerges over a period of years depending on the nature and life of the product and is subject to variability as actual results may differ from pricing assumptions. Additionally, many of our products have fixed or guaranteed terms that limit our ability to increase revenues or reduce benefits, including credited interest, once the product has been issued.

Our profitability depends on the sufficiency of premiums and contract charges to cover mortality and morbidity benefits, the persistency of policies to ensure recovery of acquisition expenses, the adequacy of investment spreads, the management of market and credit risks associated with investments, and the management of operating costs and expenses within anticipated pricing allowances. Legislation and regulation of the insurance marketplace and products could also affect our profitability and financial condition.

Changes in reserve estimates may adversely affect our operating results

The reserve for life-contingent contract benefits payable under insurance policies, including traditional life insurance, life-contingent immediate annuities and voluntary accident and health insurance products, is computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, persistency and expenses. We periodically review the adequacy of these reserves on an aggregate basis and if future experience differs significantly from assumptions, adjustments to reserves and amortization of deferred policy acquisition costs ("DAC") may be required that could have a material effect on our operating results.

Changes in market interest rates may lead to a significant decrease in the profitability of spread-based products

Our ability to manage our in-force spread-based products, such as fixed annuities, is dependent upon maintaining profitable spreads between investment yields and interest crediting rates. When market interest rates decrease or remain at relatively low levels, proceeds from investments that have matured or have been prepaid or sold may be reinvested at lower yields, reducing investment spread. Lowering interest crediting rates on some products in such an environment can partially offset decreases in investment yield. However, these changes could be limited by regulatory minimum rates or contractual minimum rate guarantees on many contracts and may not match the timing or magnitude of changes in investment yields. Increases in market interest rates can have negative effects, for example by increasing the attractiveness of other investments to our customers, which can lead to increased surrenders at a time when our fixed income investment asset values are lower as a result of the increase in interest rates. This could lead to the sale of fixed income securities at a loss. In addition, changes in market interest rates impact the valuation of derivatives embedded in equity-indexed annuity contracts that are not hedged, which could lead to volatility in net income.

Changes in estimates of profitability on interest-sensitive life products may adversely affect our profitability and financial condition through the amortization of DAC

DAC related to interest-sensitive life contracts is amortized in proportion to actual historical gross profits and estimated future gross profits ("EGP") over the estimated lives of the contracts. The principal assumptions for determining the amount of EGP are mortality, persistency, expenses, investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of any hedges. Updates to these assumptions (commonly referred to as "DAC unlocking") could result in accelerated amortization of DAC and thereby adversely affect our profitability and financial condition.

Reducing our concentration in spread-based business and exiting certain distribution channels may adversely affect reported results

We have been reducing our concentration in spread-based business and discontinued offering fixed annuities effective January 1, 2014. We also exited the independent master brokerage agencies and structured settlement annuity brokers distribution channels in 2013 and sold Lincoln Benefit Life Company ("LBL") on April 1, 2014. The reduction in sales of these products has and may continue to reduce investment portfolio levels. It may also complicate settlement of contract benefits including forced sales of assets with unrealized capital losses, and affect insurance reserves deficiency testing. We plan to outsource the administration of our annuity business to a third party administration company in 2015 following the successful transition of the servicing of the LBL business that was sold. If our efforts are unsuccessful, our cost structure may be less competitive.

Changes in tax laws may decrease sales and profitability of products and adversely affect our financial condition

Under current federal and state income tax law, certain products we offer, primarily life insurance, receive favorable tax treatment. This favorable treatment may give certain of our products a competitive advantage over noninsurance products. Congress and various state legislatures from time to time consider legislation that would reduce or eliminate the favorable policyholder tax treatment currently applicable to life insurance. Congress and various state legislatures also consider proposals to reduce the taxation of certain products or investments that may compete with life insurance. Legislation that increases the taxation on insurance products or reduces the taxation on competing products could lessen the advantage or create a disadvantage for certain of our products making them less competitive. Such proposals, if adopted, could have a material effect on our profitability and financial condition or ability to sell such products and could result in the surrender of some existing contracts and policies. In addition, changes in the federal estate tax laws could negatively affect the demand for the types of life insurance used in estate planning.

We may not be able to mitigate the capital impact associated with statutory reserving requirements, potentially resulting in a need to increase prices, reduce sales of term or universal life products, and/or a return on equity below original levels assumed in pricing

To support statutory reserves for certain term and universal life insurance products with secondary guarantees, we currently utilize reinsurance and capital markets solutions for financing a portion of our statutory reserve requirements deemed to be non-economic. As we continue to underwrite term and universal life business, we expect to have additional financing needs to mitigate the impact of these reserve requirements. If we do not obtain additional financing as a result of market conditions or otherwise, this could require us to increase prices, reduce our sales of term or universal life products, and/or result in a return on equity below original levels assumed in pricing.

Dispositions and acquisitions of businesses may adversely affect our results of operations including the ability to continue sales by Allstate exclusive agents and receive adequate compensation for transition services

We are exposed to risks associated with disposed former affiliates when continuing relationships are maintained such as distribution rights, reinsurance of new and in-force business, transition services and other contingent liabilities. We may be adversely impacted by declines in financial strength ratings of disposed former affiliates due to rating agencies viewing the financial capacity of the former affiliate differently. Other compliance and operational issues may emerge involving agents, products, pricing, servicing and claims related to the business reinsured from the former affiliate to the Company. In addition, during a transition period when the Company may be providing transition services, we may not be receiving adequate compensation and could be judged as not providing service as contracted. These risks may adversely affect our results of operations.

Risks Relating to Investments

We are subject to market risk and declines in credit quality which may adversely affect investment income and cause realized and unrealized losses

Although we continually reevaluate our investment management strategies, we remain subject to the risk that we will incur losses due to adverse changes in interest rates, credit spreads, equity prices, currency exchange rates, economic conditions for the overall economy or specific industry sectors or idiosyncratic risk on the operating performance of individual investments. Adverse changes in these rates, spreads and prices may occur due to changes in monetary policy and the economic climate, the liquidity of a market or market segment, investor return expectations and/or risk tolerance, insolvency or financial distress of key market makers or participants, or changes in market perceptions of credit worthiness. We are also subject to market risk related to investments in real estate, loans and securities collateralized by real estate. Some of our investment strategies target individual investments with unique risks that are not highly correlated with broad market risks. Although we expect these investments to increase total portfolio returns over time, their performance may vary from and under-perform relative to the market in some periods.

We are subject to risks associated with potential declines in credit quality related to specific issuers or specific industries and a general weakening in the economy, which are typically reflected through credit spreads. Credit spread is the additional yield on fixed income securities and loans above the risk-free rate (typically referenced as the yield on U.S. Treasury securities) that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks. Credit spreads vary (i.e. increase or decrease) in response to the market's perception of risk and liquidity in a specific issuer or specific sector and are influenced by the credit ratings, and the reliability of those ratings, published by external rating agencies. Although we have the ability to use derivative financial instruments to manage these risks, the effectiveness of such instruments varies with liquidity and other conditions that may impact derivative and bond markets. Adverse economic conditions or other factors could cause declines in the quality and valuation of our investment portfolio that could result in realized and unrealized losses. The concentration of our investment portfolios in any particular issuer, industry, collateral type, group of related industries, geographic sector or risk type could have an adverse effect on our investment portfolios and consequently on our results of operations and financial condition.

A decline in market interest rates or credit spreads could have an adverse effect on our investment income as we invest cash in new investments that may earn less than the portfolio's average yield. In a declining interest rate environment, borrowers may prepay or redeem securities more quickly than expected as they seek to refinance at lower rates. A decline could also lead us to purchase longer-term or riskier assets in order to obtain adequate investment yields resulting in a duration gap when compared to the duration of liabilities. Alternatively, longer-term assets may be sold and reinvested in shorter-term assets in anticipation of rising interest rates. An increase in market interest rates or credit spreads could have an adverse effect on the value of our investment portfolio by decreasing the fair values of the fixed income securities that comprise a substantial majority of our investment portfolio.

The determination of the amount of realized capital losses recorded for impairments of our investments is subjective and could materially impact our operating results and financial condition

The determination of the amount of realized capital losses recorded for impairments vary by investment type and is based upon our ongoing evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. We update our evaluations regularly and reflect changes in other-than-temporary impairments in our results of operations. The assessment of whether other-than-temporary impairments have occurred is based on our case-by-case evaluation of the underlying reasons for the decline in fair value. Our conclusions on such assessments are judgmental and include assumptions and projections of future cash flows and price recovery which may ultimately prove to be incorrect as assumptions, facts and circumstances change. Furthermore, historical trends may not be indicative of future impairments and additional impairments may need to be recorded in the future.

The determination of the fair value of our fixed income and equity securities is subjective and could materially impact our operating results and financial condition

In determining fair values we principally use the market approach which utilizes market transaction data for the same or similar instruments. The degree of judgment involved in determining fair values is inversely related to the availability of market observable information. The fair value of assets may differ from the actual amount received upon sale of an asset in an orderly transaction between market participants at the measurement date. Moreover, the use of different valuation assumptions may have a material effect on the assets' fair values. The difference between amortized cost or cost and fair value, net of deferred income taxes, certain DAC, certain deferred sales inducement costs, and certain reserves for life-contingent contract benefits, is reflected as a component of accumulated other comprehensive income in shareholder's equity. Changing market conditions could materially affect the determination of the fair value of securities and unrealized net capital gains and losses could vary significantly.

Risks Relating to the Insurance Industry

Our future growth and profitability are dependent in part on our ability to successfully operate in an insurance industry that is highly competitive

The insurance industry is highly competitive. Many of our primary insurance competitors have well-established national reputations and market similar products.

Because of the competitive nature of the insurance industry, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressures will not have a material effect on our business, operating results or financial condition. This includes competition for producers such as exclusive agents and their licensed sales professionals. In the event we are unable to attract and retain these producers or they are unable to attract customers for our products, growth could be materially affected. Furthermore, certain competitors operate using a mutual insurance company structure and therefore may have dissimilar profitability and return targets.

Our ability to successfully operate may also be impaired if we are not effective in developing the talent and skills of our human resources, attracting and assimilating new executive talent into our organization, or deploying human resource talent consistently with our business goals.

Difficult conditions in the global economy and capital markets generally could adversely affect our business, operating and investment results and these conditions may not improve in the near future

As with most businesses, we believe difficult conditions in the global economy and capital markets, such as significant negative macroeconomic trends, including relatively high and sustained unemployment, reduced consumer spending, lower residential and commercial real estate prices, substantial increases in delinquencies on consumer debt, including defaults on home mortgages, and the relatively low availability of credit could have an adverse effect on our business and operating results.

Stressed conditions, volatility and disruptions in global capital markets, particular markets or financial asset classes could adversely affect our investment portfolio. Disruptions in one market or asset class can also spread to other markets or asset classes. Although the disruption in the global financial markets has moderated, not all global financial markets are functioning normally, and the rate of recovery from the U.S. recession has been below historic averages. Several governments around the world have announced austerity actions to address their budget deficits that may lead to a decline in economic activity.

In the years since the financial crisis, the central banks of most developed countries have pursued fairly similar, and highly accommodative, monetary policies. While European policy makers have developed mechanisms to address funding concerns, risks to the European economy and financial markets remain. Additionally, monetary policies among major central banks have begun to diverge. The United States Federal Reserve and the Bank of England continue to evaluate the timing and pace of normalizing their respective policies. In contrast, the European Central Bank has recently launched a quantitative easing program and several central banks have lowered their benchmark interest rates to stimulate economic activity. The diverging policies are likely to result in higher volatility and less certainty in capital markets.

General economic conditions could adversely affect us in the form of consumer behavior and pressure investment results. Consumer behavior changes could include decreased demand for our products. In addition, holders of some of our interest-sensitive life insurance and annuity products may engage in an elevated level of discretionary withdrawals of contractholder funds. Our investment results could be adversely affected as deteriorating financial and business conditions affect the issuers of the securities in our investment portfolio.

Losses from legal and regulatory actions may be material to our operating results, cash flows and financial condition

As is typical for a large company, from time to time we are involved in various legal actions, including class action litigation challenging a range of company practices and coverage provided by our insurance products, some of which involve claims for substantial or indeterminate amounts. We are also involved in various regulatory actions and inquiries, including market conduct exams by state insurance regulatory agencies. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of amounts currently accrued and may be material to our operating results or cash flows for a particular quarter or annual period and to our financial condition.

We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth

As insurance companies, broker-dealers, investment advisers and/or investment companies, many of our subsidiaries are subject to extensive laws and regulations. These laws and regulations are complex and subject to change. Changes may sometimes lead to additional expenses, increased legal exposure, and additional limits on our ability to grow or to achieve targeted profitability. Moreover, laws and regulations are administered and enforced by a number of different governmental authorities, each of which exercises a degree of interpretive latitude, including state insurance regulators; state securities administrators; state attorneys general and federal agencies including the SEC, the FINRA and the U.S. Department of Justice. Consequently, we are subject to the risk that compliance with any particular regulator's or enforcement authority's interpretation of a legal issue may not result in compliance with another's interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator's or enforcement authority's interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment may, even absent any particular regulator's or enforcement authority's interpretation of a legal issue changing, cause us to change our views regarding the actions we need to take from a legal risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow or to improve the profitability of our business. Furthermore, in some cases, these laws and regulations are designed to protect or benefit the interests of a specific constituency rather than a range of constituencies. For example, state insurance laws and regulations are generally intended to protect or benefit purchasers or users of insurance products. In many respects, these laws and regulations limit our ability to grow or to improve the profitability of our business.

Regulatory reforms, and the more stringent application of existing regulations, may make it more expensive for us to conduct our business

The federal government has enacted comprehensive regulatory reforms for financial services entities. As part of a larger effort to strengthen the regulation of the financial services market, certain reforms are applicable to the insurance industry, including the FIO established within the Treasury Department.

In recent years, the state insurance regulatory framework has come under public scrutiny, members of Congress have discussed proposals to provide for federal chartering of insurance companies, and the FIO and FSOC were established. We can make no assurances regarding the potential impact of state or federal measures that may change the nature or scope of insurance and financial regulation.

These regulatory reforms and any additional legislative change or regulatory requirements imposed upon us in connection with the federal government's regulatory reform of the financial services industry, and any more stringent enforcement of existing regulations by federal authorities, may make it more expensive for us to conduct our business, or limit our ability to grow or to achieve profitability.

Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business

Market conditions beyond our control impact the availability and cost of the reinsurance we purchase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as is currently available. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our risk exposure, reduce our insurance writings, or develop or seek other alternatives.

Reinsurance subjects us to the credit risk of our reinsurers and may not be adequate to protect us against losses arising from ceded insurance, which could have a material effect on our operating results and financial condition

The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including changes in market conditions, whether insured losses meet the qualifying conditions of the reinsurance contract and whether reinsurers, or their affiliates, have the financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract. Our inability to collect a material recovery from a reinsurer could have a material effect on our operating results and financial condition.

A downgrade in our financial strength ratings may have an adverse effect on our competitive position, the marketability of our product offerings, our liquidity, operating results and financial condition

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. On an ongoing basis, rating agencies review our financial performance and condition and could downgrade or change the outlook on our ratings due to, for example, a change in one of our insurance company's statutory capital; a change in a rating agency's determination of the amount of risk-adjusted capital required to maintain a particular rating; an increase in the perceived risk of our investment portfolio; a reduced confidence in management or our business strategy; as well as a number of other considerations that may or may not be under our control. Our insurance financial strength ratings from A.M. Best, Standard & Poor's and Moody's are subject to continuous review, and the retention of current ratings cannot be assured. A downgrade in any of these ratings could have a material effect on our sales, our competitiveness, the marketability of our product offerings, our liquidity, operating results and financial condition.

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or our ability to obtain credit on acceptable terms

In periods of extreme volatility and disruption in the capital and credit markets, liquidity and credit capacity may be severely restricted. In such circumstances, our ability to obtain capital to fund operating expenses, financing costs, capital expenditures or acquisitions may be limited, and the cost of any such capital may be significant. Our access to additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to our industry, our credit ratings and credit capacity, as well as lenders' perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. If a combination of these factors were to occur, our internal sources of liquidity may prove to be insufficient and in such case, we may not be able to successfully obtain additional financing on favorable terms.

The failure in cyber or other information security systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning could result in a loss or disclosure of confidential information, damage to our reputation, additional costs and impairment of our ability to conduct business effectively

We depend heavily upon computer systems and mathematical algorithms and data to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems could be subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other global companies, we have experienced threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. Events such as these could jeopardize the confidential, proprietary and other information (including personal information of our customers or employees) processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss. These risks may increase in the future as we continue to expand our internet and mobile strategies and develop additional remote connectivity solutions to serve our customers.

The occurrence of a disaster, such as a natural catastrophe, pandemic, industrial accident, blackout, terrorist attack, war, cyber-attack, computer virus, insider threat, unanticipated problems with our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

Third parties to whom we outsource certain of our functions are also subject to the risks outlined above. Any of these may result in our incurring substantial costs and other negative consequences, including a material adverse effect on our business, financial condition, results of operations and liquidity.

A large scale pandemic, the continued threat of terrorism or military actions may have an adverse effect on the level of claim losses we incur, the value of our investment portfolio, our competitive position, marketability of product offerings, liquidity and operating results

A large scale pandemic, the continued threat of terrorism, within the United States and abroad, or military and other actions, and heightened security measures in response to these types of threats, may cause significant volatility and losses in our investment portfolio from declines in the equity markets and from interest rate changes in the United States, Europe and elsewhere, and result in loss of life, property damage, disruptions to commerce and reduced economic activity. Some of the assets in our investment portfolio may be adversely affected by declines in the equity markets and reduced economic activity caused by a large scale pandemic or the continued threat of terrorism. Additionally, a large scale pandemic or terrorist act could have a material effect on the sales, profitability, competitiveness, marketability of product offerings, liquidity, and operating results.

Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our results of operations and financial condition

Our financial statements are subject to the application of generally accepted accounting principles, which are periodically revised, interpreted and/or expanded. Accordingly, we are required to adopt new guidance or interpretations, or could be subject to existing guidance as we enter into new transactions, which may have a material effect on our results of operations and financial condition that is either unexpected or has a greater impact than expected. For a description of changes in accounting standards that are currently pending and, if known, our estimates of their expected impact, see Note 2 of the consolidated financial statements.

The realization of deferred tax assets is subject to uncertainty

The realization of our deferred tax assets, net of valuation allowance, if any, is based on our assumption that we will be able to fully utilize the deductions that are ultimately recognized for tax purposes. However, actual results may differ from our assumptions if adequate levels of taxable income are not attained.

Loss of key vendor relationships or failure of a vendor to protect our data or personal information of our customers or employees could affect our operations

We rely on services and products provided by many vendors in the United States and abroad. These include, for example, vendors of computer hardware and software and vendors of investment management services. In the event that one or more of our vendors suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, or fails to protect our data or personal information of our customers or employees, we may suffer operational impairments and financial losses.

We may not be able to protect our intellectual property and may be subject to infringement claims

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our intellectual property and to determine its scope, validity or enforceability, which could divert significant resources and prove unsuccessful. An inability to protect our intellectual property could have a material effect on our business.

We may be subject to claims by third parties for patent, trademark or copyright infringement or breach of usage rights. Any such claims and any resulting litigation could result in significant expense and liability. If our third party providers or we are found to have infringed a third-party intellectual property right, either of us could be enjoined from providing certain products or services or from utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses. Alternatively, we could be required to enter into costly licensing arrangements with third parties or implement a costly work around. Any of these scenarios could have a material effect on our business and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our home office is part of the Parent Group's home office complex in Northbrook, Illinois. As of December 31, 2014, the home office complex consists of several buildings totaling 2.3 million square feet of office space on a 282-acre site. In addition, the Parent Group operates various administrative, data processing, claims handling and other support facilities around the world.

All of the facilities from which we operate are owned or leased by our direct parent, AIC. Expenses associated with facilities owned or leased by AIC are allocated to us on both a direct and an indirect basis, depending on the nature and use of each particular facility. We believe that these facilities are suitable and adequate for our current operations.

The locations out of which the Allstate exclusive agencies operate in the U.S. are normally leased by the agencies as lessees.

Item 3. Legal Proceedings

Information required for Item 3 is incorporated by reference to the discussion under the heading "Regulation and Compliance" in Note 12 of the consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

No established public trading market exists for Allstate Life's common stock. All of its outstanding common stock is owned by Allstate Life's parent, Allstate Insurance Company ("AIC"). All of the outstanding common stock of AIC is owned by Allstate Insurance Holdings, LLC, which is wholly owned by The Allstate Corporation.

The Company paid a return of capital of $700 million and $500 million to AIC in 2014 and 2013, respectively. For additional information on dividends, including restrictions on the payment of dividends by Allstate Life and its subsidiaries, see the Limitations on Dividends by Insurance Subsidiaries subsection of the "Regulation" section of Item 1. Business of this Form 10-K and the discussion under the heading "Dividend Limitations" in Note 15 of our consolidated financial statements, which are incorporated herein by reference.

Item 6. Selected Financial Data

5-YEAR SUMMARY OF SELECTED FINANCIAL DATA

($ in millions)	2014	2013	2012	2011	2010
Consolidated Operating Results					
Premiums	$ 589	$ 613	$ 593	$ 624	$ 592
Contract charges	847	1,054	1,029	1,008	991
Net investment income	2,081	2,485	2,597	2,637	2,760
Realized capital gains and losses	143	76	(16)	390	(513)
Total revenues	3,660	4,228	4,203	4,659	3,830
Net income (loss)	526	(38)	426	469	(40)
Consolidated Financial Position					
Investments [(1)]	$ 37,466	$ 37,944	$ 55,866	$ 56,277	$ 59,442
Total assets	46,735	63,368	70,111	71,119	75,981
Reserve for life-contingent contract benefits and contractholder funds [(1)]	33,382	35,193	52,751	55,335	59,178
Notes due to related parties	275	282	496	700	677
Shareholder's equity	6,347	6,070	7,313	6,067	5,319

[(1)] As of December 31, 2013, $11.98 billion of investments and $12.84 billion of reserves for life-contingent contract benefits and contractholder funds were classified as held for sale relating to the sale of Lincoln Benefit Life Company (see Note 3 of the consolidated financial statements).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of Allstate Life Insurance Company (referred to in this document as "we," "our," "us," the "Company" or "ALIC"). It should be read in conjunction with the 5-year summary of selected financial data, consolidated financial statements and related notes found under Part II. Item 6. and Item 8. contained herein. We operate as a single segment entity based on the manner in which we use financial information to evaluate business performance and to determine the allocation of resources.

The most important factors we monitor to evaluate the financial condition and performance of our company include:

- For operations: benefit and investment spread, asset-liability matching, amortization of deferred policy acquisition costs ("DAC"), expenses, operating income, net income, new business sales, invested assets, and premiums and contract charges.
- For investments: exposure to market risk, credit quality/experience, total return, net investment income, cash flows, realized capital gains and losses, unrealized capital gains and losses, stability of long-term returns, and asset and liability duration.
- For financial condition: liquidity, financial strength ratings, operating leverage, capital position, and return on equity.

Summary of Results:

- Net income was $526 million in 2014 compared to a net loss of $38 million in 2013 and net income of $426 million in 2012. The favorable change in 2014 compared to 2013 primarily relates to lower loss on disposition charges related to the Lincoln Benefit Life Company ("LBL") sale, partially offset by the reduction in business due to the sale of LBL on April 1, 2014. The change in 2013 compared to 2012 was primarily due to the estimated loss on disposition related to the pending LBL sale recorded in 2013.
- Capital management actions during 2014 included a $700 million return of capital to Allstate Insurance Company ("AIC") and a $7 million repayment of notes to AIC. Consolidated shareholder's equity increased to $6.35 billion as of December 31, 2014 from $6.07 billion as of December 31, 2013.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The most critical estimates include those used in determining:

- Fair value of financial assets
- Impairment of fixed income and equity securities
- Deferred policy acquisition costs amortization
- Reserve for life-contingent contract benefits estimation

In making these determinations, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our business and operations. It is reasonably likely that changes in these estimates could occur from period to period and result in a material impact on our consolidated financial statements.

A brief summary of each of these critical accounting estimates follows. For a more detailed discussion of the effect of these estimates on our consolidated financial statements, and the judgments and assumptions related to these estimates, see the referenced sections of this document. For a complete summary of our significant accounting policies, see the notes to the consolidated financial statements.

Fair value of financial assets 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. We are responsible for the determination of fair value of financial assets and the supporting assumptions and methodologies. We use independent third-party valuation service providers, broker quotes and internal pricing methods to determine fair values. We obtain or calculate only one single quote or price for each financial instrument.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of proprietary models, produce valuation information in the form of a single fair value for individual fixed income and other securities for which a fair value has been requested under the terms of our agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, liquidity spreads, currency rates, and other information, as applicable. Credit and liquidity spreads are typically implied from completed transactions and transactions of comparable securities. Valuation service providers also use proprietary discounted cash flow models that are widely accepted in the financial services industry and similar to those used by other market participants to value the same financial instruments. The valuation models take into account, among other things, market observable information as of the measurement date, as described above, as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector, and where applicable, collateral quality and other issue or issuer specific information. Executing valuation models effectively requires seasoned professional judgment and experience. For certain equity securities, valuation service providers provide market quotations for completed transactions on the measurement date. In cases where market transactions or other market observable data is limited, the extent to which judgment is applied varies inversely with the availability of market observable information.

For certain of our financial assets measured at fair value, where our valuation service providers cannot provide fair value determinations, we obtain a single non-binding price quote from a broker familiar with the security who, similar to our valuation service providers, may consider transactions or activity in similar securities among other information. The brokers providing price quotes are generally from the brokerage divisions of leading financial institutions with market making, underwriting and distribution expertise regarding the security subject to valuation.

The fair value of certain financial assets, including privately placed corporate fixed income securities and certain free-standing derivatives, for which our valuation service providers or brokers do not provide fair value determinations, is determined using valuation methods and models widely accepted in the financial services industry. Our internal pricing methods are primarily based on models using discounted cash flow methodologies that develop a single best estimate of fair value. Our models generally incorporate inputs that we believe are representative of inputs other market participants would use to determine fair value of the same instruments, including yield curves, quoted market prices of comparable securities, published credit spreads, and other applicable market data as well as instrument-specific characteristics that include, but are not limited to, coupon rates, expected cash flows, sector of the issuer, and call provisions. Judgment is required in developing these fair values. As a result, the fair value of these financial assets may differ from the amount actually received to sell an asset in an orderly transaction between market participants at the measurement date. Moreover, the use of different valuation assumptions may have a material effect on the financial assets' fair values.

For most of our financial assets measured at fair value, all significant inputs are based on or corroborated by market observable data and significant management judgment does not affect the periodic determination of fair value. The determination of fair value using discounted cash flow models involves management judgment when significant model inputs are not based on or corroborated by market observable data. However, where market observable data is available, it takes precedence, and as a result, no range of reasonably likely inputs exists from which the basis of a sensitivity analysis could be constructed.

We gain assurance that our financial assets 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, our 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, we assess 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. We perform procedures to understand and assess the methodologies, processes and controls of valuation service providers. In addition, we 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. We perform 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, we validate them through reviews by members of management who have relevant expertise and who are independent of those charged with executing investment transactions.

We also perform an analysis to determine whether there has been a significant decrease in the volume and level of activity for the asset when compared to normal market activity, and if so, whether transactions may not be orderly. Among the indicators we consider in determining whether a significant decrease in the volume and level of market activity for a specific asset has occurred include the level of new issuances in the primary market, trading volume in the secondary market, level of credit spreads over historical levels, bid-ask spread, and price consensuses among market participants and sources. If evidence indicates that prices are based on transactions that are not orderly, we place little, if any, weight on the transaction price and will estimate fair value using an internal model. As of December 31, 2014 and 2013, we did not adjust fair values provided by our valuation service providers or brokers or substitute them with an internal model for such securities.

The following table identifies fixed income and equity securities and short-term investments as of December 31, 2014 by source of fair value determination.

($ in millions)	Fair value	Percent to total
Fair value based on internal sources	$ 3,272	10.9 %
Fair value based on external sources [1]	26,672	89.1
Total	$ 29,944	100.0 %

(1) Includes $1.24 billion that are valued using broker quotes.

For additional detail on fair value measurements, see Note 7 of the consolidated financial statements.

Impairment of fixed income and equity securities For investments classified as available for sale, the difference between fair value and amortized cost for fixed income securities and cost for equity securities, net of certain other items and deferred income taxes (as disclosed in Note 6), is reported as a component of accumulated other comprehensive income on the Consolidated Statements of Financial Position and is not reflected in the operating results of any period until reclassified to net income upon the consummation of a transaction with an unrelated third party or when a write-down is recorded due to an other-than-temporary decline in fair value. We have 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, we assess whether management with the appropriate authority has made the decision to sell or whether it is more likely than not we 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 we have not made the decision to sell the fixed income security and it is not more likely than not we will be required to sell the fixed income security before recovery of its amortized cost basis, we evaluate whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. We use our 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, 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 we determine 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 we determine that the fixed income security does not have sufficient cash flow or other information to estimate a recovery value for the security, we may conclude that the entire decline in fair value is deemed to be credit related and the loss is recorded in earnings.

There are a number of assumptions and estimates inherent in evaluating impairments of equity securities and determining if they are other than temporary, including: 1) our ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) 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; 3) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity; and 4) the length of time and extent to which the fair value has been less than cost.

Once assumptions and estimates are made, any number of changes in facts and circumstances could cause us to subsequently determine that a fixed income or equity security is other-than-temporarily impaired, including: 1) general economic conditions that are worse than previously forecasted or that have a greater adverse effect on a particular issuer or industry sector than originally estimated; 2) changes in the facts and circumstances related to a particular issue or issuer's ability to meet all of its contractual obligations; and 3) changes in facts and circumstances that result in management's decision to sell or result in our assessment that it is more likely than not we will be required to sell before recovery of the amortized cost basis of a fixed income security or causes a change in our ability or intent to hold an equity security until it recovers in value. Changes in assumptions, facts and circumstances could result in additional charges to earnings in future periods to the extent that losses are realized. The charge to earnings, while potentially significant to net income, would not have a significant effect on shareholder's equity, since our securities are designated as available for sale and carried at fair value and as a result, any related unrealized loss, net of deferred income taxes and related DAC, deferred sales inducement costs and reserves for life-contingent contract benefits, would already be reflected as a component of accumulated other comprehensive income in shareholder's equity.

The determination of the amount of other-than-temporary impairment is an inherently subjective process based on periodic evaluations of the factors described above. Such evaluations and assessments are revised as conditions change and new information becomes available. We update our evaluations regularly and reflect changes in other-than-temporary impairments in results of operations as such evaluations are revised. The use of different methodologies and assumptions in the determination of the amount of other-than-temporary impairments may have a material effect on the amounts presented within the consolidated financial statements.

For additional detail on investment impairments, see Note 6 of the consolidated financial statements.

Deferred policy acquisition costs amortization We incur significant costs in connection with acquiring insurance policies and investment contracts. In accordance with GAAP, costs that are related directly to the successful acquisition of new or renewal insurance policies and investment contracts are deferred and recorded as an asset on the Consolidated Statements of Financial Position.

DAC related to traditional life insurance is amortized over the premium paying period of the related policies in proportion to the estimated revenues on such business. Significant assumptions relating to estimated premiums, investment returns, as well as mortality, persistency and expenses to administer the business are established at the time the policy is issued and are generally not revised during the life of the policy. The assumptions for determining the timing and amount of DAC amortization are consistent with the assumptions used to calculate the reserve for life-contingent contract benefits. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies may result in a change to the rate of amortization in the period such events occur. Generally, the amortization periods for these policies approximates the estimated lives of the policies. The recovery of DAC is dependent upon the future profitability of the business. We periodically review the adequacy of reserves and recoverability of DAC for these policies on an aggregate basis using actual experience. We aggregate all traditional life insurance products and immediate annuities with life contingencies in the analysis. In the event actual experience is significantly adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance must be expensed to the extent not recoverable and a premium deficiency reserve may be required if the remaining DAC balance is insufficient to absorb the deficiency. In 2014, 2013 and 2012, our reviews concluded that no premium deficiency adjustments were necessary, primarily due to projected profit from traditional life insurance more than offsetting the projected losses in immediate annuities with life contingencies.

DAC related to interest-sensitive life, fixed annuities and other investment contracts is amortized in proportion to the incidence of the total present value of gross profits, which includes both actual historical gross profits ("AGP") and estimated future gross profits ("EGP") expected to be earned over the estimated lives of the contracts. The amortization is net of interest on the prior period DAC balance using rates established at the inception of the contracts. Actual amortization periods generally range from 15-30 years; however, incorporating estimates of the rate of customer surrenders, partial withdrawals and deaths generally results in the majority of the DAC being amortized during the surrender charge period, which is typically 10-20 years for interest-sensitive life and 5-10 years for fixed annuities. The cumulative DAC amortization is reestimated and adjusted by a cumulative charge or credit to income when there is a difference between the incidence of actual versus expected gross profits in a reporting period or when there is a change in total EGP.

AGP and EGP primarily consist of the following components: contract charges for the cost of insurance less mortality costs and other benefits (benefit margin); investment income and realized capital gains and losses less interest credited (investment margin); and surrender and other contract charges less maintenance expenses (expense margin). The principal assumptions for determining the amount of EGP are persistency, mortality, expenses, investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of any hedges, and these assumptions are reasonably likely to have the greatest impact on the amount of DAC amortization. Changes in these assumptions can be offsetting and we are unable to reasonably predict their future movements or offsetting impacts over time.

Each reporting period, DAC amortization is recognized in proportion to AGP for that period adjusted for interest on the prior period DAC balance. This amortization process includes an assessment of AGP compared to EGP, the actual amount of business remaining in force and realized capital gains and losses on investments supporting the product liability. The impact of realized capital gains and losses on amortization of DAC depends upon which product liability is supported by the assets that give rise to the gain or loss. If the AGP is greater than EGP in the period, but the total EGP is unchanged, the amount of DAC amortization will generally increase, resulting in a current period decrease to earnings. The opposite result generally occurs when the AGP is less than the EGP in the period, but the total EGP is unchanged. However, when DAC amortization or a component of gross profits for a quarterly period is potentially negative (which would result in an increase of the DAC balance) as a result of negative AGP, the specific facts and circumstances surrounding the potential negative amortization are considered to determine whether it is appropriate for recognition in the consolidated financial statements. Negative amortization is only recorded when the increased DAC balance is determined to be recoverable based on facts and circumstances. Negative amortization was not recorded for certain fixed annuities during 2012 in which capital losses were realized on their related investment portfolio. For products whose supporting investments are exposed to capital losses in excess of our expectations which may cause periodic AGP to become temporarily negative, EGP and AGP utilized in DAC amortization may be modified to exclude the excess capital losses.

Annually, we review and update all assumptions underlying the projections of EGP, including persistency, mortality, expenses, investment returns, comprising investment income and realized capital gains and losses, interest crediting rates and the effect of any hedges. At each reporting period, we assess whether any revisions to assumptions used to determine DAC amortization are required. These reviews and updates may result in amortization acceleration or deceleration, which are referred to as “DAC unlocking”. If the update of assumptions causes total EGP to increase, the rate of DAC amortization will generally decrease, resulting in a current period increase to earnings. A decrease to earnings generally occurs when the assumption update causes the total EGP to decrease.

The following table provides the effect on DAC amortization of changes in assumptions relating to the gross profit components of investment margin, benefit margin and expense margin during the years ended December 31.

($ in millions)	**2014**	**2013**	**2012**
Investment margin	$ 5	$ (22)	$ 3
Benefit margin	29	13	33
Expense margin	(41)	27	(2)
Net (deceleration) acceleration	$ (7)	$ 18	$ 34

In 2014, DAC amortization acceleration for changes in the investment margin component of EGP related to interest-sensitive life insurance and fixed annuities and was due to lower projected investment returns. The acceleration related to benefit margin primarily related to interest-sensitive life insurance and was due to an increase in projected mortality. The deceleration related to expense margin primarily related to interest-sensitive life insurance and was due to a decrease in projected expenses.

In 2013, DAC amortization deceleration for changes in the investment margin component of EGP primarily related to fixed annuities and interest-sensitive life insurance and was due to increased projected investment margins. The acceleration related to benefit margin was primarily due to interest-sensitive life insurance and was due to an increase in projected mortality. The acceleration related to expense margin related to interest-sensitive life insurance and was due to an increase in projected expenses.

In 2012, DAC amortization acceleration for changes in the investment margin component of EGP primarily related to fixed annuities and was due to lower projected investment returns. The acceleration related to benefit margin was primarily due to increased projected mortality on variable life insurance, partially offset by increased projected persistency on interest-sensitive life insurance. The deceleration related to expense margin related to interest-sensitive life insurance and fixed annuities and was due to a decrease in projected expenses.

The following table displays the sensitivity of reasonably likely changes in assumptions included in the gross profit components of investment margin or benefit margin to amortization of the DAC balance as of December 31, 2014.

($ in millions)	**Increase/(reduction) in DAC**
Increase in future investment margins of 25 basis points	$ 52
Decrease in future investment margins of 25 basis points	$ (57)
Decrease in future life mortality by 1%	$ 13
Increase in future life mortality by 1%	$ (14)

Any potential changes in assumptions discussed above are measured without consideration of correlation among assumptions. Therefore, it would be inappropriate to add them together in an attempt to estimate overall variability in amortization.

For additional detail related to DAC, see the Operations section of this document.

Reserve for life-contingent contract benefits estimation Due to the long term nature of traditional life insurance, life-contingent immediate annuities and voluntary accident and health insurance products, benefits are payable over many years; accordingly, the reserves are calculated as the present value of future expected benefits to be paid, reduced by the present value of future expected net premiums. Long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses are used when establishing the reserve for life-contingent contract benefits payable under these insurance policies. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by characteristics such as type of coverage, year of issue and policy duration. Future investment yield assumptions are determined based upon prevailing investment yields as well as estimated reinvestment yields. Mortality, morbidity and policy termination assumptions are based on our experience and industry experience. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium-paying period. These assumptions are established at the time the policy is issued, are consistent with assumptions for determining DAC amortization for these policies, and are generally not changed during the policy coverage period. However, if actual experience emerges in a manner that is significantly adverse relative to the original assumptions, adjustments to DAC or reserves may be required resulting in a charge to earnings which could have a material effect on our operating results and financial condition. We periodically review the adequacy of reserves and recoverability of DAC for these policies on an aggregate basis using actual experience. In the event actual experience is significantly adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance must be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required. In 2014, 2013 and 2012, our reviews concluded that no premium deficiency adjustments were necessary, primarily due to projected profit from traditional life insurance more than offsetting the projected losses in immediate annuities with life contingencies. We will continue to monitor the experience of our traditional life insurance and immediate annuities. We anticipate that mortality, investment and reinvestment yields, and policy terminations are the factors that would be most likely to require premium deficiency adjustments to these reserves or related DAC.

For further detail on the reserve for life-contingent contract benefits, see Note 9 of the consolidated financial statements.

2014 HIGHLIGHTS

- Net income was $526 million in 2014 compared to a net loss of $38 million in 2013.
- Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled $1.41 billion in 2014, a decrease of 12.3% from $1.61 billion in 2013.
- Investments totaled $37.47 billion as of December 31, 2014, reflecting a decrease of $478 million from $37.94 billion as of December 31, 2013. Investments as of December 31, 2013 excluded LBL investments classified as held for sale. Net investment income decreased 16.3% to $2.08 billion in 2014 from $2.49 billion in 2013.
- Net realized capital gains totaled $143 million in 2014 compared to $76 million in 2013.
- Contractholder funds totaled $21.82 billion as of December 31, 2014, reflecting a decrease of $1.79 billion from $23.60 billion as of December 31, 2013. Contractholder funds as of December 31, 2013 excluded LBL amounts classified as held for sale.
- On April 1, 2014, we sold LBL's life insurance business generated through independent master brokerage agencies, and all of LBL's deferred fixed annuity and long-term care insurance business to Resolution Life Holdings, Inc. The loss on disposition increased by $38 million, after-tax in 2014. Most of the amount in 2014 represents non-cash charges.

IMPACT OF LOW INTEREST RATE ENVIRONMENT

Long-term U.S. Treasury rates fell in 2014, and our current reinvestment yields are generally lower than the overall portfolio income yield, primarily for our investments in fixed income securities and commercial mortgage loans. At the January 2015 meeting, the Federal Open Market Committee reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress - both realized and expected - toward its objectives of maximum employment and 2 percent inflation. Additionally, the Committee noted that it can be patient in beginning to normalize the stance of monetary policy. Many market participants anticipate that interest rates, particularly those at the shorter end of the term structure, will begin to rise but remain below historic levels in 2015. We also expect capital markets to experience periods of increased volatility in 2015.

Deferred annuity contracts with fixed and guaranteed crediting rates, or floors that limit crediting rate reductions, are adversely impacted by a prolonged low interest rate environment since we may not be able to reduce crediting rates sufficiently to maintain investment spreads. Financial results of long duration products that do not have stated crediting rate guarantees but for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates, such as structured settlements and term life insurance, may also be adversely impacted. Our investment strategy for structured settlements includes increasing investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic operating or market performance, including limited partnerships, equities and real estate. We stopped selling new fixed annuity products January 1, 2014.

The following table summarizes the weighted average guaranteed crediting rates and weighted average current crediting rates as of December 31, 2014 for certain fixed annuities and interest-sensitive life contracts where management has the ability to change the crediting rate, subject to a contractual minimum. Other products, including equity-indexed, variable and immediate annuities, equity-indexed and variable life, and institutional products totaling $6.21 billion of contractholder funds, have been excluded from the analysis because management does not have the ability to change the crediting rate or the minimum crediting rate is not considered meaningful in this context.

($ in millions)	**Weighted average guaranteed crediting rates**	**Weighted average current crediting rates**	**Contractholder funds**
Annuities with annual crediting rate resets	2.99%	3.00%	$ 6,112
Annuities with multi-year rate guarantees [(1)]:			
Resettable in next 12 months	1.24	3.90	690
Resettable after 12 months	1.36	3.24	1,881
Interest-sensitive life insurance	4.03	4.09	6,920

[(1)] These contracts include interest rate guarantee periods which are typically 5, 7 or 10 years.

Investing activity will continue to decrease our portfolio yield as long as market yields remain below the current portfolio yield. The portfolio yield has been less impacted by reinvestment in the current low interest rate environment, as much of the investment cash flows have been used to fund the managed reduction in spread-based liabilities. The declines in both invested assets and portfolio yield are expected to result in lower net investment income in future periods.

We expect approximately 5.6% of the amortized cost of fixed income securities not subject to prepayment and approximately 6.4% of commercial mortgage loans to mature in 2015. We have $23.96 billion of such fixed income securities and $3.69 billion of such commercial mortgage loans as of December 31, 2014. Additionally, for asset-backed securities (“ABS”), residential mortgage-backed securities (“RMBS”) and commercial mortgage-backed securities (“CMBS”) that have the potential for prepayment and are therefore not categorized by contractual maturity, we received periodic principal payments of $658 million in 2014. To the extent portfolio cash flows are reinvested, the average pre-tax investment yield of 5.7% is expected to decline due to lower market yields.

In order to mitigate the unfavorable impact that the current interest rate environment could have on investment results, we are shifting the portfolio mix over time to have less reliance on investments whose returns come primarily from interest payments to investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic operating or market performance, including limited partnerships, equities and real estate.

These topics are discussed in more detail in the respective sections of the MD&A.

OPERATIONS

Overview and strategy We currently sell traditional, interest-sensitive and variable life insurance. We serve our customers through Allstate exclusive agencies and exclusive financial specialists. We also sell voluntary accident and health insurance through workplace enrolling independent agents in New York. We previously offered and continue to have in force fixed annuities such as deferred and immediate annuities, and institutional products consisting of funding agreements sold to unaffiliated trusts that use them to back medium-term notes. Allstate exclusive agencies and exclusive financial specialists have a portfolio of non-proprietary products to sell, including mutual funds, fixed and variable annuities, disability insurance and long-term care insurance, to help meet customer needs.

We bring value to our ultimate parent, The Allstate Corporation (the “Corporation”) in three principal ways: through profitable growth, by bringing new customers to Allstate, and by improving the economics of the Corporation through increased customer loyalty and stronger customer relationships based on cross selling our products to existing customers. Our strategy is focused on expanding Allstate customer relationships by growing the number of products delivered to customers through Allstate exclusive agencies, managing the run-off of our in-force annuity products while taking actions to improve returns, and emphasizing capital efficiency and shareholder returns.

Our strategy for our life insurance business centers on the continuation of our efforts to fully integrate the business into the Allstate brand customer value proposition and modernizing our operating model. The life insurance product portfolio and sales process are being redesigned with a focus on clear and distinct positioning to meet the varied needs of Allstate customers. Our product positioning will provide solutions to help meet customer needs during various life stages ranging from basic mortality protection to more complex mortality and financial planning solutions. Basic mortality protection solutions will be provided through less complex products, such as term and whole life insurance, sold through exclusive agents and licensed sales professionals to deepen customer relationships. More advanced mortality and financial planning solutions will be provided primarily through exclusive financial specialists with an emphasis on our more complex offerings, such as universal life insurance products. Sales producer education and technology improvements are being made to ensure agencies have the tools and information needed to help customers meet their needs and build personal relationships as trusted advisors. Additionally, tools will be made available to consumers to help them understand their needs and encourage interaction with their local agencies.

Our in-force deferred and immediate annuity business has been adversely impacted by the credit cycle and historically low interest rate environment. Our immediate annuity business has also been impacted by medical advancements that have resulted in annuitants living longer than anticipated when many of these contracts were originated. We focus on the distinct risk and return profiles of the specific products outstanding when developing investment and liability management strategies. We have significantly reduced the level of legacy deferred annuities in force and proactively manage the investment portfolio and annuity crediting rates to improve the profitability of the business. We are managing the investment portfolio supporting our immediate annuities to ensure the assets match the characteristics of the liabilities and provide the long-term returns needed to support this business. We continue to increase investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic operating or market performance including limited partnerships, equities and real estate to more appropriately match the long-term nature of our immediate annuities. To transition our annuity business to a more efficient variable cost structure, we plan to outsource the administration of the business to a third party administration company in 2015.

Outlook

- Our growth initiatives continue to focus on increasing the number of customers served through the Allstate agency channel.
- We expect lower investment spread due to the continuing managed reduction in contractholder funds and the low interest rate environment.
- We will continue to focus on improving returns on our in-force annuity products and managing the impacts of historically low interest rates. We anticipate a continuation of our asset allocation strategy for long-term immediate annuities to have less reliance on investments whose returns come primarily from interest payments to investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic operating or market performance, including limited partnerships, equities and real estate. This shift could result in lower and more volatile investment income; however, we anticipate that this strategy will lead to higher long-term total returns on shareholder's equity.
- We have limitations on the amount of dividends we can pay without prior insurance department approval. Accordingly, the level of distributions in 2015 may be lower than 2014.
- We continue to review our strategic options to reduce our exposure and improve returns of the spread-based businesses. As a result, we may take additional operational and financial actions that offer return improvement and risk reduction opportunities.

Summary analysis Summarized financial data for the years ended December 31 is presented in the following table.

($ in millions)	**2014**	**2013**	**2012**
Revenues			
Premiums	$ 589	$ 613	$ 593
Contract charges	847	1,054	1,029
Net investment income	2,081	2,485	2,597
Realized capital gains and losses	143	76	(16)
Total revenues	3,660	4,228	4,203
Costs and expenses			
Contract benefits	(1,452)	(1,606)	(1,521)
Interest credited to contractholder funds	(891)	(1,251)	(1,289)
Amortization of DAC	(162)	(240)	(324)
Operating costs and expenses	(310)	(434)	(437)
Restructuring and related charges	(2)	(6)	—
Interest expense	(16)	(23)	(45)
Total costs and expenses	(2,833)	(3,560)	(3,616)
(Loss) gain on disposition of operations	(68)	(687)	18
Income tax expense	(233)	(19)	(179)
Net income (loss)	$ 526	$ (38)	$ 426

Net income was $526 million in 2014 compared to a net loss of $38 million in 2013. The favorable change primarily relates to lower loss on disposition charges related to the LBL sale, partially offset by the reduction in business due to the sale of LBL on April 1, 2014. Net income in 2014 and net loss in 2013 included an after-tax loss on disposition of LBL totaling $38 million and $521 million, respectively. Excluding the loss on disposition as well as the net income of the LBL business for second through fourth quarter 2013 of $116 million, net income increased $197 million in 2014 compared to 2013, primarily due to lower operating costs and expenses, lower interest credited to contractholder funds, lower amortization of DAC and higher net realized capital gains.

Net loss was $38 million in 2013 compared to net income of $426 million in 2012. The change was primarily due to the estimated loss on disposition related to the pending LBL sale, lower net investment income and higher contract benefits, partially offset by net realized capital gains in 2013 compared to net realized capital losses in 2012 and decreased amortization of DAC.

Analysis of revenues Total revenues decreased 13.4% or $568 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of $651 million, total revenues increased 2.3% or $83 million in 2014 compared to 2013, due to higher net realized capital gains and higher premiums and contract charges, partially offset by lower net investment income. Total revenues increased 0.6% or $25 million in 2013 compared to 2012, primarily due to net realized capital gains in 2013 compared to net realized capital losses in 2012 and higher premiums and contract charges, partially offset by lower net investment income.

Premiums represent revenues generated from traditional life insurance, immediate annuities with life contingencies, and accident and health insurance products that have significant mortality or morbidity risk.

Contract charges are revenues generated from interest-sensitive and variable life insurance and fixed annuities for which deposits are classified as contractholder funds or separate account liabilities. Contract charges are assessed against the contractholder account values for maintenance, administration, cost of insurance and surrender prior to contractually specified dates.

The following table summarizes premiums and contract charges by product for the years ended December 31.

($ in millions)	**2014**	**2013**	**2012**
Underwritten products			
Traditional life insurance premiums	$ 492	$ 471	$ 449
Accident and health insurance premiums	93	105	99
Interest-sensitive life insurance contract charges	828	1,036	1,011
Subtotal	1,413	1,612	1,559
Annuities			
Immediate annuities with life contingencies premiums	4	37	45
Other fixed annuity contract charges	19	18	18
Subtotal	23	55	63
Premiums and contract charges [(1)]	$ 1,436	$ 1,667	$ 1,622

[(1)] Contract charges related to the cost of insurance totaled $582 million, $714 million and $685 million in 2014, 2013 and 2012, respectively.

Total premiums and contract charges decreased 13.9% or $231 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of $254 million, premiums and contract charges increased $23 million in 2014 compared to 2013, primarily due to increased traditional life insurance premiums due to higher renewals and sales through Allstate agencies, partially offset by lower premiums on immediate annuities with life contingencies due to discontinuing new sales January 1, 2014.

Total premiums and contract charges increased 2.8% in 2013 compared to 2012, primarily due to higher contract charges on interest-sensitive life insurance products primarily resulting from the aging of our policyholders and growth of insurance in force, and increased traditional life insurance premiums due to lower reinsurance premiums ceded and higher sales and renewals through Allstate agencies, partially offset by lower sales of immediate annuities with life contingencies.

Allstate agencies and exclusive financial specialists continue to sell LBL life products until we transition these products to Allstate Assurance Company beginning first quarter 2015. LBL life business sold through the Allstate agency channel and all LBL payout annuity business continues to be reinsured and serviced by ALIC. Following the closing of the sale, LBL was rated A- from A.M. Best and BBB+ from Standard & Poor's ("S&P"). ALIC is rated A+ by A.M. Best, A+ by S&P and A1 by Moody's. Allstate Assurance Company is rated A by A.M. Best and A1 by Moody's. As of December 31, 2014, ALIC assumed from LBL $3.82 billion of reserves for life-contingent contract benefits and contractholder funds. In 2014, premiums and contract charges of $784 million, contract benefits of $487 million, and interest credited to contractholder funds of $166 million were assumed from LBL. Allstate will continue to service the LBL business that was sold until the servicing transitions to third party administration companies, which have experienced delays and are expected to be completed in 2015.

Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life insurance, fixed annuities and funding agreements. The balance of contractholder funds is equal to the cumulative deposits received and interest credited to the contractholder less cumulative contract benefits, surrenders, withdrawals, maturities and contract charges for mortality or administrative expenses. The following table shows the changes in contractholder funds for the years ended December 31.

($ in millions)	2014	2013	2012
Contractholder funds, beginning balance	$ 23,604	$ 38,634	$ 41,669
Contractholder funds classified as held for sale, beginning	10,945	—	—
Total contractholder funds, including those classified as held for sale	34,549	38,634	41,669
Deposits			
Interest-sensitive life insurance	953	1,276	1,253
Fixed annuities	274	1,062	927
Total deposits	1,227	2,338	2,180
Interest credited	892	1,268	1,296
Benefits, withdrawals, maturities and other adjustments			
Benefits	(1,178)	(1,521)	(1,454)
Surrenders and partial withdrawals	(2,253)	(3,279)	(3,969)
Maturities of and interest payments on institutional products	(2)	(1,799)	(138)
Contract charges	(798)	(1,032)	(995)
Net transfers from separate accounts	7	12	11
Other adjustments [1]	34	(72)	34
Total benefits, withdrawals, maturities and other adjustments	(4,190)	(7,691)	(6,511)
Contractholder funds sold in LBL disposition	(10,662)	—	—
Contractholder funds classified as held for sale	—	(10,945)	—
Contractholder funds, ending balance	$ 21,816	$ 23,604	$ 38,634

[1] The table above illustrates the changes in contractholder funds, which are presented gross of reinsurance recoverables on the Consolidated Statements of Financial Position. The table above is intended to supplement our discussion and analysis of revenues, which are presented net of reinsurance on the Consolidated Statements of Operations and Comprehensive Income. As a result, the net change in contractholder funds associated with products reinsured to third parties is reflected as a component of the other adjustments line.

Contractholder funds decreased 7.6% in 2014 as surrenders and partial withdrawals were not offset by new sales due to no longer offering fixed annuity products beginning January 1, 2014. Contractholder funds decreased 38.9% in 2013 reflecting the reclassification of contractholder funds held for sale relating to the LBL sale. Contractholder funds, including those classified as held for sale, decreased 10.6% in 2013, reflecting a large institutional product maturity in 2013 and our continuing strategy to reduce our concentration in spread-based products.

Contractholder deposits decreased 47.5% in 2014 compared to 2013, primarily due to no longer offering fixed annuity products beginning January 1, 2014, as well as lower deposits on interest-sensitive life insurance due to the LBL sale. Contractholder deposits increased 7.2% in 2013 compared to 2012, primarily due to increased fixed annuity deposits driven by the new equity-indexed annuity products and higher deposits on immediate annuities, as well as higher deposits on interest-sensitive life insurance.

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 31.3% to $2.25 billion in 2014 from $3.28 billion in 2013, primarily due to the LBL sale. Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 17.4% to $3.28 billion in 2013 from $3.97 billion in 2012. The surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 10.2% in 2014 compared to 10.4% in 2013 and 11.5% in 2012.

Maturities of and interest payments on institutional products included a $1.75 billion maturity in 2013. There are $85 million of institutional products outstanding as of December 31, 2014.

Analysis of costs and expenses Total costs and expenses decreased 20.4% or $727 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of $475 million, total costs and expenses decreased $252 million in 2014 compared to 2013, primarily due to lower operating costs and expenses, lower interest credited to contractholder funds and lower amortization of DAC, partially offset by higher contract benefits. Total costs and expenses decreased

1.5% or $56 million in 2013 compared to 2012, primarily due to lower amortization of DAC and interest credited to contractholder funds, partially offset by higher contract benefits.

Contract benefits decreased 9.6% or $154 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of $173 million, contract benefits increased $19 million in 2014 compared to 2013, primarily due to worse mortality experience on life insurance. Our 2014 annual review of assumptions resulted in an $11 million increase in reserves primarily for secondary guarantees on interest-sensitive life insurance due to increased projected exposure to secondary guarantees.

Contract benefits increased 5.6% or $85 million in 2013 compared to 2012, primarily due to an increase in reserves for secondary guarantees on interest-sensitive life insurance and worse mortality experience on life insurance. Our 2013 annual review of assumptions resulted in a $37 million increase in reserves primarily for secondary guarantees on interest-sensitive life insurance due to higher concentration of and increased projected exposure to secondary guarantees.

We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies ("benefit spread"). This implied interest totaled $521 million, $527 million and $538 million in 2014, 2013 and 2012, respectively.

The benefit spread by product group for the years ended December 31 is disclosed in the following table.

($ in millions)	**2014**	**2013**	**2012**
Life insurance	$ 293	$ 310	$ 334
Accident and health insurance	32	15	27
Annuities	(85)	(77)	(66)
Total benefit spread	$ 240	$ 248	$ 295

Benefit spread decreased 3.2% or $8 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of $11 million, benefit spread increased $3 million in 2014 compared to 2013, primarily due to higher premiums and cost of insurance contract charges on life insurance, partially offset by worse mortality experience on life insurance and immediate annuities.

Benefit spread decreased 15.9% or $47 million in 2013 compared to 2012, primarily due to the increase in reserves for secondary guarantees on interest-sensitive life insurance and worse mortality experience on life insurance and annuities, partially offset by higher cost of insurance contract charges on interest-sensitive life insurance.

Interest credited to contractholder funds decreased 28.8% or $360 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of $270 million, interest credited to contractholder funds decreased $90 million in 2014 compared to 2013, primarily due to lower average contractholder funds and lower interest crediting rates. Interest credited to contractholder funds decreased 2.9% or $38 million in 2013 compared to 2012, primarily due to lower average contractholder funds and lower interest crediting rates, partially offset by the valuation change on derivatives embedded in equity-indexed annuity contracts that reduced interest credited expense in 2012. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged increased interest credited to contractholder funds by $22 million in 2014 compared to a $24 million increase in 2013 and a $126 million decrease in 2012. During third quarter 2012, we reviewed the significant valuation inputs for these embedded derivatives and reduced the projected option cost to reflect management's current and anticipated crediting rate setting actions, which were informed by the existing and projected low interest rate environment and are consistent with our strategy to reduce exposure to spread-based business. The reduction in projected interest rates resulted in a reduction of contractholder funds and interest credited expense by $169 million in 2012.

In order to analyze the impact of net investment income and interest credited to contractholders on net income, we monitor the difference between net investment income and the sum of interest credited to contractholder funds and the implied interest on immediate annuities with life contingencies, which is included as a component of contract benefits on the Consolidated Statements of Operations and Comprehensive Income ("investment spread").

The investment spread by product group for the years ended December 31 is shown in the following table.

($ in millions)	2014	2013	2012
Annuities and institutional products	$ 319	$ 338	$ 290
Life insurance	108	107	86
Accident and health insurance	8	14	14
Net investment income on investments supporting capital	256	272	254
Investment spread before valuation changes on embedded derivatives that are not hedged	691	731	644
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	(22)	(24)	126
Total investment spread	$ 669	$ 707	$ 770

Investment spread before valuation changes on embedded derivatives that are not hedged decreased 5.5% or $40 million in 2014 compared to 2013. Excluding results of the LBL business for the second through fourth quarter of 2013 of $149 million, investment spread before valuation changes on embedded derivatives that are not hedged increased $109 million in 2014 compared to 2013, primarily due to higher limited partnership income, higher fixed income yields and lower crediting rates, partially offset by the continued managed reduction in our spread-based business in force. Investment spread before valuation changes on embedded derivatives that are not hedged increased 13.5% or $87 million in 2013 compared to 2012, primarily due to lower crediting rates, higher prepayment fee income and litigation proceeds and higher limited partnership income, partially offset by the continued managed reduction in our spread-based business in force.

To further analyze investment spreads, the following table summarizes the weighted average investment yield on assets supporting product liabilities and capital, interest crediting rates and investment spreads. For purposes of these calculations, investments, reserves and contractholder funds classified as held for sale were included for periods prior to April 1, 2014.

	Weighted average investment yield			Weighted average interest crediting rate			Weighted average investment spreads		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Interest-sensitive life insurance	5.3%	5.3%	5.3%	3.9%	3.9%	4.0%	1.4%	1.4%	1.3%
Deferred fixed annuities and institutional products	4.5	4.5	4.6	2.9	2.9	3.2	1.6	1.6	1.4
Immediate fixed annuities with and without life contingencies	7.3	6.9	6.9	6.0	6.0	6.1	1.3	0.9	0.8
Investments supporting capital, traditional life and other products	4.6	4.1	4.1	n/a	n/a	n/a	n/a	n/a	n/a

The following table summarizes our product liabilities as of December 31 and indicates the account value of those contracts and policies in which an investment spread is generated.

($ in millions)	2014	2013	2012
Immediate fixed annuities with life contingencies	$ 8,900	$ 8,924	$ 8,885
Other life contingent contracts and other	2,666	2,665	5,232
Reserve for life-contingent contract benefits	$ 11,566	$ 11,589	$ 14,117
Interest-sensitive life insurance	$ 7,193	$ 7,104	$ 10,356
Deferred fixed annuities	10,836	12,499	22,038
Immediate fixed annuities without life contingencies	3,448	3,673	3,813
Institutional products	85	85	1,851
Other	254	243	576
Contractholder funds	$ 21,816	$ 23,604	$ 38,634
Traditional life insurance	$ —	$ 570	$ —
Accident and health insurance	—	1,324	—
Interest-sensitive life insurance	—	3,529	—
Deferred fixed annuities	—	7,416	—
Liabilities held for sale	$ —	$ 12,839	$ —

Amortization of DAC The components of amortization of DAC for the years ended December 31 are summarized in the following table.

($ in millions)	2014	2013	2012
Amortization of DAC before amortization relating to realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and changes in assumptions	$ 164	$ 215	$ 233
Amortization relating to realized capital gains and losses [1] and valuation changes on embedded derivatives that are not hedged	5	7	57
Amortization (deceleration) acceleration for changes in assumptions ("DAC unlocking")	(7)	18	34
Total amortization of DAC	$ 162	$ 240	$ 324

[1] The impact of realized capital gains and losses on amortization of DAC is dependent upon the relationship between the assets that give rise to the gain or loss and the product liability supported by the assets. Fluctuations result from changes in the impact of realized capital gains and losses on actual and expected gross profits.

Amortization of DAC decreased 32.5% or $78 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of $1 million, amortization of DAC decreased $77 million in 2014 compared to 2013, primarily due to amortization deceleration for changes in assumptions in 2014 compared to amortization acceleration in 2013.

Amortization of DAC decreased 25.9% or $84 million in 2013 compared to 2012, primarily due to the absence of amortization on a large fixed annuity block that became fully amortized in 2012, lower amortization relating to valuation changes on derivatives embedded in equity-indexed annuity contracts due to a large valuation change in 2012, lower amortization on interest-sensitive life insurance resulting from decreased benefit spread, and lower amortization acceleration for changes in assumptions.

Our annual comprehensive review of assumptions underlying estimated future gross profits for our interest-sensitive life, fixed annuities and other investment contracts covers assumptions for persistency, mortality, expenses, investment returns, including capital gains and losses, interest crediting rates to policyholders, and the effect of any hedges in all product lines. In 2014, the review resulted in a deceleration of DAC amortization (credit to income) of $7 million. Amortization deceleration of $9 million related to interest-sensitive life insurance and was primarily due to a decrease in projected expenses, partially offset by increased projected mortality. Amortization acceleration of $2 million related to fixed annuities and was primarily due to a decrease in projected gross profits.

In 2013, the review resulted in an acceleration of DAC amortization (charge to income) of $18 million. Amortization acceleration of $33 million related to interest-sensitive life insurance and was primarily due to an increase in projected mortality and expenses, partially offset by increased projected investment margins. Amortization deceleration of $12 million related to fixed annuities and was primarily due to an increase in projected investment margins. Amortization deceleration of $3 million related to variable life insurance.

In 2012, the review resulted in an acceleration of DAC amortization of $34 million. Amortization acceleration of $38 million related to variable life insurance and was primarily due to an increase in projected mortality. Amortization acceleration of $4 million related to fixed annuities and was primarily due to lower projected investment returns. Amortization deceleration of $8 million related to interest-sensitive life insurance and was primarily due to an increase in projected persistency.

The changes in DAC for the years ended December 31 are detailed in the following table.

($ in millions)	Traditional life and accident and health		Interest-sensitive life insurance		Fixed annuities		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Beginning balance	$ 429	$ 410	$ 857	$ 1,399	$ 45	$ 25	$ 1,331	$ 1,834
Classified as held for sale, beginning balance	13	—	700	—	30	—	743	—
Total, including those classified as held for sale	442	410	1,557	1,399	75	25	2,074	1,834
Acquisition costs deferred	71	76	92	154	—	24	163	254
Amortization of DAC before amortization relating to realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and changes in assumptions [(1)]	(45)	(44)	(111)	(158)	(8)	(13)	(164)	(215)
Amortization relating to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged [(1)]	—	—	(8)	(6)	3	(1)	(5)	(7)
Amortization (acceleration) deceleration for changes in assumptions ("DAC unlocking") [(1)]	—	—	9	(30)	(2)	12	7	(18)
Effect of unrealized capital gains and losses [(2)]	—	—	(96)	198	(1)	28	(97)	226
Sold in LBL disposition	(13)	—	(674)	—	(20)	—	(707)	—
DAC classified as held for sale	—	(13)	—	(700)	—	(30)	—	(743)
Ending balance	$ 455	$ 429	$ 769	$ 857	$ 47	$ 45	$ 1,271	$ 1,331

(1) Included as a component of amortization of DAC on the Consolidated Statements of Operations and Comprehensive Income.
(2) Represents the change in the DAC adjustment for unrealized capital gains and losses. The DAC adjustment represents the amount by which the amortization of DAC would increase or decrease if the unrealized gains and losses in the respective product portfolios were realized.

Operating costs and expenses decreased 28.6% or $124 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of $31 million, operating costs and expenses decreased $93 million in 2014 compared to 2013. Operating costs and expenses decreased 0.7% or $3 million in 2013 compared to 2012. The following table summarizes operating costs and expenses for the years ended December 31.

($ in millions)	2014	2013	2012
Non-deferrable commissions	$ 15	$ 27	$ 33
General and administrative expenses	261	363	370
Taxes and licenses	34	44	34
Total operating costs and expenses	$ 310	$ 434	$ 437
Restructuring and related charges	$ 2	$ 6	$ —

General and administrative expenses decreased 28.1% or $102 million in 2014 compared to 2013, primarily due to actions to improve strategic focus and modernize the operating model. This included the sale of LBL, exiting the master brokerage agency distribution channel, discontinuing sales of proprietary annuity products, and other rightsizing and profitability actions.

General and administrative expenses decreased 1.9% or $7 million in 2013 compared to 2012, primarily due to lower employee related expenses and proceeds received from a litigation settlement.

Loss on disposition of $68 million in 2014 and $687 million in 2013 includes $79 million and $698 million of losses relating to the LBL sale, respectively. Gain on disposition of $18 million in 2012 related to the amortization of the deferred gain from the disposition through reinsurance of substantially all of our variable annuity business in 2006, and the sale of Surety Life Insurance Company, which was not used for new business, in third quarter 2012.

Reinsurance ceded We enter into reinsurance agreements with unaffiliated reinsurers to limit our risk of mortality and morbidity losses. In addition, we have used reinsurance to effect the disposition of certain blocks of business. We retain primary liability as a direct insurer for all risks ceded to reinsurers. As of December 31, 2014 and 2013, 23% and 36%, respectively, of our face amount of life insurance in force was reinsured. Additionally, we ceded substantially all of the risk associated with our variable annuity business.

Our reinsurance recoverables, summarized by reinsurer as of December 31, are shown in the following table.

($ in millions)	Standard & Poor's financial strength rating [4]	Reinsurance recoverable on paid and unpaid benefits	
		2014	2013
Prudential Insurance Company of America	AA-	$ 1,461	$ 1,510
RGA Reinsurance Company	AA-	258	302
Swiss Re Life and Health America, Inc. [1]	AA-	154	185
Paul Revere Life Insurance Company	A	116	121
Munich American Reassurance	AA-	96	108
Scottish Re Group	N/A	94	104
Transamerica Life Group	AA-	84	88
John Hancock Life & Health Insurance Company	AA-	57	59
Security Life of Denver	A-	53	48
Triton Insurance Company	N/A	53	54
American Health & Life Insurance Company	N/A	50	44
Lincoln National Life Insurance	AA-	37	39
SCOR Global Life	A+	17	21
American United Life Insurance Company	AA-	15	18
Other [2]		41	53
Total [3]		$ 2,586	$ 2,754

[1] The Company has extensive reinsurance contracts directly with Swiss Re and its affiliates and indirectly through Swiss Re's acquisition of other companies with whom we had reinsurance or retrocession contracts.
[2] As of December 31, 2014 and 2013, the other category includes $31 million and $39 million, respectively, of recoverables due from reinsurers with an investment grade credit rating from Standard & Poor's ("S&P").
[3] Reinsurance recoverables classified as held for sale were $1.66 billion as of December 31, 2013.
[4] N/A reflects no rating available.

We continuously monitor the creditworthiness of reinsurers in order to determine our risk of recoverability on an individual and aggregate basis, and a provision for uncollectible reinsurance is recorded if needed. No amounts have been deemed unrecoverable in the three-years ended December 31, 2014.

INVESTMENTS 2014 HIGHLIGHTS

- Investments totaled $37.47 billion as of December 31, 2014, decreasing from $37.94 billion as of December 31, 2013.
- Unrealized net capital gains totaled $2.34 billion as of December 31, 2014, increasing from $1.59 billion as of December 31, 2013.
- Net investment income was $2.08 billion in 2014, a decrease of 16.3% from $2.49 billion in 2013.
- Net realized capital gains were $143 million in 2014 compared to $76 million in 2013.

INVESTMENTS

Overview and strategy The return on our investment portfolio is an important component of our financial results. Our investment strategy focuses on the total return of assets needed to support the underlying liabilities, asset-liability management and achieving an appropriate return on capital.

We employ a strategic asset allocation approach which considers the nature of the liabilities and risk tolerances, as well as the risk and return parameters of the various asset classes in which we invest. This asset allocation is informed by our global economic and market outlook, as well as other inputs and constraints, including diversification effects, duration, liquidity and capital considerations. Within the ranges set by the strategic asset allocation, tactical investment decisions are made in consideration of prevailing market conditions. We manage risks associated with interest rates, credit spreads, equity markets, real estate and currency exchange rates. Our continuing focus is to manage risks and returns and to position our portfolio to take advantage of market opportunities while attempting to mitigate adverse effects. We expect to more actively manage the portfolio and are developing strategies focused on refining the segmentation of the portfolio. Strategies may include opportunities arising from market dislocations, event driven changes in valuation, and distressed credit. We expect these strategies to perform well across market conditions, including periods of increased market volatility. We are continuing to build our capabilities and investments in private equity, real estate and limited partnerships which have returns less correlated to the public markets. These investments typically have a longer term return horizon, generally five to twelve years.

Investments outlook

Interest rates diverged in 2014: U.S. Treasury rates shorter than one year were largely unchanged, rates between 1 year and 3 years increased slightly, and rates 7 years and longer declined and experienced the most significant change during the year. We anticipate that interest rates may remain below historic averages for an extended period of time and that financial markets will continue to have periods of high volatility. Invested assets and income are expected to decline in line with reductions in contractholder funds. Additionally, income will decline as we continue to invest and reinvest proceeds at market yields that are below the current portfolio yield.

We plan to focus on shifting the portfolio mix over time to have less reliance on investments whose returns come primarily from interest payments to investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic operating or market performance, including limited partnerships, equities and real estate. While we anticipate higher returns on these investments over time, the investment income will be more volatile than interest-bearing investments.

Portfolio composition The composition of the investment portfolio as of December 31, 2014 is presented in the following table.

($ in millions)		Percent to total
Fixed income securities [1]	$ 28,117	75.0%
Mortgage loans	3,686	9.8
Equity securities [2]	970	2.6
Limited partnership interests [3]	2,024	5.4
Short-term investments [4]	857	2.3
Policy loans	616	1.7
Other	1,196	3.2
Total	$ 37,466	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $25.82 billion.
(2) Equity securities are carried at fair value. Cost basis for these securities was $927 million.
(3) We have commitments to invest in additional limited partnership interests totaling $1.22 billion.
(4) Short-term investments are carried at fair value. Amortized cost basis for these investments was $857 million.

Total investments decreased to $37.47 billion as of December 31, 2014, from $37.94 billion as of December 31, 2013, primarily due to net reductions in contractholder funds, a $700 million return of capital paid to Allstate Insurance Company (“AIC”) and the reclassification of tax credit funds from limited partnership interests to other assets, partially offset by higher fixed income valuations from a decrease in risk-free interest rates.

During 2014, strategic actions focused on optimizing portfolio yield, return and risk in the low interest rate environment. We are increasing our real estate and limited partnership investments, consistent with our ongoing strategy to have a greater proportion of ownership of assets and equity investments. Limited partnerships and other equity investments will continue to be allocated primarily to the longer-duration immediate annuity liabilities to improve returns on those products. Shorter-duration annuity and life insurance liabilities will continue to be invested primarily in interest-bearing investments, such as fixed income securities and commercial mortgage loans.

Fixed income securities by type are listed in the following table.

($ in millions)	Fair value as of December 31, 2014	Percent to total investments	Fair value as of December 31, 2013	Percent to total investments
U.S. government and agencies	$ 770	2.1%	$ 766	2.0%
Municipal	3,662	9.8	3,304	8.7
Corporate	20,985	56.0	21,316	56.2
Foreign government	735	2.0	792	2.1
ABS	765	2.0	1,007	2.7
RMBS	605	1.6	790	2.1
CMBS	579	1.5	764	2.0
Redeemable preferred stock	16	—	17	—
Total fixed income securities	$ 28,117	75.0%	$ 28,756	75.8%

As of December 31, 2014, 88.2% of the fixed income securities portfolio was rated investment grade, which 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, Fitch, Dominion, Kroll or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. All of our fixed income securities are rated by third party credit rating agencies, the National Association of Insurance

Commissioners, and/or are internally rated. Our initial investment decisions and ongoing monitoring procedures for fixed income securities are based on a thorough due diligence process which includes, but is not limited to, an assessment of the credit quality, sector, structure, and liquidity risks of each issue.

The following table summarizes the fair value and unrealized net capital gains and losses for fixed income securities by credit rating as of December 31, 2014.

($ in millions)	Investment grade		Below investment grade		Total	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$ 770	$ 102	$ —	$ —	$ 770	$ 102
Municipal	3,606	499	56	7	3,662	506
Corporate						
Public	12,789	1,078	1,890	5	14,679	1,083
Privately placed	5,672	438	634	(1)	6,306	437
Foreign government	735	81	—	—	735	81
ABS						
Collateralized debt obligations ("CDO")	306	(5)	84	(7)	390	(12)
Consumer and other asset-backed securities ("Consumer and other ABS")	369	5	6	(1)	375	4
RMBS						
U.S. government sponsored entities ("U.S. Agency")	142	9	—	—	142	9
Prime residential mortgage-backed securities ("Prime")	56	1	119	18	175	19
Alt-A residential mortgage-backed securities ("Alt-A")	10	—	155	12	165	12
Subprime residential mortgage-backed securities ("Subprime")	4	—	119	11	123	11
CMBS	334	15	245	26	579	41
Redeemable preferred stock	16	2	—	—	16	2
Total fixed income securities	$ 24,809	$ 2,225	$ 3,308	$ 70	$ 28,117	$ 2,295

Municipal bonds totaled $3.66 billion as of December 31, 2014 with an unrealized net capital gain of $506 million. The municipal bond portfolio includes general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest).

The following table summarizes by state the fair value, amortized cost and credit rating of our municipal bonds, excluding $35 million of pre-refunded bonds, as of December 31, 2014.

($ in millions) State	State general obligation	Local general obligation	Revenue [(1)]	Fair value	Amortized cost	Average credit rating
California	$ 85	$ 196	$ 335	$ 616	$ 528	A
Texas	—	309	185	494	419	Aa
Oregon	—	177	31	208	172	Aa
Illinois	—	56	137	193	166	Aa
New Jersey	110	19	57	186	160	A
New York	9	—	169	178	159	Aa
Michigan	89	—	66	155	139	A
Ohio	—	38	99	137	116	Aa
Florida	28	41	59	128	115	Aa
Washington	—	—	102	102	90	Aa
All others	219	202	809	1,230	1,059	A
Total	$ 540	$ 1,038	$ 2,049	$ 3,627	$ 3,123	Aa

(1) The nature of the activities supporting revenue bonds is diversified and includes transportation, health care, industrial development, housing, higher education, utilities, recreation/convention centers and other activities.

Our practice for acquiring and monitoring municipal bonds is predominantly based on the underlying credit quality of the primary obligor. We currently rely on the primary obligor to pay all contractual cash flows and are not relying on bond insurers for payments. As a result of downgrades in the insurers' credit ratings, the ratings of the insured municipal bonds generally reflect the underlying ratings of the primary obligor. As of December 31, 2014, 99.3% of our insured municipal bond portfolio is rated investment grade.

Corporate bonds, including publicly traded and privately placed, totaled $20.99 billion as of December 31, 2014, with an unrealized net capital gain of $1.52 billion. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

Our $6.31 billion portfolio of privately placed securities is diversified by issuer, industry sector and country. The portfolio is made up of 367 issuers. Privately placed corporate obligations contain structural security features such as financial covenants and call protections that provide investors greater protection against credit deterioration, reinvestment risk or fluctuations in interest rates than those typically found in publicly registered debt securities. Additionally, investments in these securities are made after due diligence of the issuer, typically including direct discussions with senior management and on-site visits to company facilities. Ongoing monitoring includes direct periodic dialog with senior management of the issuer and continuous monitoring of operating performance and financial position. Every issue not rated by an independent rating agency is internally rated with a formal rating affirmation at least once a year.

Foreign government securities totaled $735 million as of December 31, 2014, with 100% rated investment grade and an unrealized net capital gain of $81 million. Of these securities, 53.0% are backed by the U.S. government, 13.5% are in Canadian governmental and provincial securities, and the remaining 33.5% are highly diversified in other foreign governments.

ABS, RMBS and CMBS are structured securities that are primarily collateralized by consumer or corporate borrowings and residential and commercial real estate loans. The cash flows from the underlying collateral paid to the securitization trust are generally applied in a pre-determined order and are designed so that each security issued by the trust, typically referred to as a “class”, qualifies for a specific original rating. For example, the “senior” portion or “top” of the capital structure, or rating class, which would originally qualify for a rating of Aaa typically has priority in receiving principal repayments on the underlying collateral and retains this priority until the class is paid in full. In a sequential structure, underlying collateral principal repayments are directed to the most senior rated Aaa class in the structure until paid in full, after which principal repayments are directed to the next most senior Aaa class in the structure until it is paid in full. Senior Aaa classes generally share any losses from the underlying collateral on a pro-rata basis after losses are absorbed by classes with lower original ratings. The payment priority and class subordination included in these securities serves as credit enhancement for holders of the senior or top portions of the structures. These securities continue to retain the payment priority features that existed at the origination of the securitization trust. Other forms of credit enhancement may include structural features embedded in the securitization trust, such as overcollateralization, excess spread and bond insurance. The underlying collateral can have fixed interest rates, variable interest rates (such as adjustable rate mortgages) or may contain features of both fixed and variable rate mortgages.

ABS, including CDO and Consumer and other ABS, totaled $765 million as of December 31, 2014, with 88.2% rated investment grade and an unrealized net capital loss of $8 million. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance.

CDO totaled $390 million as of December 31, 2014, with 78.5% rated investment grade and an unrealized net capital loss of $12 million. CDO consist of obligations collateralized by cash flow CDO, which are structures collateralized primarily by below investment grade senior secured corporate loans. Consumer and other ABS totaled $375 million as of December 31, 2014, with 98.4% rated investment grade.

RMBS totaled $605 million as of December 31, 2014, with 35.0% rated investment grade and an unrealized net capital gain of $51 million. The RMBS portfolio is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to prepayment risk from the underlying residential mortgage loans. RMBS consists of a U.S. Agency portfolio having collateral issued or guaranteed by U.S. government agencies and a non-agency portfolio consisting of securities collateralized by Prime, Alt-A and Subprime loans. The non-agency portfolio totaled $463 million as of December 31, 2014, with 15.1% rated investment grade and an unrealized net capital gain of $42 million.

CMBS totaled $579 million as of December 31, 2014, with 57.7% rated investment grade and an unrealized net capital gain of $41 million. The CMBS portfolio is subject to credit risk and has a sequential paydown structure. All of the CMBS investments are traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area.

Mortgage loans totaled $3.69 billion as of December 31, 2014 and primarily comprise loans secured by first mortgages on developed commercial real estate. Key considerations used to manage our exposure include property type and geographic diversification. For further detail on our mortgage loan portfolio, see Note 6 of the consolidated financial statements.

Equity securities primarily include common stocks, exchange traded and mutual funds, non-redeemable preferred stocks and real estate investment trust equity investments. The equity securities portfolio was $970 million as of December 31, 2014, with an unrealized net capital gain of $43 million.

Limited partnership interests consist of investments in private equity/debt, real estate and other funds. The limited partnership interests portfolio is diversified across a number of characteristics including fund managers, vintage years, strategies, geography (including international), and company/property types. Tax credit funds were reclassified from limited partnership interests to other assets during 2014 since their return is in the form of tax credits rather than investment income. These tax credit funds totaled $277 million as of December 31, 2014. The following table presents information about our limited partnership interests as of December 31, 2014.

($ in millions)	**Private equity/debt funds** [(1)]	**Real estate funds**	**Other funds**	**Total**
Cost method of accounting (“Cost”)	$ 420	$ 88	$ —	$ 508
Equity method of accounting (“EMA”)	1,009	389	118	1,516
Total	$ 1,429	$ 477	$ 118	$ 2,024
Number of managers	97	23	3	123
Number of individual funds	169	43	3	215
Largest exposure to single fund	$ 82	$ 41	$ 55	$ 82

(1) Includes $291 million of infrastructure and real asset funds.

The following tables show the earnings from our limited partnership interests by fund type and accounting classification for the years ended December 31.

($ in millions)	**2014**				**2013**			
	Cost	**EMA**	**Total income**	**Impairment write-downs**	**Cost**	**EMA**	**Total income**	**Impairment write-downs**
Private equity/debt funds	$ 77	$ 136	$ 213	$ (13)	$ 89	$ 57	$ 146	$ (8)
Real estate funds	25	28	53	5	13	29	42	(1)
Other funds	—	1	1	—	—	(13)	(13)	—
Total	$ 102	$ 165	$ 267	$ (8)	$ 102	$ 73	$ 175	$ (9)

Limited partnership interests produced income, excluding impairment write-downs, of $267 million in 2014 compared to $175 million in 2013. Higher EMA limited partnership income resulted from favorable equity and real estate valuations which increased the carrying value of the partnerships. Income on EMA limited partnerships is recognized on a delay due to the availability of the related financial statements. The recognition of income on private equity/debt funds and real estate funds are generally on a three month delay and the income recognition on other funds is primarily on a one month delay. Income on cost method limited partnerships is recognized only upon receipt of amounts distributed by the partnerships.

Short-term investments totaled $857 million as of December 31, 2014.

Policy loans totaled $616 million as of December 31, 2014. Policy loans are carried at unpaid principal balances.

Other investments primarily comprise $431 million of bank loans, $368 million of agent loans (loans issued to exclusive Allstate agents), $275 million of notes due from related party and $90 million of derivatives as of December 31, 2014. For further detail on our use of derivatives, see Note 8 of the consolidated financial statements.

Unrealized net capital gains totaled $2.34 billion as of December 31, 2014 compared to $1.59 billion as of December 31, 2013. The increase was primarily due to a decrease in risk-free interest rates, partially offset by the realization of unrealized net capital gains through sales. The following table presents unrealized net capital gains and losses as of December 31.

($ in millions)	2014	2013
U.S. government and agencies	$ 102	$ 88
Municipal	506	169
Corporate	1,520	919
Foreign government	81	77
ABS	(8)	(4)
RMBS	51	38
CMBS	41	40
Redeemable preferred stock	2	2
Fixed income securities	2,295	1,329
Equity securities	43	85
Derivatives	2	(13)
EMA limited partnerships	(2)	(2)
Investments classified as held for sale	—	190
Unrealized net capital gains and losses, pre-tax	$ 2,338	$ 1,589

The unrealized net capital gain for the fixed income portfolio totaled $2.30 billion and comprised $2.49 billion of gross unrealized gains and $191 million of gross unrealized losses as of December 31, 2014. This is compared to an unrealized net capital gain for the fixed income portfolio totaling $1.33 billion, comprised of $1.75 billion of gross unrealized gains and $418 million of gross unrealized losses as of December 31, 2013.

Gross unrealized gains and losses on fixed income securities by type and sector as of December 31, 2014 are provided in the following table.

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Corporate:				
Energy	$ 2,518	$ 155	$ (42)	$ 2,631
Banking	1,060	42	(30)	1,072
Basic industry	1,237	63	(18)	1,282
Consumer goods (cyclical and non-cyclical)	3,865	298	(15)	4,148
Capital goods	2,028	178	(12)	2,194
Utilities	3,736	510	(11)	4,235
Transportation	1,030	116	(8)	1,138
Technology	982	54	(6)	1,030
Communications	1,503	121	(5)	1,619
Financial services	1,084	95	(1)	1,178
Other	422	38	(2)	458
Total corporate fixed income portfolio	19,465	1,670	(150)	20,985
U.S. government and agencies	668	102	—	770
Municipal	3,156	520	(14)	3,662
Foreign government	654	81	—	735
ABS	773	13	(21)	765
RMBS	554	55	(4)	605
CMBS	538	43	(2)	579
Redeemable preferred stock	14	2	—	16
Total fixed income securities	$ 25,822	$ 2,486	$ (191)	$ 28,117

The energy, banking, basic industry and consumer goods sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of December 31, 2014. In general, the gross unrealized losses are related to increasing risk-free interest rates or widening credit spreads since the time of initial purchase.

Global oil prices have declined significantly in recent months. Within the energy sector outlined above, we continue to monitor the impact to our investment portfolio for those companies that may be adversely affected, both directly and indirectly. If oil prices continue to decline or remain at depressed levels for an extended period, certain issuers and investments may come under pressure.

The unrealized net capital gain for the equity portfolio totaled $43 million and comprised $57 million of gross unrealized gains and $14 million of gross unrealized losses as of December 31, 2014. This is compared to an unrealized net capital gain for the equity portfolio totaling $85 million, comprised of $90 million of gross unrealized gains and $5 million of gross unrealized losses as of December 31, 2013.

Net investment income The following table presents net investment income for the years ended December 31.

($ in millions)	2014	2013	2012
Fixed income securities	$ 1,522	$ 1,947	$ 2,084
Mortgage loans	242	345	345
Equity securities	20	12	9
Limited partnership interests	267	175	159
Short-term investments	2	2	2
Policy loans	39	49	51
Other	59	63	61
Investment income, before expense	2,151	2,593	2,711
Investment expense	(70)	(108)	(114)
Net investment income	$ 2,081	$ 2,485	$ 2,597

Net investment income decreased 16.3% or $404 million in 2014 compared to 2013, after decreasing 4.3% or $112 million in 2013 compared to 2012. Excluding results of the LBL business for second through fourth quarter 2013 of $397 million, net investment income decreased $7 million in 2014 compared to 2013, primarily due to lower average investment balances, partially offset by higher limited partnership income. Higher EMA limited partnership income resulted from favorable equity and real estate valuations which increased the carrying value of the partnerships. The 2013 decrease was primarily due to lower average investment balances, partially offset by higher limited partnership income, as well as prepayment fee income and litigation proceeds which together increased 2013 income by a total of $48 million.

Realized capital gains and losses The following table presents the components of realized capital gains and losses and the related tax effect for the years ended December 31.

($ in millions)	2014	2013	2012
Impairment write-downs	$ (11)	$ (33)	$ (51)
Change in intent write-downs	(44)	(19)	(17)
Net other-than-temporary impairment losses recognized in earnings	(55)	(52)	(68)
Sales	184	114	17
Valuation and settlements of derivative instruments	14	14	35
Realized capital gains and losses, pre-tax	143	76	(16)
Income tax (expense) benefit	(50)	(29)	6
Realized capital gains and losses, after-tax	$ 93	$ 47	$ (10)

Impairment write-downs, which include changes in the mortgage loan valuation allowance, for the years ended December 31 are presented in the following table.

($ in millions)	2014	2013	2012
Fixed income securities	$ (8)	$ (32)	$ (53)
Mortgage loans	5	11	5
Limited partnership interests	(8)	(9)	(3)
Other investments	—	(3)	—
Impairment write-downs	$ (11)	$ (33)	$ (51)

Impairment write-downs on fixed income securities in 2014 were primarily driven by collateralized loan obligations that experienced deterioration in expected cash flows and corporate fixed income securities impacted by issuer specific circumstances. Limited partnership write-downs primarily related to cost method limited partnerships that experienced declines in portfolio valuations deemed to be other than temporary. The valuation allowance on mortgage loans as of December 31, 2014 decreased compared to December 31, 2013 primarily due to reversals related to impaired loan payoffs.

Impairment write-downs on fixed income securities in 2013 were primarily driven by CMBS that experienced deterioration in expected cash flows and limited partnership write-downs primarily related to cost method limited partnerships that experienced declines in portfolio valuations deemed to be other than temporary. The valuation allowance on mortgage loans as of December 31, 2013 decreased compared to December 31, 2012 primarily due to reversals related to loans no longer deemed impaired.

Impairment write-downs on fixed income securities in 2012 were primarily driven by RMBS and CMBS that experienced deterioration in expected cash flows and corporate fixed income securities impacted by issuer specific circumstances.

Change in intent write-downs were $44 million, $19 million and $17 million in 2014, 2013 and 2012, respectively. The change in intent write-downs in 2014 were primarily related to the repositioning and ongoing portfolio management of our equity securities. The change in intent write-downs in 2013 were primarily a result of plans to reduce holdings of auction rate securities backed by student loans, plans to sell certain CMBS securities, and ongoing portfolio management of our equity securities. The change in intent write-downs in 2012 were primarily a result of ongoing comprehensive reviews of our portfolio resulting in write-downs of individually identified investments, primarily RMBS and corporate fixed income securities.

Sales generated $184 million, $114 million and $17 million of net realized capital gains in 2014, 2013 and 2012, respectively. The sales in 2014 primarily related to equity securities in connection with ongoing portfolio management. The sales in 2013 primarily related to fixed income and equity securities in connection with portfolio repositioning and ongoing portfolio management. The sales in 2012 primarily related to corporate, ABS and U.S. government and agencies fixed income securities in connection with portfolio repositioning, which were partially offset by losses on sales of CMBS, Subprime RMBS and CLOs in connection with risk reduction activities.

Valuation and settlements of derivative instruments generated net realized capital gains of $14 million, $14 million and $35 million in 2014, 2013 and 2012, respectively. The net realized capital gains in 2014 primarily comprised gains on foreign currency contracts due to the strengthening of the U.S. Dollar and gains on credit default swaps due to the tightening of credit spreads on the underlying credit names. The net realized capital gains on derivative instruments in 2013 and 2012 primarily comprised gains on credit default swaps due to the tightening of credit spreads on the underlying credit names.

MARKET RISK

Market risk is the risk that we will incur losses due to adverse changes in interest rates, credit spreads, equity prices or currency exchange rates. Adverse changes to these rates and prices may occur due to changes in fiscal policy, the economic climate, the liquidity of a market or market segment, insolvency or financial distress of key market makers or participants or changes in market perceptions of credit worthiness and/or risk tolerance. Our primary market risk exposures are to changes in interest rates, credit spreads and equity prices.

The active management of market risk is integral to our results of operations. We may use the following approaches to manage exposure to market risk within defined tolerance ranges: 1) rebalancing existing asset or liability portfolios, 2) changing the type of investments purchased in the future and 3) using derivative instruments to modify the market risk characteristics of existing assets and liabilities or assets expected to be purchased. For a more detailed discussion of our use of derivative financial instruments, see Note 8 of the consolidated financial statements.

Overview In formulating and implementing guidelines for investing funds, we seek to earn returns that enhance our ability to offer competitive rates and prices to customers while contributing to attractive and stable profits and long-term capital growth. Accordingly, our investment decisions and objectives are a function of the underlying risks and product profiles.

Investment policies define the overall framework for managing market and other investment risks, including accountability and controls over risk management activities. These investment policies, which have been approved by our board of directors, specify the investment limits and strategies that are appropriate given our liquidity, surplus, product profile and regulatory requirements. Executive oversight of investment activities is conducted primarily through our board of directors, investment committee, and the Corporation's Enterprise Risk & Return Council. Asset-liability management ("ALM") policies further define the overall framework for managing market and investment risks. ALM focuses on strategies to enhance yields, mitigate market risks and optimize capital to improve profitability and returns while factoring in future expected cash requirements to repay liabilities. ALM activities follow asset-liability policies that have been approved by our board of directors. These ALM policies specify limits, ranges and/or targets for investments that best meet our business objectives in light of our product liabilities.

We use quantitative and qualitative market-based approaches to measure, monitor and manage market risk. We evaluate our exposure to market risk through the use of multiple measures including but not limited to duration, value-at-risk, scenario analysis and sensitivity analysis. Duration measures the price sensitivity of assets and liabilities to changes in interest rates. For example, if interest rates increase 100 basis points, the fair value of an asset with a duration of 5 is expected to decrease in value by 5%. Value-at-risk is a statistical estimate of the probability that the change in fair value of a portfolio will exceed a certain amount over a given time horizon. Scenario analysis estimates the potential changes in the fair value of a portfolio that could occur under different hypothetical market conditions defined by changes to multiple market risk factors: interest rates, credit spreads, equity prices or currency exchange rates. Sensitivity analysis estimates the potential changes in the fair value of a portfolio that could occur under different hypothetical shocks to a market risk factor. In general, we establish investment portfolio asset allocation and market risk limits based upon a combination of duration, value-at-risk, scenario analysis and sensitivity analysis. The asset allocation limits place restrictions on the total funds that may be invested within an asset class. Comprehensive day-to-day management of market risk within defined tolerance ranges occurs as portfolio managers buy and sell within their respective markets based upon the acceptable boundaries established by investment policies. This day-to-day management is integrated with and informed by the activities of the ALM organization. This integration is intended to result in a prudent, methodical and effective adjudication of market risk and return, conditioned by the unique demands and dynamics of our product liabilities and supported by the continuous application of advanced risk technology and analytics.

Interest rate risk is the risk that we will incur a loss due to adverse changes in interest rates relative to the characteristics of our interest bearing assets and liabilities. This risk arises from many of our primary activities, as we invest substantial funds in interest-sensitive assets and issue interest-sensitive liabilities. Interest rate risk includes risks related to changes in U.S. Treasury yields and other key risk-free reference yields.

We manage the interest rate risk in our assets relative to the interest rate risk in our liabilities and our assessment of overall economic and capital risk. One of the measures used to quantify this exposure is duration. The difference in the duration of our assets relative to our liabilities is our duration gap. To calculate the duration gap between assets and liabilities, we project asset and liability cash flows and calculate their net present value using a risk-free market interest rate adjusted for credit quality, sector attributes, liquidity and other specific risks. Duration is calculated by revaluing these cash flows at alternative interest rates and determining the percentage change in aggregate fair value. The cash flows used in this calculation include the expected maturity and repricing characteristics of our derivative financial instruments, all other financial instruments, and certain other items including annuity liabilities and other interest-sensitive liabilities. The projections include assumptions (based upon historical market experience and our experience) that reflect the effect of changing interest rates on the prepayment, lapse, leverage and/or option features of instruments, where applicable. The preceding assumptions relate primarily to callable municipal and corporate bonds, fixed rate single and flexible premium deferred annuities, mortgage-backed securities and municipal housing bonds

As of December 31, 2014, the difference between our asset and liability duration was a (1.13) gap compared to a (0.93) gap as of December 31, 2013. A negative duration gap indicates that the fair value of our liabilities is more sensitive to interest rate movements than the fair value of our assets.

We seek to invest premiums, contract charges and deposits to generate future cash flows that will fund future claims, benefits and expenses, and that will earn stable returns across a wide variety of interest rate and economic scenarios. To achieve this objective and limit interest rate risk, we adhere to a philosophy of managing the duration of assets and related liabilities within predetermined tolerance levels. This philosophy is executed using duration targets for fixed income investments and may also include interest rate swaps, futures, forwards, caps, floors and swaptions to reduce the interest rate risk resulting from mismatches between existing assets and liabilities, and financial futures and other derivative instruments to hedge the interest rate risk of anticipated purchases and sales of investments.

Based upon the information and assumptions used in the duration calculation, and interest rates in effect as of December 31, 2014, we estimate that a 100 basis point immediate, parallel increase in interest rates ("rate shock") would increase the net fair value of the assets and liabilities by $282 million, compared to an increase of $316 million as of December 31, 2013, reflecting year to year changes in duration. The selection of a 100 basis point immediate, parallel change in interest rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event. The estimate excludes the traditional and interest-sensitive life insurance products that are not considered financial instruments and the $8.53 billion of assets supporting them and the associated liabilities. The $8.53 billion of assets excluded from the calculation decreased from $12.11 billion as of December 31, 2013, primarily due to the LBL sale. Based on assumptions described above, in the event of a 100 basis point immediate increase in interest rates, the assets supporting life insurance products would decrease in value by $512 million, compared to a decrease of $705 million as of December 31, 2013.

To the extent that conditions differ from the assumptions we used in these calculations, duration and rate shock measures could be significantly impacted. Additionally, our calculations assume that the current relationship between short-term and long-term interest rates (the term structure of interest rates) will remain constant over time. As a result, these calculations may not fully capture the effect of non-parallel changes in the term structure of interest rates and/or large changes in interest rates.

Credit spread risk is the risk that we will incur a loss due to adverse changes in credit spreads ("spreads"). Credit spread is the additional yield on fixed income securities and loans above the risk-free rate (typically referenced as the yield on U.S. Treasury securities) that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks. The magnitude of the spread will depend on the likelihood that a particular issuer will default ("credit risk"). This risk arises from many of our primary activities, as we invest substantial funds in spread-sensitive fixed income assets.

We manage the spread risk in our assets. One of the measures used to quantify this exposure is spread duration. Spread duration measures the price sensitivity of the assets to changes in spreads. For example, if spreads increase 100 basis points, the fair value of an asset exhibiting a spread duration of 5 is expected to decrease in value by 5%.

Spread duration is calculated similarly to interest rate duration. As of December 31, 2014, the spread duration of assets was 5.80, compared to 5.36 as of December 31, 2013. Based upon the information and assumptions we use in this spread duration calculation, and spreads in effect as of December 31, 2014, we estimate that a 100 basis point immediate, parallel increase in spreads across all asset classes, industry sectors and credit ratings ("spread shock") would decrease the net fair value of the assets by $1.90 billion compared to $2.41 billion as of December 31, 2013. Reflected in the duration calculation are the effects of our tactical actions that use credit default swaps to manage spread risk. The selection of a 100 basis point immediate parallel change in spreads should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

Equity price risk is the risk that we will incur losses due to adverse changes in the general levels of the equity markets. As of December 31, 2014, we held $2.99 billion in securities with equity risk (including primarily limited partnership interests, equity securities and non-redeemable preferred securities), compared to $2.71 billion as of December 31, 2013.

As of December 31, 2014, our portfolio of securities with equity risk had a cash market portfolio beta of 1.13, compared to a beta of 1.14 as of December 31, 2013. Beta represents a widely used methodology to describe, quantitatively, an investment's market risk characteristics relative to an index such as the Standard & Poor's 500 Composite Price Index ("S&P 500"). Based on the beta analysis, we estimate that if the S&P 500 increases or decreases by 10%, the fair value of our equity investments will increase or decrease by 11.3%, respectively. Based upon the information and assumptions we used to calculate beta as of December 31, 2014, we estimate that an immediate decrease in the S&P 500 of 10% would decrease the net fair value of our equity investments by $339 million, compared to $309 million as of December 31, 2013, and an immediate increase in the S&P 500 of 10% would increase the net fair value by $339 million compared to $309 million as of December 31, 2013. The selection of a 10% immediate decrease or increase in the S&P 500 should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The beta of our securities with equity risk was determined by calculating the change in the fair value of the portfolio resulting from stressing the equity market up and down 10%. The illustrations noted above may not reflect our actual experience if the future composition of the portfolio (hence its beta) and correlation relationships differ from the historical relationships.

As of December 31, 2014 and 2013, we had separate account assets, related to variable annuity and variable life contracts with account values totaling $4.40 billion and $6.74 billion, respectively. The December 31, 2013 balance included amounts classified as held for sale. Equity risk exists for contract charges based on separate account balances and guarantees for death and/or income benefits provided by our variable products. In 2006, we disposed of substantially all of the variable annuity business through reinsurance agreements with The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc. and therefore mitigated this aspect of our risk. Equity risk for our variable life business relates to contract charges and policyholder benefits. Total variable life contract charges for 2014 and 2013 were $47 million and $67 million, respectively. Separate account liabilities related to variable life contracts were $77 million and $900 million as of December 31, 2014 and 2013, respectively. The decline in separate accounts was the result of the LBL sale.

As of December 31, 2014 and 2013 we had $1.49 billion and $3.71 billion, respectively, in equity-indexed annuity liabilities that provide customers with interest crediting rates based on the performance of the S&P 500. We hedge the majority of the risk associated with these liabilities using equity-indexed options and futures and eurodollar futures, maintaining risk within specified value-at-risk limits. $2.26 billion of the December 31, 2013 balance was a component of the LBL sale during 2014.

Foreign currency exchange rate risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. This risk primarily arises from our foreign equity investments, including common stocks, real estate funds and private equity funds. We also have investments in certain fixed income securities that are denominated in foreign currencies; however, derivatives are used to hedge approximately 84% of this foreign currency risk. As of December 31, 2014, we had $484 million in foreign currency denominated investments, compared to $226 million as of December 31, 2013.

Based upon the information and assumptions used as of December 31, 2014, we estimate that a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we are exposed would decrease the value of our foreign currency denominated instruments by $48 million, compared with an estimated $23 million decrease as of December 31, 2013. The selection of a 10% immediate decrease in all currency exchange rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The modeling technique we use to report our currency exposure does not take into account correlation among foreign currency exchange rates. Even though we believe it is very unlikely that all of the foreign currency exchange rates that we are exposed to would simultaneously decrease by 10%, we nonetheless stress test our portfolio under this and other hypothetical extreme adverse market scenarios. Our actual experience may differ from these results because of assumptions we have used or because significant liquidity and market events could occur that we did not foresee.

CAPITAL RESOURCES AND LIQUIDITY

Capital resources consist of shareholder's equity and notes due to related parties, representing funds deployed or available to be deployed to support business operations. The following table summarizes our capital resources as of December 31.

($ in millions)	**2014**	**2013**	**2012**
Common stock, retained income and additional capital paid-in	$ 4,968	$ 5,142	$ 5,680
Accumulated other comprehensive income	1,379	928	1,633
Total shareholder's equity	6,347	6,070	7,313
Notes due to related parties	275	282	496
Total capital resources	$ 6,622	$ 6,352	$ 7,809

Shareholder's equity increased in 2014, primarily due to net income and increased unrealized net capital gains on investments, partially offset by a $700 million return of capital paid to AIC. Shareholder's equity decreased in 2013, primarily due to decreased unrealized net capital gains on investments, a $500 million return of capital to AIC, and the net loss.

Notes due to related parties decreased $7 million and $214 million in 2014 and 2013, respectively. In 2014, the Company repaid the remaining $7 million note issued to AIC. In 2013, the Company repaid $200 million of the surplus note issued to AIC. See Note 5 of the consolidated financial statements for further detail.

Financial ratings and strength The following table summarizes our financial strength ratings as of December 31, 2014.

Rating agency	Rating
A.M. Best Company, Inc.	A+
Standard & Poor's Ratings Services	A+
Moody's Investors Service, Inc.	A1

Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks, the current level of operating leverage and AIC's ratings.

In February 2015, A.M. Best affirmed our insurance financial strength rating of A+ and the outlook for the rating remained stable. In June 2014, S&P affirmed our insurance financial strength rating of A+ and the outlook for the rating remained stable. In December 2014, Moody's affirmed our insurance financial strength rating of A1 and the outlook for the rating remained stable.

The Company, AIC and the Corporation are party to an Amended and Restated Intercompany Liquidity Agreement ("Liquidity Agreement") which allows for short-term advances of funds to be made between parties for liquidity and other general corporate purposes. The Liquidity Agreement does not establish a commitment to advance funds on the part of any party. The Company and AIC each serve as a lender and borrower and the Corporation serves only as a lender. The Company also has a capital support agreement with AIC. Under the capital support agreement, AIC is committed to provide capital to the Company to maintain an adequate capital level. The maximum amount of potential funding under each of these agreements is $1.00 billion.

In addition to the Liquidity Agreement, the Company also has an intercompany loan agreement with the Corporation. The amount of intercompany loans available to the Company is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given point in time is limited to $1.00 billion. The Corporation may use commercial paper borrowings, bank lines of credit and securities lending to fund intercompany borrowings.

ALIC and its life insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Statutory surplus is a measure that is often used as a basis for determining dividend paying capacity, operating leverage and premium growth capacity, and it is also reviewed by rating agencies in determining their ratings. As of December 31, 2014, ALIC's statutory surplus is $2.71 billion compared to $2.88 billion as of December 31, 2013.

The National Association of Insurance Commissioners ("NAIC") has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System to assist state insurance regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or actions by state insurance regulators. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with defined "usual ranges". Additional regulatory scrutiny may occur if a company's ratios fall outside the usual ranges for four or more of the ratios. The ratios of our insurance companies are within these ranges.

Liquidity sources and uses Our potential sources of funds principally include the following.

- Receipt of insurance premiums
- Contractholder fund deposits
- Reinsurance recoveries
- Receipts of principal, interest and dividends on investments
- Sales of investments
- Funds from securities lending and line of credit agreements
- Intercompany loans
- Capital contributions from parent
- Tax refunds/settlements
- Funds from issuance of surplus notes or other notes

Our potential uses of funds principally include the following.

- Payment of contract benefits, maturities, surrenders and withdrawals
- Reinsurance cessions and payments
- Operating costs and expenses
- Purchase of investments
- Repayment of securities lending and line of credit agreements
- Payment or repayment of intercompany loans
- Dividends and return of capital to parent
- Tax payments/settlements
- Debt service expenses and repayment

We actively manage our financial position and liquidity levels in light of changing market, economic, and business conditions. Liquidity is managed at both the entity and enterprise level across the Company, and is assessed on both base and stressed level liquidity needs. We believe we have sufficient liquidity to meet these needs. Additionally, we have existing intercompany agreements in place that facilitate liquidity management across the Company to enhance flexibility.

Allstate parent company capital capacity The Corporation has at the parent holding company level deployable assets totaling $3.42 billion as of December 31, 2014 comprising cash and investments that are generally saleable within one quarter. This provides funds for the parent company's fixed charges and other corporate purposes.

We paid a $700 million and $500 million return of capital to AIC in 2014 and 2013, respectively. We did not receive any capital contributions in 2014, 2013 or 2012.

The Company has access to additional borrowing to support liquidity through the Corporation as follows. The amount available to the Company is at the discretion of the Corporation.

- A commercial paper facility with a borrowing limit of $1.00 billion to cover short-term cash needs. As of December 31, 2014, there were no balances outstanding and therefore the remaining borrowing capacity was $1.00 billion; however, the outstanding balance can fluctuate daily.
- A $1.00 billion unsecured revolving credit facility is available for short-term liquidity requirements and backs the commercial paper facility. In April 2014, the Corporation amended the maturity date of this facility to April 2019 and also amended the option to extend the expiration by one year at the first and second anniversary of the amendment, upon approval of existing or replacement lenders. The facility is fully subscribed among 12 lenders with the largest commitment being $115 million. The commitments of the lenders are several and no lender is responsible for any other lender's commitment if such lender fails to make a loan under the facility. This facility contains an increase provision that would allow up to an additional $500 million of borrowing. This facility has a financial covenant requiring that the Corporation not exceed a 37.5% debt to capitalization ratio as defined in the agreement. This ratio was 11.6% as of December 31, 2014. Although the right to borrow under the facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of the Corporation's senior unsecured, unguaranteed long-term debt. There were no borrowings under the credit facility during 2014. The total amount outstanding at any point in time under the combination of the commercial paper program and the credit facility cannot exceed the amount that can be borrowed under the credit facility.
- A universal shelf registration statement was filed by the Corporation with the Securities and Exchange Commission on April 30, 2012. The Corporation can use this shelf registration to issue an unspecified amount of debt securities, common stock (including 482 million shares of treasury stock as of December 31, 2014), preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of trust subsidiaries. The specific terms of any securities the Corporation issues under this registration statement will be provided in the applicable prospectus supplements.

Liquidity exposure Contractholder funds were $21.82 billion as of December 31, 2014. The following table summarizes contractholder funds by their contractual withdrawal provisions as of December 31, 2014.

($ in millions)		**Percent to total**
Not subject to discretionary withdrawal	$ 3,606	16.5%
Subject to discretionary withdrawal with adjustments:		
Specified surrender charges [1]	6,100	28.0
Market value adjustments [2]	2,348	10.8
Subject to discretionary withdrawal without adjustments [3]	9,762	44.7
Total contractholder funds [4]	$ 21,816	100.0%

[1] Includes $2.48 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.
[2] $1.67 billion of the contracts with market value adjusted surrenders have a 30-45 day period at the end of their initial and subsequent interest rate guarantee periods (which are typically 5, 7 or 10 years) during which there is no surrender charge or market value adjustment.
[3] 85% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.
[4] Includes $844 million of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc., in 2006.

Retail life and annuity products may be surrendered by customers for a variety of reasons. Reasons unique to individual customers include a current or unexpected need for cash or a change in life insurance coverage needs. Other key factors that may impact the likelihood of customer surrender include the level of the contract surrender charge, the length of time the contract has been in force, distribution channel, market interest rates, equity market conditions and potential tax implications. In addition, the propensity for retail life insurance policies to lapse is lower than it is for fixed annuities because of the need for the insured to be re-underwritten upon policy replacement. The surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 10.2% and 10.4% in 2014 and 2013, respectively. We strive to promptly pay customers who request cash surrenders; however, statutory regulations generally provide up to six months in most states to fulfill surrender requests.

Our asset-liability management practices enable us to manage the differences between the cash flows generated by our investment portfolio and the expected cash flow requirements of our life insurance and annuity product obligations.

Certain remote events and circumstances could constrain our, the Corporation's or AIC's liquidity. Those events and circumstances include, for example, a catastrophe resulting in extraordinary losses, a downgrade in the Corporation's senior long-term debt rating of A3, A- and a- (from Moody's, S&P and A.M. Best, respectively) to non-investment grade status of below Baa3/BBB-/bb, a downgrade in AIC's financial strength rating from Aa3, AA- and A+ (from Moody's, S&P and A.M. Best, respectively) to below Baa2/BBB/A-, or a downgrade in our financial strength ratings from A1, A+ and A+ (from Moody's, S&P and A.M. Best, respectively) to below A3/A-/A-. The rating agencies also consider the interdependence of our individually rated entities; therefore, a rating change in one entity could potentially affect the ratings of other related entities.

Cash flows As reflected in our Consolidated Statements of Cash Flows, lower cash provided by operating activities in 2014 compared to 2013 was primarily due to lower net investment income and income tax payments in 2014 compared to income tax refunds in 2013. Lower cash provided by operating cash flows in 2013 compared to 2012 was primarily due to lower net investment income, partially offset by lower contract benefits paid.

Lower cash was provided by investing activities in 2014 compared to 2013 as proceeds from the sale of LBL and higher sales of investments were more than offset by lower collections and higher purchases of investments. Lower collections resulted from funding a large institutional product maturity in 2013 from the portfolio. Higher cash provided by investing activities in 2013 compared to 2012 was due to higher investment collections and higher financing needs to fund institutional product maturities.

Lower cash used in financing activities in 2014 compared to 2013 was primarily due to a $1.75 billion institutional product maturity in 2013 and lower contractholder benefits and withdrawals on fixed annuities and interest-sensitive life insurance, partially offset by lower deposits. Higher cash used in financing activities in 2013 compared to 2012 was primarily due to a $1.75 billion institutional product maturity.

Contractual obligations and commitments Our contractual obligations as of December 31, 2014 and the payments due by period are shown in the following table.

($ in millions)	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Liabilities for collateral [1]	$ 510	$ 510	$ —	$ —	$ —
Contractholder funds [2]	36,123	2,905	5,005	4,230	23,983
Reserve for life-contingent contract benefits [2]	32,764	987	1,938	1,897	27,942
Notes due to related parties [3]	605	16	31	31	527
Payable to affiliates, net	96	96	—	—	—
Other liabilities and accrued expenses [4][5]	241	211	13	7	10
Total contractual cash obligations	$ 70,339	$ 4,725	$ 6,987	$ 6,165	$ 52,462

(1) Liabilities for collateral are typically fully secured with cash or short-term investments. We manage our short-term liquidity position to ensure the availability of a sufficient amount of liquid assets to extinguish short-term liabilities as they come due in the normal course of business, including utilizing potential sources of liquidity as disclosed previously.

(2) Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life, fixed annuities, including immediate annuities without life contingencies, and institutional products. The reserve for life-contingent contract benefits relates primarily to traditional life insurance, immediate annuities with life contingencies and voluntary accident and health insurance. These amounts reflect the present value of estimated cash payments to be made to contractholders and policyholders. Certain of these contracts, such as immediate annuities without life contingencies and institutional products, involve payment obligations where the amount and timing of the payment is essentially fixed and determinable. These amounts relate to (i) policies or contracts where we are currently making payments and will continue to do so and (ii) contracts where the timing of a portion or all of the payments has been determined by the contract. Other contracts, such as interest-sensitive life, fixed deferred annuities, traditional life insurance, immediate annuities with life contingencies and voluntary accident and health insurance, involve payment obligations where a portion or all of the amount and timing of future payments is uncertain. For these contracts, we are not currently making payments and will not make payments until (i) the occurrence of an insurable event such as death or illness or (ii) the occurrence of a payment triggering event such as the surrender or partial withdrawal on a policy or deposit contract, which is outside of our control. We have estimated the timing of payments related to these contracts based on historical experience and our expectation of future payment patterns. Uncertainties relating to these liabilities include mortality, morbidity, expenses, customer lapse and withdrawal activity, estimated additional deposits for interest-sensitive life contracts, and renewal premium for life policies, which may significantly impact both the timing and amount of future payments. Such cash outflows reflect adjustments for the estimated timing of mortality, retirement, and other appropriate factors, but are undiscounted with respect to interest. As a result, the sum of the cash outflows shown for all years in the table exceeds the corresponding liabilities of $21.82 billion for contractholder funds and $11.57 billion for reserve for life-contingent contract benefits as included in the Consolidated Statements of Financial Position as of December 31, 2014. The liability amount in the Consolidated Statements of Financial Position reflects the discounting for interest as well as adjustments for the timing of other factors as described above.

(3) Amount differs from the balance presented on the Consolidated Statements of Financial Position as of December 31, 2014 because the notes due to related parties amount above includes interest.

(4) Other liabilities primarily include accrued expenses, claim payments and other checks outstanding.

(5) Balance sheet liabilities not included in the table above include unearned and advance premiums of $13 million and gross deferred tax liabilities of $1.47 billion. These items were excluded as they do not meet the definition of a contractual liability as we are not contractually obligated to pay these amounts to third parties. Rather, they represent an accounting mechanism that allows us to present our financial statements on an accrual basis. In addition, other liabilities of $70 million were not included in the table above because they did not represent a contractual obligation or the amount and timing of their eventual payment was sufficiently uncertain.

Our contractual commitments as of December 31, 2014 and the periods in which the commitments expire are shown in the following table.

($ in millions)	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Other commitments - conditional	$ 115	$ 46	$ 44	$ 25	$ —
Other commitments - unconditional	1,223	49	70	84	1,020
Total commitments	$ 1,338	$ 95	$ 114	$ 109	$ 1,020

Contractual commitments represent investment commitments such as private placements, limited partnership interests and other loans. Limited partnership interests are typically funded over the commitment period which is shorter than the contractual expiration date of the partnership and as a result, the actual timing of the funding may vary.

We have agreements in place for services we conduct, generally at cost, between subsidiaries relating to insurance, reinsurance, loans and capitalization. All material intercompany transactions have appropriately been eliminated in consolidation. Intercompany transactions among insurance subsidiaries and affiliates have been approved by the appropriate departments of insurance as required.

For a more detailed discussion of our off-balance sheet arrangements, see Note 8 of the consolidated financial statements.

REGULATION AND LEGAL PROCEEDINGS

We are subject to extensive regulation and we are involved in various legal and regulatory actions, all of which have an effect on specific aspects of our business. For a detailed discussion of the legal and regulatory actions in which we are involved, see Note 12 of the consolidated financial statements.

PENDING ACCOUNTING STANDARDS

There are pending accounting standards that we have not implemented because the implementation date has not yet occurred. For a discussion of these pending standards, see Note 2 of the consolidated financial statements.

The effect of implementing certain accounting standards on our financial results and financial condition is often based in part on market conditions at the time of implementation of the standard and other factors we are unable to determine prior to implementation. For this reason, we are sometimes unable to estimate the effect of certain pending accounting standards until the relevant authoritative body finalizes these standards or until we implement them.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required for Item 7A is incorporated by reference to the material under the caption "Market Risk" in Part II, Item 7 of this report.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

($ in millions)	Year Ended December 31,		
	2014	2013	2012
Revenues			
Premiums (net of reinsurance ceded of $216, $367 and $402)	$ 589	$ 613	$ 593
Contract charges (net of reinsurance ceded of $176, $251 and $252)	847	1,054	1,029
Net investment income	2,081	2,485	2,597
Realized capital gains and losses:			
Total other-than-temporary impairment (“OTTI”) losses	(54)	(49)	(60)
OTTI losses reclassified to (from) other comprehensive income	(1)	(3)	(8)
Net OTTI losses recognized in earnings	(55)	(52)	(68)
Sales and other realized capital gains and losses	198	128	52
Total realized capital gains and losses	143	76	(16)
	3,660	4,228	4,203
Costs and expenses			
Contract benefits (net of reinsurance ceded of $329, $331 and $644)	1,452	1,606	1,521
Interest credited to contractholder funds (net of reinsurance ceded of $27, $27 and $28)	891	1,251	1,289
Amortization of deferred policy acquisition costs	162	240	324
Operating costs and expenses	310	434	437
Restructuring and related charges	2	6	—
Interest expense	16	23	45
	2,833	3,560	3,616
(Loss) gain on disposition of operations	(68)	(687)	18
Income (loss) from operations before income tax expense	759	(19)	605
Income tax expense	233	19	179
Net income (loss)	526	(38)	426
Other comprehensive income (loss), after-tax			
Change in unrealized net capital gains and losses	455	(707)	821
Change in unrealized foreign currency translation adjustments	(4)	2	—
Other comprehensive income (loss), after-tax	451	(705)	821
Comprehensive income (loss)	$ 977	$ (743)	$ 1,247

See notes to consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in millions, except par value data)	December 31, 2014	December 31, 2013
Assets		
Investments		
Fixed income securities, at fair value (amortized cost $25,822 and $27,427)	$ 28,117	$ 28,756
Mortgage loans	3,686	4,173
Equity securities, at fair value (cost $927 and $565)	970	650
Limited partnership interests	2,024	2,064
Short-term, at fair value (amortized cost $857 and $590)	857	590
Policy loans	616	623
Other	1,196	1,088
Total investments	37,466	37,944
Cash	146	93
Deferred policy acquisition costs	1,271	1,331
Reinsurance recoverables	2,586	2,754
Accrued investment income	333	358
Other assets	537	256
Separate Accounts	4,396	5,039
Assets held for sale	—	15,593
Total assets	$ 46,735	$ 63,368
Liabilities		
Contractholder funds	$ 21,816	$ 23,604
Reserve for life-contingent contract benefits	11,566	11,589
Unearned premiums	6	6
Payable to affiliates, net	96	100
Other liabilities and accrued expenses	826	838
Deferred income taxes	1,407	941
Notes due to related parties	275	282
Separate Accounts	4,396	5,039
Liabilities held for sale	—	14,899
Total liabilities	40,388	57,298
Commitments and Contingent Liabilities (Notes 8 and 12)		
Shareholder's Equity		
Redeemable preferred stock - series A, $100 par value, 1,500,000 shares authorized, none issued	—	—
Redeemable preferred stock - series B, $100 par value, 1,500,000 shares authorized, none issued	—	—
Common stock, $227 par value, 23,800 shares authorized and outstanding	5	5
Additional capital paid-in	1,990	2,690
Retained income	2,973	2,447
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	47	31
Other unrealized net capital gains and losses	1,468	997
Unrealized adjustment to DAC, DSI and insurance reserves	(133)	(101)
Total unrealized net capital gains and losses	1,382	927
Unrealized foreign currency translation adjustments	(3)	1
Total accumulated other comprehensive income	1,379	928
Total shareholder's equity	6,347	6,070
Total liabilities and shareholder's equity	$ 46,735	$ 63,368

See notes to consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARES
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

($ in millions)	Year Ended December 31,		
	2014	2013	2012
Common stock	$ 5	$ 5	$ 5
Additional capital paid-in			
Balance, beginning of year	2,690	3,190	3,190
Return of capital	(700)	(500)	—
Balance, end of year	1,990	2,690	3,190
Retained income			
Balance, beginning of year	2,447	2,485	2,060
Net income (loss)	526	(38)	426
Loss on reinsurance agreement with an affiliate	—	—	(1)
Balance, end of year	2,973	2,447	2,485
Accumulated other comprehensive income			
Balance, beginning of year	928	1,633	812
Change in unrealized net capital gains and losses	455	(707)	821
Change in unrealized foreign currency translation adjustments	(4)	2	—
Balance, end of year	1,379	928	1,633
Total shareholder's equity	$ 6,347	$ 6,070	$ 7,313

See notes to consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARES
CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities			
Net income (loss)	$ 526	$ (38)	$ 426
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization and other non-cash items	(86)	(73)	(25)
Realized capital gains and losses	(143)	(76)	16
Loss (gain) on disposition of operations	68	687	(18)
Interest credited to contractholder funds	891	1,251	1,289
Changes in:			
Policy benefits and other insurance reserves	(553)	(634)	(656)
Unearned premiums	(1)	(2)	(3)
Deferred policy acquisition costs	(1)	(14)	62
Reinsurance recoverables, net	(25)	(54)	(157)
Income taxes	121	33	248
Other operating assets and liabilities	(134)	(65)	(35)
Net cash provided by operating activities	663	1,015	1,147
Cash flows from investing activities			
Proceeds from sales			
Fixed income securities	3,353	4,046	6,674
Equity securities	1,383	265	22
Limited partnership interests	521	387	201
Mortgage loans	10	24	15
Other investments	35	38	111
Investment collections			
Fixed income securities	1,909	4,168	3,077
Mortgage loans	1,027	926	1,022
Other investments	46	88	84
Investment purchases			
Fixed income securities	(3,232)	(4,348)	(7,458)
Equity securities	(1,612)	(453)	(201)
Limited partnership interests	(711)	(597)	(507)
Mortgage loans	(468)	(522)	(449)
Other investments	(306)	(81)	(159)
Change in short-term investments, net	79	(108)	16
Change in policy loans and other investments, net	60	76	56
Disposition of operations	345	—	13
Net cash provided by investing activities	2,439	3,909	2,517
Cash flows from financing activities			
Contractholder fund deposits	1,065	2,062	2,061
Contractholder fund withdrawals	(3,407)	(6,520)	(5,490)
Return of capital	(700)	(500)	—
Repayment of notes due to related parties	(7)	(214)	(204)
Net cash used in financing activities	(3,049)	(5,172)	(3,633)
Net increase (decrease) in cash	53	(248)	31
Cash at beginning of year	93	341	310
Cash at end of year	$ 146	$ 93	$ 341

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

Basis of presentation

The accompanying consolidated financial statements include the accounts of Allstate Life Insurance Company ("ALIC") and its wholly owned subsidiaries (collectively referred to as the "Company"). ALIC is wholly owned by Allstate Insurance Company ("AIC"), which is wholly owned by Allstate Insurance Holdings, LLC, a wholly owned subsidiary of The Allstate Corporation (the "Corporation"). These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany accounts and transactions have been eliminated.

To conform to the current year presentation, certain amounts in the prior year notes to consolidated financial statements have been reclassified.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Nature of operations

The Company sells traditional, interest-sensitive and variable life insurance products. The Company distributes its products through Allstate exclusive agencies and exclusive financial specialists. The Company also sells voluntary accident and health insurance through workplace enrolling independent agents in New York. The Company previously offered and continues to have in force fixed annuities such as deferred and immediate annuities, and institutional products consisting of funding agreements sold to unaffiliated trusts that use them to back medium-term notes. The following table summarizes premiums and contract charges by product.

($ in millions)	2014	2013	2012
Premiums			
Traditional life insurance	$ 492	$ 471	$ 449
Immediate annuities with life contingencies	4	37	45
Accident and health insurance	93	105	99
Total premiums	589	613	593
Contract charges			
Interest-sensitive life insurance	828	1,036	1,011
Fixed annuities	19	18	18
Total contract charges	847	1,054	1,029
Total premiums and contract charges	$ 1,436	$ 1,667	$ 1,622

The Company, through several subsidiaries, is authorized to sell life insurance and retirement products in all 50 states, the District of Columbia and Puerto Rico. For 2014, the top geographic locations for statutory premiums and annuity considerations were California, Texas, New York, Florida and Illinois. No other jurisdiction accounted for more than 5% of statutory premiums and annuity considerations.

The Company has exposure to market risk as a result of its investment portfolio. Market risk is the risk that the Company will incur realized and unrealized net capital losses due to adverse changes in interest rates, credit spreads, equity prices or currency exchange rates. The Company's primary market risk exposures are to changes in interest rates, credit spreads and equity prices. Interest rate risk is the risk that the Company will incur a loss due to adverse changes in interest rates relative to the interest rate characteristics of its interest bearing assets and liabilities. This risk arises from many of the Company's primary activities, as it invests substantial funds in interest-sensitive assets and issues interest-sensitive liabilities. Interest rate risk includes risks related to changes in U.S. Treasury yields and other key risk-free reference yields. Credit spread risk is the risk that the Company will incur a loss due to adverse changes in credit spreads. This risk arises from many of the Company's primary activities, as the Company invests substantial funds in spread-sensitive fixed income assets. Equity price risk is the risk that the Company will incur losses due to adverse changes in the general levels of the equity markets.

The Company monitors economic and regulatory developments that have the potential to impact its business. Federal and state laws and regulations affect the taxation of insurance companies and life insurance products. Congress and various state legislatures from time to time consider legislation that would reduce or eliminate the favorable policyholder tax treatment currently applicable to life insurance. Congress and various state legislatures also consider proposals to reduce the taxation of certain products or investments that may compete with life insurance. Legislation that increases the taxation on insurance products or reduces the taxation on competing products could lessen the advantage or create a disadvantage for certain of the Company's products making them less competitive. Such proposals, if adopted, could have an adverse effect on the Company's financial position or ability to sell such products and could result in the surrender of some existing contracts and policies. In addition, changes in the federal estate tax laws could negatively affect the demand for the types of life insurance used in estate planning.

2. Summary of Significant Accounting Policies

Investments

Fixed income securities include bonds, asset-backed securities ("ABS"), residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and redeemable preferred stocks. Fixed income securities, which may be sold prior to their contractual maturity, are designated as available for sale and are carried at fair value. The difference between amortized cost and fair value, net of deferred income taxes and related deferred policy acquisition costs ("DAC"), deferred sales inducement costs ("DSI") and reserves for life-contingent contract benefits, is reflected as a component of accumulated other comprehensive income. Cash received from calls and make-whole payments is reflected as a component of proceeds from sales and cash received from maturities and pay-downs is reflected as a component of investment collections within the Consolidated Statements of Cash Flows.

Mortgage loans are carried at unpaid principal balances, net of unamortized premium or discount and valuation allowances. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected.

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 designated as available for sale and are carried at fair value. The difference between cost and fair value, net of deferred income taxes, is reflected as a component of accumulated other comprehensive income.

Investments in limited partnership interests, including interests in private equity/debt 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 are accounted for in accordance with the cost method of accounting; all other investments in limited partnership interests are accounted for in accordance with the equity method of accounting ("EMA").

Short-term investments, including money market funds, commercial paper and other short-term investments, are carried at fair value. Policy loans are carried at unpaid principal balances. Other investments primarily consist of bank loans, agent loans, notes due from related party and derivatives. Bank loans are primarily senior secured corporate loans and are carried at amortized cost. 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. Notes due from related party are carried at outstanding principal balances. Derivatives are carried at fair value.

Investment income primarily consists of interest, dividends, income from certain derivative transactions and income from limited partnership interests. Interest is recognized on an accrual basis using the effective yield method and dividends are recorded at the ex-dividend date. Interest income for ABS, RMBS and CMBS is determined considering estimated pay-downs, including prepayments, obtained from third party data sources and internal estimates. Actual prepayment experience is periodically reviewed and effective yields are recalculated when differences arise between the prepayments originally anticipated and the actual prepayments received and currently anticipated. For ABS, RMBS and CMBS of high credit quality with fixed interest rates, the effective yield is recalculated on a retrospective basis. For all others, the effective yield is recalculated on a prospective basis. Accrual of income is suspended for other-than-temporarily impaired fixed income securities when the timing and amount of cash flows expected to be received is not reasonably estimable. Accrual of income is suspended for mortgage loans, bank loans and agent loans that are in default or when full and timely collection of principal and interest payments is not probable. Cash receipts on investments on nonaccrual status are generally recorded as a reduction of carrying value. Income from cost method limited partnership interests is recognized upon receipt of amounts distributed by the partnerships. Income from EMA limited partnership interests is recognized based on the Company's share of the partnerships' net income, including unrealized gains and losses, and is recognized on a delay due to the availability of the related financial statements. Income recognition on private equity/debt funds and real estate funds is generally on a three month delay and income recognition on other funds is generally on a one month delay.

Realized capital gains and losses include gains and losses on investment sales, write-downs in value due to other-than-temporary declines in fair value, adjustments to valuation allowances on mortgage loans and agent loans and periodic changes in fair value and settlements of certain derivatives including hedge ineffectiveness. Realized capital gains and losses on investment sales are determined on a specific identification basis.

Derivative and embedded derivative financial instruments

Derivative financial instruments include interest rate swaps, credit default swaps, futures (interest rate and equity), options (including swaptions), interest rate caps, warrants, foreign currency swaps, foreign currency forwards and certain investment risk transfer reinsurance agreements. Derivatives required to be separated from the host instrument and accounted for as derivative financial instruments ("subject to bifurcation") are embedded in certain fixed income securities, equity-indexed life and annuity contracts, reinsured variable annuity contracts and certain funding agreements.

All derivatives are accounted for on a fair value basis and reported as other investments, other assets, other liabilities and accrued expenses or contractholder funds. Embedded derivative instruments subject to bifurcation are also accounted for on a fair value basis and are reported together with the host contract. The change in fair value of derivatives embedded in certain fixed income securities and subject to bifurcation is reported in realized capital gains and losses. The change in fair value of derivatives embedded in life and annuity product contracts and subject to bifurcation is reported in contract benefits or interest credited to contractholder funds. Cash flows from embedded derivatives subject to bifurcation and derivatives receiving hedge accounting are reported consistently with the host contracts and hedged risks, respectively, within the Consolidated Statements of Cash Flows. Cash flows from other derivatives are reported in cash flows from investing activities within the Consolidated Statements of Cash Flows.

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value or foreign currency cash flow hedges. The hedged item may be either all or a specific portion of a recognized asset, liability or an unrecognized firm commitment attributable to a particular risk for fair value hedges. At the inception of the hedge, the Company formally documents the hedging relationship and risk management objective and strategy. The documentation identifies the hedging instrument, the hedged item, the nature of the risk being hedged and the methodology used to assess the effectiveness of the hedging instrument in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. For a cash flow hedge, this documentation includes the exposure to changes in the variability in cash flows attributable to the hedged risk. The Company does not exclude any component of the change in fair value of the hedging instrument from the effectiveness assessment. At each reporting date, the Company confirms that the hedging instrument continues to be highly effective in offsetting the hedged risk. Ineffectiveness in fair value hedges and cash flow hedges, if any, is reported in realized capital gains and losses.

Fair value hedges The change in fair value of hedging instruments used in fair value hedges of investment assets or a portion thereof is reported in net investment income, together with the change in fair value of the hedged items. The change in fair value of hedging instruments used in fair value hedges of contractholder funds liabilities or a portion thereof is reported in interest credited to contractholder funds, together with the change in fair value of the hedged items. Accrued periodic settlements on swaps are reported together with the changes in fair value of the swaps in net investment income or interest credited to contractholder funds. The amortized cost for fixed income securities, the carrying value for mortgage loans or the carrying value of the hedged liability is adjusted for the change in fair value of the hedged risk.

Cash flow hedges For hedging instruments used in cash flow hedges, the changes in fair value of the derivatives representing the effective portion of the hedge are reported in accumulated other comprehensive income. Amounts are reclassified to net investment income or realized capital gains and losses as the hedged or forecasted transaction affects income. Accrued periodic settlements on derivatives used in cash flow hedges are reported in net investment income. The amount reported in accumulated other comprehensive income for a hedged transaction is limited to the lesser of the cumulative gain or loss on the derivative less the amount reclassified to income, or the cumulative gain or loss on the derivative needed to offset the cumulative change in the expected future cash flows on the hedged transaction from inception of the hedge less the derivative gain or loss previously reclassified from accumulated other comprehensive income to income. If the Company expects at any time that the loss reported in accumulated other comprehensive income would lead to a net loss on the combination of the hedging instrument and the hedged transaction which may not be recoverable, a loss is recognized immediately in realized capital gains and losses. If an impairment loss is recognized on an asset or an additional obligation is incurred on a liability involved in a hedge transaction, any offsetting gain in accumulated other comprehensive income is reclassified and reported together with the impairment loss or recognition of the obligation.

Termination of hedge accounting If, subsequent to entering into a hedge transaction, the derivative becomes ineffective (including if the hedged item is sold or otherwise extinguished, the occurrence of a hedged forecasted transaction is no longer probable or the hedged asset becomes other-than-temporarily impaired), the Company may terminate the derivative position. The Company may also terminate derivative instruments or redesignate them as non-hedge as a result of other events or circumstances. If the derivative instrument is not terminated when a fair value hedge is no longer effective, the future gains and losses recognized on the derivative are reported in realized capital gains and losses. When a fair value hedge is no longer effective, is redesignated as non-hedge or when the derivative has been terminated, the fair value gain or loss on the hedged asset, liability or portion thereof which has already been recognized in income while the hedge was in place and used to adjust the amortized cost for fixed income securities, the carrying value for mortgage loans or the carrying value of the hedged liability, is amortized over the remaining life of the hedged asset, liability or portion thereof, and reflected in net investment income or interest credited to contractholder funds beginning in the period that hedge accounting is no longer applied. If the hedged item in a fair value hedge is an asset that has become other-than-temporarily impaired, the adjustment made to the amortized cost for fixed income securities or the carrying value for mortgage loans is subject to the accounting policies applied to other-than-temporarily impaired assets.

When a derivative instrument used in a cash flow hedge of an existing asset or liability is no longer effective or is terminated, the gain or loss recognized on the derivative is reclassified from accumulated other comprehensive income to income as the hedged risk impacts income. If the derivative instrument is not terminated when a cash flow hedge is no longer effective, the future gains and losses recognized on the derivative are reported in realized capital gains and losses. When a derivative instrument used in a cash flow hedge of a forecasted transaction is terminated because it is probable the forecasted transaction will not occur, the gain or loss recognized on the derivative is immediately reclassified from accumulated other comprehensive income to realized capital gains and losses in the period that hedge accounting is no longer applied.

Non-hedge derivative financial instruments For derivatives for which hedge accounting is not applied, the income statement effects, including fair value gains and losses and accrued periodic settlements, are reported either in realized capital gains and losses or in a single line item together with the results of the associated asset or liability for which risks are being managed.

Securities loaned

The Company's business activities include securities lending transactions, which are used primarily to generate net investment income. The proceeds received in conjunction with securities lending transactions are reinvested in short-term investments. These transactions are short-term in nature, usually 30 days or less.

The Company receives cash collateral for securities loaned in an amount generally equal to 102% of the fair value of securities and records the related obligations to return the collateral in other liabilities and accrued expenses. The carrying value of these obligations approximates fair value because of their relatively short-term nature. The Company monitors the market value of securities loaned on a daily basis and obtains additional collateral as necessary under the terms of the agreements to mitigate counterparty credit risk. The Company maintains the right and ability to repossess the securities loaned on short notice.

Recognition of premium revenues and contract charges, and related benefits and interest credited

Traditional life insurance products consist principally of products with fixed and guaranteed premiums and benefits, primarily term and whole life insurance products. Voluntary accident and health insurance products are expected to remain in force for an extended period. Premiums from these products are recognized as revenue when due from policyholders. Benefits are reflected in contract benefits and recognized in relation to premiums, so that profits are recognized over the life of the policy.

Immediate annuities with life contingencies, including certain structured settlement annuities, provide insurance protection over a period that extends beyond the period during which premiums are collected. Premiums from these products are recognized as revenue when received at the inception of the contract. Benefits and expenses are recognized in relation to premiums. Profits from these policies come from investment income, which is recognized over the life of the contract.

Interest-sensitive life contracts, such as universal life and single premium life, are insurance contracts whose terms are not fixed and guaranteed. The terms that may be changed include premiums paid by the contractholder, interest credited to the contractholder account balance and contract charges assessed against the contractholder account balance. Premiums from these contracts are reported as contractholder fund deposits. Contract charges consist of fees assessed against the contractholder account balance for the cost of insurance (mortality risk), contract administration and surrender of the contract prior to contractually specified dates. These contract charges are recognized as revenue when assessed against the contractholder account balance. Contract benefits include life-contingent benefit payments in excess of the contractholder account balance.

Contracts that do not subject the Company to significant risk arising from mortality or morbidity are referred to as investment contracts. Fixed annuities, including market value adjusted annuities, equity-indexed annuities and immediate annuities without life contingencies, and funding agreements (primarily backing medium-term notes) are considered investment contracts. Consideration received for such contracts is reported as contractholder fund deposits. Contract charges for investment contracts consist of fees assessed against the contractholder account balance for maintenance, administration and surrender of the contract prior to contractually specified dates, and are recognized when assessed against the contractholder account balance.

Interest credited to contractholder funds represents interest accrued or paid on interest-sensitive life and investment contracts. Crediting rates for certain fixed annuities and interest-sensitive life contracts are adjusted periodically by the Company to reflect current market conditions subject to contractually guaranteed minimum rates. Crediting rates for indexed life and annuities and indexed funding agreements are generally based on a specified interest rate index or an equity index, such as the Standard & Poor's ("S&P") 500 Index. Interest credited also includes amortization of DSI expenses. DSI is amortized into interest credited using the same method used to amortize DAC.

Contract charges for variable life and variable annuity products consist of fees assessed against the contractholder account balances for contract maintenance, administration, mortality, expense and surrender of the contract prior to contractually specified dates. Contract benefits incurred for variable annuity products include guaranteed minimum death, income, withdrawal and accumulation benefits. Substantially all of the Company's variable annuity business is ceded through reinsurance agreements and the contract charges and contract benefits related thereto are reported net of reinsurance ceded.

Deferred policy acquisition and sales inducement costs

Costs that are related directly to the successful acquisition of new or renewal life insurance and investment contracts are deferred and recorded as DAC. These costs are principally agents' and brokers' remuneration and certain underwriting expenses. DSI costs, which are deferred and recorded as other assets, relate to sales inducements offered on sales to new customers, principally on fixed annuity and interest-sensitive life contracts. These sales inducements are primarily in the form of additional credits to the customer's account balance or enhancements to interest credited for a specified period which are in excess of the rates currently being credited to similar contracts without sales inducements. All other acquisition costs are expensed as incurred and included in operating costs and expenses. Amortization of DAC is included in amortization of deferred policy acquisition costs and is described in more detail below. DSI is amortized into income using the same methodology and assumptions as DAC and is included in interest credited to contractholder funds.

For traditional life insurance, DAC is amortized over the premium paying period of the related policies in proportion to the estimated revenues on such business. Assumptions used in the amortization of DAC and reserve calculations are established at the time the policy is issued and are generally not revised during the life of the policy. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies may result in a change to the rate of amortization in the period such events occur. Generally, the amortization periods for these policies approximates the estimated lives of the policies. The Company periodically reviews the recoverability of DAC for these policies on an aggregate basis using actual experience. The Company aggregates all traditional life insurance products and immediate annuities with life contingencies in the analysis. If actual experience is significantly adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance would be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required.

For interest-sensitive life, fixed annuities and other investment contracts, DAC and DSI are amortized in proportion to the incidence of the total present value of gross profits, which includes both actual historical gross profits ("AGP") and estimated future gross profits ("EGP") expected to be earned over the estimated lives of the contracts. The amortization is net of interest on the prior period DAC balance using rates established at the inception of the contracts. Actual amortization periods generally range from 15-30 years; however, incorporating estimates of the rate of customer surrenders, partial withdrawals and deaths generally results in the majority of the DAC being amortized during the surrender charge period, which is typically 10-20 years for interest-sensitive life and 5-10 years for fixed annuities. The cumulative DAC and DSI amortization is reestimated and adjusted by a cumulative charge or credit to income when there is a difference between the incidence of actual versus expected gross profits in a reporting period or when there is a change in total EGP. When DAC or DSI amortization or a component of gross profits for a quarterly period is potentially negative (which would result in an increase of the DAC or DSI balance) as a result of negative AGP, the specific facts and circumstances surrounding the potential negative amortization are considered to determine whether it is appropriate for recognition in the consolidated financial statements. Negative amortization is only recorded when the increased DAC or DSI balance is determined to be recoverable based on facts and circumstances. Recapitalization of DAC and DSI is limited to the originally deferred costs plus interest.

AGP and EGP primarily consist of the following components: contract charges for the cost of insurance less mortality costs and other benefits; investment income and realized capital gains and losses less interest credited; and surrender and other contract charges less maintenance expenses. The principal assumptions for determining the amount of EGP are persistency, mortality, expenses, investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of any hedges. For products whose supporting investments are exposed to capital losses in excess of the Company's expectations which may cause periodic AGP to become temporarily negative, EGP and AGP utilized in DAC and DSI amortization may be modified to exclude the excess capital losses.

The Company performs quarterly reviews of DAC and DSI recoverability for interest-sensitive life, fixed annuities and other investment contracts in the aggregate using current assumptions. If a change in the amount of EGP is significant, it could result in the unamortized DAC or DSI not being recoverable, resulting in a charge which is included as a component of amortization of deferred policy acquisition costs or interest credited to contractholder funds, respectively.

The DAC and DSI balances presented include adjustments to reflect the amount by which the amortization of DAC and DSI would increase or decrease if the unrealized capital gains or losses in the respective product investment portfolios were actually realized. The adjustments are recorded net of tax in accumulated other comprehensive income. DAC, DSI and deferred income taxes determined on unrealized capital gains and losses and reported in accumulated other comprehensive income recognize the impact on shareholder's equity consistently with the amounts that would be recognized in the income statement on realized capital gains and losses.

Customers of the Company may exchange one insurance policy or investment contract for another offered by the Company, or make modifications to an existing investment or life contract issued by the Company. These transactions are identified as internal replacements for accounting purposes. Internal replacement transactions determined to result in replacement contracts that are substantially unchanged from the replaced contracts are accounted for as continuations of the replaced contracts.

Unamortized DAC and DSI related to the replaced contracts continue to be deferred and amortized in connection with the replacement contracts. For interest-sensitive life and investment contracts, the EGP of the replacement contracts are treated as a revision to the EGP of the replaced contracts in the determination of amortization of DAC and DSI. For traditional life insurance policies, any changes to unamortized DAC that result from replacement contracts are treated as prospective revisions. Any costs associated with the issuance of replacement contracts are characterized as maintenance costs and expensed as incurred. Internal replacement transactions determined to result in a substantial change to the replaced contracts are accounted for as an extinguishment of the replaced contracts, and any unamortized DAC and DSI related to the replaced contracts are eliminated with a corresponding charge to amortization of deferred policy acquisition costs or interest credited to contractholder funds, respectively.

The costs assigned to the right to receive future cash flows from certain business purchased from other insurers are also classified as DAC in the Consolidated Statements of Financial Position. The costs capitalized represent the present value of future profits expected to be earned over the lives of the contracts acquired. These costs are amortized as profits emerge over the lives of the acquired business and are periodically evaluated for recoverability. The present value of future profits was $7 million and $8 million as of December 31, 2014 and 2013, respectively. Amortization expense of the present value of future profits was $1 million, $2 million and $3 million in 2014, 2013 and 2012, respectively.

Reinsurance

In the normal course of business, the Company seeks to limit aggregate and single exposure to losses on large risks by purchasing reinsurance. The Company has also used reinsurance to effect the acquisition or disposition of certain blocks of business. The amounts reported as reinsurance recoverables include amounts billed to reinsurers on losses paid as well as estimates of amounts expected to be recovered from reinsurers on insurance liabilities and contractholder funds that have not yet been paid. Reinsurance recoverables on unpaid losses are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Insurance liabilities are reported gross of reinsurance recoverables. Reinsurance premiums are generally reflected in income in a manner consistent with the recognition of premiums on the reinsured contracts. Reinsurance does not extinguish the Company’s primary liability under the policies written. Therefore, the Company regularly evaluates the financial condition of its reinsurers and establishes allowances for uncollectible reinsurance as appropriate.

Goodwill

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired. The goodwill balance was $5 million as of both December 31, 2014 and 2013. Goodwill is not amortized but is tested for impairment at least annually. The Company performs its annual goodwill impairment testing during the fourth quarter of each year based upon data as of the close of the third quarter. The Company also reviews goodwill for impairment whenever events or changes in circumstances, such as deteriorating or adverse market conditions, indicate that it is more likely than not that the carrying amount of goodwill may exceed its implied fair value. Goodwill impairment evaluations indicated no impairment as of December 31, 2014 or 2013.

Income taxes

The income tax provision is calculated under the liability method. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are unrealized capital gains and losses, DAC, insurance reserves and differences in tax bases of invested assets. A deferred tax asset valuation allowance is established when there is uncertainty that such assets will be realized.

Reserve for life-contingent contract benefits

The reserve for life-contingent contract benefits payable under insurance policies, including traditional life insurance, life-contingent immediate annuities and voluntary accident and health insurance products, is computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by characteristics such as type of coverage, year of issue and policy duration. The assumptions are established at the time the policy is issued and are generally not changed during the life of the policy. The Company periodically reviews the adequacy of reserves for these policies on an aggregate basis using actual experience. If actual experience is significantly adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance would be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required. To the extent that unrealized gains on fixed income securities would result in a premium deficiency if those gains were realized, the related increase in reserves for certain immediate annuities with life contingencies is recorded net of tax as a reduction of unrealized net capital gains included in accumulated other comprehensive income.

Contractholder funds

Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life insurance, fixed annuities and funding agreements. Contractholder funds primarily comprise cumulative deposits received and interest credited to the contractholder less cumulative contract benefits, surrenders, withdrawals, maturities and contract charges for mortality or administrative expenses. Contractholder funds also include reserves for secondary guarantees on interest-sensitive life insurance and certain fixed annuity contracts and reserves for certain guarantees on reinsured variable annuity contracts.

Held for sale classification

Business is classified as held for sale when management has approved or received approval to sell the business, the sale is probable to occur during the next 12 months at a price that is reasonable in relation to its current fair value and certain other specified criteria are met. A business classified as held for sale is recorded at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value less cost to sell, a loss is recognized. Assets and liabilities related to a business classified as held for sale are segregated in the Consolidated Statement of Position in the period in which the business is classified as held for sale.

Separate accounts

Separate accounts assets are carried at fair value. The assets of the separate accounts are legally segregated and available only to settle separate account contract obligations. Separate accounts liabilities represent the contractholders' claims to the related assets and are carried at an amount equal to the separate accounts assets. Investment income and realized capital gains and losses of the separate accounts accrue directly to the contractholders and therefore are not included in the Company's Consolidated Statements of Operations and Comprehensive Income. Deposits to and surrenders and withdrawals from the separate accounts are reflected in separate accounts liabilities and are not included in consolidated cash flows.

Absent any contract provision wherein the Company provides a guarantee, variable annuity and variable life insurance contractholders bear the investment risk that the separate accounts' funds may not meet their stated investment objectives. Substantially all of the Company's variable annuity business was reinsured beginning in 2006.

Off-balance sheet financial instruments

Commitments to invest, commitments to purchase private placement securities, commitments to extend loans, financial guarantees and credit guarantees have off-balance sheet risk because their contractual amounts are not recorded in the Company's Consolidated Statements of Financial Position (see Note 8 and Note 12).

Pending accounting standard

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the Financial Accounting Standards Board ("FASB") issued guidance which allows entities that invest in certain qualified affordable housing projects through limited liability entities the option to account for these investments using the proportional amortization method if certain conditions are met. Under the proportional amortization method, the entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. The guidance is effective for reporting periods beginning after December 15, 2014 and is to be applied retrospectively. The impact of adoption is not expected to be material to the Company's results of operations and financial position.

3. Disposition

On April 1, 2014, the Company sold Lincoln Benefit Life Company ("LBL"), LBL's life insurance business generated through independent master brokerage agencies, and all of LBL's deferred fixed annuity and long-term care insurance business to Resolution Life Holdings, Inc. The gross sale price was $797 million, representing $596 million of cash and the retention of tax benefits. The loss on disposition increased by $79 million, pre-tax, ($38 million, after-tax) in 2014. Immediately prior to the sale closing, LBL recaptured the business being sold that was previously ceded to ALIC. The applicable prior reinsurance agreements placed by LBL were novated and replicated by ALIC.

In conjunction with the sale, the Company was required to establish a trust relating to the business that LBL continues to cede to ALIC. This trust is required to have assets greater than or equal to the statutory reserves ceded by LBL to ALIC, measured on a monthly basis. As of December 31, 2014, the trust holds $5.28 billion of investments, which are reported in the Consolidated Statement of Financial Position.

The following table summarizes the assets and liabilities classified as held for sale as of December 31, 2013.

($ in millions)		
Assets		
Investments		
Fixed income securities	$	10,167
Mortgage loans		1,367
Short-term investments		160
Policy loans		198
Other investments		91
Total investments		11,983
Cash		—
Deferred policy acquisition costs		743
Reinsurance recoverables, net		1,660
Accrued investment income		109
Other assets		79
Separate Accounts		1,701
Assets held for sale		16,275
Less: Loss accrual		(682)
Total assets held for sale	$	15,593
Liabilities		
Reserve for life-contingent contract benefits	$	1,894
Contractholder funds		10,945
Unearned premiums		12
Deferred income taxes		151
Other liabilities and accrued expenses		196
Separate Accounts		1,701
Total liabilities held for sale	$	14,899

Included in shareholder's equity is $85 million of accumulated other comprehensive income related to assets held for sale as of December 31, 2013.

4. Supplemental Cash Flow Information

Non-cash modifications of certain mortgage loans, fixed income securities, limited partnership interests and other investments, as well as mergers completed with equity securities, totaled $102 million, $306 million and $231 million in 2014, 2013 and 2012, respectively.

Liabilities for collateral received in conjunction with the Company's securities lending program were $508 million, $322 million and $543 million as of December 31, 2014, 2013 and 2012, respectively, and are reported in other liabilities and accrued expenses. Obligations to return cash collateral for over-the-counter ("OTC") and cleared derivatives were $2 million, $6 million and $18 million as of December 31, 2014, 2013 and 2012, respectively, and 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 Consolidated Statements of Cash Flows along with the activities resulting from management of the proceeds, which for the years ended December 31 are as follows:

($ in millions)	2014	2013	2012
Net change in proceeds managed			
Net change in short-term investments	$ (182)	$ 235	$ (298)
Operating cash flow (used) provided	(182)	235	(298)
Net change in cash	—	(2)	—
Net change in proceeds managed	$ (182)	$ 233	$ (298)
Net change in liabilities			
Liabilities for collateral, beginning of year	$ (328)	$ (561)	$ (263)
Liabilities for collateral, end of year	(510)	(328)	(561)
Operating cash flow provided (used)	$ 182	$ (233)	$ 298

5. Related Party Transactions

Business operations

The Company uses services performed by its affiliates, AIC and Allstate Investments LLC, and business facilities owned or leased and operated by AIC in conducting its business activities. In addition, the Company shares the services of employees with AIC. The Company reimburses its affiliates for the operating expenses incurred on behalf of the Company. The Company is charged for the cost of these operating expenses based on the level of services provided. Operating expenses, including compensation, retirement and other benefit programs (see Note 16), allocated to the Company were $339 million, $456 million and $451 million in 2014, 2013 and 2012, respectively. A portion of these expenses relate to the acquisition of business, which are deferred and amortized into income as described in Note 2.

Structured settlement annuities

The Company issued $7 million and $35 million of structured settlement annuities, a type of immediate annuity, in 2013 and 2012, respectively, at prices determined using interest rates in effect at the time of purchase, to fund structured settlements in matters involving AIC. Of these amounts, $4 million and $3 million related to structured settlement annuities with life contingencies and were included in premium revenue for 2013 and 2012, respectively. Effective March 22, 2013, the Company no longer offers structured settlement annuities.

In most cases, these annuities were issued under a “qualified assignment” whereby Allstate Assignment Corporation (“AAC”) and prior to July 1, 2001 Allstate Settlement Corporation (“ASC”), both wholly owned subsidiaries of ALIC, purchased annuities from ALIC and assumed AIC’s obligation to make future payments.

AIC issued surety bonds to guarantee the payment of structured settlement benefits assumed by ASC (from both AIC and non-related parties) and funded by certain annuity contracts issued by the Company through June 30, 2001. ASC entered into a General Indemnity Agreement pursuant to which it indemnified AIC for any liabilities associated with the surety bonds and gave AIC certain collateral security rights with respect to the annuities and certain other rights in the event of any defaults covered by the surety bonds. ALIC guaranteed the payment of structured settlement benefits on all contracts issued on or after July 1, 2001. Reserves recorded by the Company for annuities that are guaranteed by the surety bonds of AIC were $4.68 billion and $4.72 billion as of December 31, 2014 and 2013, respectively.

Broker-Dealer agreement

The Company receives distribution services from Allstate Financial Services, LLC, an affiliated broker-dealer company, for certain annuity and variable life insurance contracts sold by Allstate exclusive agencies. For these services, the Company incurred commission and other distribution expenses of $4 million, $13 million and $11 million in 2014, 2013 and 2012, respectively.

Reinsurance

The Company has coinsurance reinsurance agreements with its unconsolidated affiliate American Heritage Life Insurance Company (“AHL”) whereby the Company assumes certain interest-sensitive life insurance, fixed annuity contracts and accident and health insurance policies. The amounts assumed are disclosed in Note 10.

In September 2012, Lincoln Benefit Life Company, a consolidated subsidiary of ALIC prior to April 1, 2014, entered into a coinsurance reinsurance agreement with Lincoln Benefit Reinsurance Company (“LB Re”), an unconsolidated affiliate of the Company, to cede certain interest-sensitive life insurance policies to LB Re. In connection with the agreement, the Company recorded reinsurance recoverables of $2 million and paid $3 million in cash. The $1 million loss on the transaction was recorded as a decrease to retained income since the transaction was between affiliates under common control.

ALIC enters into certain intercompany reinsurance transactions with its wholly owned subsidiaries. ALIC enters into these transactions in order to maintain underwriting control and spread risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

Income taxes

The Company is a party to a federal income tax allocation agreement with the Corporation (see Note 13).

Notes due to related parties

Notes due to related parties outstanding as of December 31 consisted of the following:

($ in millions)	2014	2013
6.35% Note, due 2018, to AIC	$ —	$ 7
6.74% Surplus Note, due 2029, to Kennett [1]	25	25
5.06% Surplus Note, due 2035, to Kennett [1]	100	100
6.18% Surplus Note, due 2036, to Kennett [1]	100	100
5.93% Surplus Note, due 2038, to Kennett [1]	50	50
Total notes due to related parties	$ 275	$ 282

[1] No payment of principal or interest is permitted on the surplus notes without the written approval from the proper regulatory authority. The regulatory authority could prohibit the payment of interest and principal on the surplus notes if certain statutory capital requirements are not met. Permission to pay interest on the surplus notes was granted in both 2014 and 2013.

On August 1, 2005, ALIC entered into an agreement with Kennett Capital Inc. ("Kennett"), an unconsolidated affiliate of ALIC, whereby ALIC sold to Kennett a $100 million 5.06% surplus note due July 1, 2035 issued by ALIC Reinsurance Company ("ALIC Re"), a wholly owned subsidiary of ALIC. As payment, Kennett issued a full recourse 4.86% note due July 1, 2035 to ALIC for the same amount. As security for the performance of Kennett's obligations under the agreement and note, Kennett granted ALIC a pledge of and security interest in Kennett's right, title and interest in the surplus notes and their proceeds. Under the terms of the agreement, ALIC may sell and Kennett may choose to buy additional surplus notes, if and when additional surplus notes are issued.

On June 30, 2006, ALIC sold Kennett a $100 million redeemable surplus note issued by ALIC Re. The surplus note is due June 1, 2036 with an initial rate of 6.18% that will reset every 10 years to the then current ten year Constant Maturity Treasury yield ("CMT"), plus 1.14%. As payment, Kennett issued a full recourse note due June 1, 2036 to ALIC for the same amount with an initial interest rate of 5.98% that will reset every ten years to the then current ten year CMT, plus 0.94%.

On June 30, 2008, ALIC sold Kennett a $50 million redeemable surplus note issued by ALIC Re. The surplus note is due June 1, 2038 with an initial rate of 5.93% that will reset every ten years to the then current ten year CMT, plus 2.09%. As payment, Kennett issued a full recourse note due June 1, 2038 to ALIC for the same amount with an initial interest rate of 5.73% that will reset every ten years to the then current ten year CMT, plus 1.89%.

On December 18, 2009, ALIC sold Kennett a $25 million redeemable surplus note issued by ALIC Re. The surplus note is due December 1, 2029 with an initial rate of 6.74% that will reset every ten years to the then current ten year CMT, plus 3.25%. As payment, Kennett issued a full recourse note due December 1, 2029 to ALIC for the same amount with an initial interest rate of 5.19% that will reset every ten years to the then current ten year CMT, plus 1.70%.

The notes due from Kennett are classified as other investments. In each of 2014, 2013 and 2012, the Company recorded net investment income on these notes of $15 million. In each of 2014, 2013 and 2012, the Company incurred $16 million of interest expense related to the surplus notes due to Kennett.

On November 17, 2008, the Company issued a $400 million 7.00% surplus note due November 17, 2028 to AIC in exchange for cash. In both 2013 and 2012, the Company repaid $200 million of principal on this surplus note. In 2013 and 2012, the Company incurred interest expense on this surplus note of $7 million and $27 million, respectively.

In March 2011, in accordance with an asset purchase agreement between Road Bay Investments, LLC ("RBI"), a consolidated subsidiary of ALIC, and AIC, RBI purchased from AIC real estate with a fair value of $10 million on the date of sale and issued a 5.75% note due March 24, 2018 to AIC for the same amount. In 2013, RBI repaid the entire principal of this note. In April 2011, RBI purchased from AIC mortgage loans with a fair value of $4 million on the date of sale and issued a 5.75% note due April 19, 2018 to AIC for the same amount. In 2013, RBI repaid the entire principal of this note. In August 2011, RBI purchased from AIC fixed income securities with a fair value of $7 million on the date of sale and issued a 6.35% note due August 23, 2018 to AIC for the same amount. In 2014, RBI repaid the entire principal of this note. Since the transactions were between affiliates under common control, the purchased investments were recorded by RBI at AIC's carrying value on the date of sale. The investments that were purchased were impaired; therefore, the carrying value on the date of sale equaled fair value. In 2014, 2013 and 2012, the Company incurred interest expense on these notes of $84 thousand, $1 million and $1 million respectively.

Liquidity and intercompany loan agreements

The Company, AIC and the Corporation are party to the Amended and Restated Intercompany Liquidity Agreement ("Liquidity Agreement") which allows for short-term advances of funds to be made between parties for liquidity and other general corporate purposes. The Liquidity Agreement does not establish a commitment to advance funds on the part of any party. The Company and AIC each serve as a lender and borrower and the Corporation serves only as a lender. The maximum amount of advances each party may make or receive is limited to $1 billion. Netting or offsetting of advances made and received is not permitted. Advances between the parties are required to have specified due dates less than or equal to 364 days from the date of the advance and be payable upon demand by written request from the lender at least 10 business days prior to the demand date. The borrower may make prepayments of the outstanding principal balance of an advance without penalty. Advances will bear interest equal to or greater than the rate applicable to 30-day commercial paper issued by the Corporation on the date the advance is made with an adjustment on the first day of each month thereafter. The Company had no amounts outstanding under the Liquidity Agreement as of December 31, 2014 or 2013.

In addition to the Liquidity Agreement, the Company has an intercompany loan agreement with the Corporation. The amount of intercompany loans available to the Company is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given point in time is limited to $1 billion. The Corporation may use commercial paper borrowings, bank lines of credit and securities lending to fund intercompany borrowings. The Company had no amounts outstanding under the intercompany loan agreement as of December 31, 2014 or 2013.

RBI, a consolidated subsidiary of ALIC, has a Revolving Loan Credit Agreement ("Credit Agreement") with AHL, according to which AHL agreed to extend revolving credit loans to RBI. As security for its obligations under the Credit Agreement, RBI entered into a Pledge and Security Agreement with AHL, according to which RBI agreed to grant a pledge of and security interest in RBI's right, title, and interest in certain assets of RBI. The Company had no amounts outstanding under the Credit Agreement as of December 31, 2014 or 2013.

Capital support agreement

The Company has a Capital Support Agreement with AIC. Under the terms of this agreement, AIC agrees to provide capital to maintain the amount of statutory capital and surplus necessary to maintain a company action level risk-based capital ("RBC") ratio of at least 150%. AIC's obligation to provide capital to the Company under the agreement is limited to an aggregate amount of $1 billion. In exchange for providing this capital, the Company will pay AIC an annual commitment fee of 1% of the amount of the Capital and Surplus maximum that remains available on January 1 of such year. The Company or AIC have the right to terminate this agreement when: 1) the Company qualifies for a financial strength rating from S&P's, Moody's or A.M. Best, without giving weight to the existence of this agreement, that is the same or better than its rating with such support; 2) the Company's RBC ratio is at least 300%; or 3) AIC no longer directly or indirectly owns at least 50% of the voting stock of the Company. As of December 31, 2014 and 2013, no capital had been provided by AIC under this agreement.

Return of capital

The Company approved and paid a return of capital of $700 million and $500 million to AIC in 2014 and 2013, respectively, which were recorded as a reduction of additional capital paid-in on the Consolidated Statements of Financial Position.

6. 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
December 31, 2014				
U.S. government and agencies	$ 668	$ 102	$ —	$ 770
Municipal	3,156	520	(14)	3,662
Corporate	19,465	1,670	(150)	20,985
Foreign government	654	81	—	735
ABS	773	13	(21)	765
RMBS	554	55	(4)	605
CMBS	538	43	(2)	579
Redeemable preferred stock	14	2	—	16
Total fixed income securities	$ 25,822	$ 2,486	$ (191)	$ 28,117
December 31, 2013				
U.S. government and agencies	$ 678	$ 90	$ (2)	$ 766
Municipal	3,135	231	(62)	3,304
Corporate	20,397	1,214	(295)	21,316
Foreign government	715	83	(6)	792
ABS	1,011	30	(34)	1,007
RMBS	752	50	(12)	790
CMBS	724	47	(7)	764
Redeemable preferred stock	15	2	—	17
Total fixed income securities	$ 27,427	$ 1,747	$ (418)	$ 28,756

Scheduled maturities

The scheduled maturities for fixed income securities are as follows as of December 31, 2014:

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 1,338	$ 1,359
Due after one year through five years	5,196	5,614
Due after five years through ten years	9,950	10,475
Due after ten years	7,473	8,720
	23,957	26,168
ABS, RMBS and CMBS	1,865	1,949
Total	$ 25,822	$ 28,117

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 for the years ended December 31 is as follows:

($ in millions)	2014	2013	2012
Fixed income securities	$ 1,522	$ 1,947	$ 2,084
Mortgage loans	242	345	345
Equity securities	20	12	9
Limited partnership interests	267	175	159
Short-term investments	2	2	2
Policy loans	39	49	51
Other	59	63	61
Investment income, before expense	2,151	2,593	2,711
Investment expense	(70)	(108)	(114)
Net investment income	$ 2,081	$ 2,485	$ 2,597

Realized capital gains and losses

Realized capital gains and losses by asset type for the years ended December 31 are as follows:

($ in millions)	2014	2013	2012
Fixed income securities	$ (4)	$ 3	$ (62)
Mortgage loans	2	20	8
Equity securities	134	45	—
Limited partnership interests	(4)	(6)	—
Derivatives	12	14	34
Other	3	—	4
Realized capital gains and losses	$ 143	$ 76	$ (16)

Realized capital gains and losses by transaction type for the years ended December 31 are as follows:

($ in millions)	2014	2013	2012
Impairment write-downs	$ (11)	$ (33)	$ (51)
Change in intent write-downs	(44)	(19)	(17)
Net other-than-temporary impairment losses recognized in earnings	(55)	(52)	(68)
Sales	184	114	17
Valuation and settlements of derivative instruments	14	14	35
Realized capital gains and losses	$ 143	$ 76	$ (16)

Gross gains of $223 million, $145 million and $232 million and gross losses of $51 million, $46 million and $224 million were realized on sales of fixed income and equity securities during 2014, 2013 and 2012, respectively.

Other-than-temporary impairment losses by asset type for the years ended December 31 are as follows:

($ in millions)	2014			2013			2012		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:									
Municipal	$ (1)	$ —	$ (1)	$ (8)	$ —	$ (8)	$ —	$ —	$ —
Corporate	(4)	—	(4)	—	—	—	(16)	(2)	(18)
ABS	(5)	—	(5)	—	(2)	(2)	—	—	—
RMBS	2	(1)	1	(2)	2	—	(23)	(9)	(32)
CMBS	(1)	—	(1)	(32)	(3)	(35)	(22)	3	(19)
Total fixed income securities	(9)	(1)	(10)	(42)	(3)	(45)	(61)	(8)	(69)
Mortgage loans	5	—	5	11	—	11	5	—	5
Equity securities	(32)	—	(32)	(6)	—	(6)	(1)	—	(1)
Limited partnership interests	(18)	—	(18)	(9)	—	(9)	(3)	—	(3)
Other	—	—	—	(3)	—	(3)	—	—	—
Other-than-temporary impairment losses	$ (54)	$ (1)	$ (55)	$ (49)	$ (3)	$ (52)	$ (60)	$ (8)	$ (68)

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 amount excludes $138 million and $164 million as of December 31, 2014 and 2013, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

($ in millions)	December 31, 2014	December 31, 2013
Municipal	$ (5)	$ (5)
ABS	(1)	(10)
RMBS	(55)	(90)
CMBS	(5)	(12)
Total	$ (66)	$ (117)

Rollforwards of the cumulative credit losses recognized in earnings for fixed income securities held as of December 31 are as follows:

($ in millions)	2014	2013	2012
Beginning balance	$ (299)	$ (345)	$ (581)
Additional credit loss for securities previously other-than-temporarily impaired	(6)	(13)	(33)
Additional credit loss for securities not previously other-than-temporarily impaired	(9)	(19)	(20)
Reduction in credit loss for securities disposed or collected	44	75	288
Reduction in credit loss for securities the Company has made the decision to sell or more likely than not will be required to sell	—	2	—
Change in credit loss due to accretion of increase in cash flows	2	1	1
Reduction in credit loss for securities sold in LBL disposition	59	—	—
Ending balance [1]	$ (209)	$ (299)	$ (345)

[1] The December 31, 2013 ending balance includes $60 million of cumulative credit losses recognized in earnings for fixed income securities that are classified as held for sale.

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, 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)		Gross unrealized		Unrealized net
December 31, 2014	**Fair value**	**Gains**	**Losses**	**gains (losses)**
Fixed income securities	$ 28,117	$ 2,486	$ (191)	$ 2,295
Equity securities	970	57	(14)	43
Short-term investments	857	—	—	—
Derivative instruments [(1)]	2	3	(1)	2
EMA limited partnerships [(2)]				(2)
Unrealized net capital gains and losses, pre-tax				2,338
Amounts recognized for:				
Insurance reserves [(3)]				(28)
DAC and DSI [(4)]				(176)
Amounts recognized				(204)
Deferred income taxes				(752)
Unrealized net capital gains and losses, after-tax				$ 1,382

(1) Included in the fair value of derivative instruments are $3 million classified as assets and $1 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 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)		Gross unrealized		Unrealized net
December 31, 2013	**Fair value**	**Gains**	**Losses**	**gains (losses)**
Fixed income securities	$ 28,756	$ 1,747	$ (418)	$ 1,329
Equity securities	650	90	(5)	85
Short-term investments	590	—	—	—
Derivative instruments [(1)]	(13)	1	(14)	(13)
EMA limited partnerships				(2)
Investments classified as held for sale				190
Unrealized net capital gains and losses, pre-tax				1,589
Amounts recognized for:				
Insurance reserves				—
DAC and DSI				(156)
Amounts recognized				(156)
Deferred income taxes				(506)
Unrealized net capital gains and losses, after-tax				$ 927

(1) Included in the fair value of derivative instruments are $1 million classified as assets and $14 million classified as liabilities.

Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the years ended December 31 is as follows:

($ in millions)	2014	2013	2012
Fixed income securities	$ 966	$ (2,353)	$ 1,735
Equity securities	(42)	50	(1)
Derivative instruments	15	4	(5)
EMA limited partnerships	—	(3)	—
Investments classified as held for sale	(190)	190	—
Total	749	(2,112)	1,729
Amounts recognized for:			
Insurance reserves	(28)	771	(177)
DAC and DSI	(20)	252	(288)
Amounts recognized	(48)	1,023	(465)
Deferred income taxes	(246)	382	(443)
Increase (decrease) in unrealized net capital gains and losses, after-tax	$ 455	$ (707)	$ 821

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 unrealized losses
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	
December 31, 2014							
Fixed income securities							
U.S. government and agencies	1	$ 1	$ —	—	$ —	$ —	$ —
Municipal	17	90	(1)	10	47	(13)	(14)
Corporate	281	1,780	(69)	91	875	(81)	(150)
Foreign government	—	—	—	1	15	—	—
ABS	19	168	(2)	23	217	(19)	(21)
RMBS	19	3	—	45	73	(4)	(4)
CMBS	8	33	—	3	32	(2)	(2)
Redeemable preferred stock	—	—	—	—	—	—	—
Total fixed income securities	345	2,075	(72)	173	1,259	(119)	(191)
Equity securities	294	327	(13)	1	6	(1)	(14)
Total fixed income and equity securities	639	$ 2,402	$ (85)	174	$ 1,265	$ (120)	$ (205)
Investment grade fixed income securities	167	$ 1,275	$ (28)	127	$ 989	$ (79)	$ (107)
Below investment grade fixed income securities	178	800	(44)	46	270	(40)	(84)
Total fixed income securities	345	$ 2,075	$ (72)	173	$ 1,259	$ (119)	$ (191)
December 31, 2013							
Fixed income securities							
U.S. government and agencies	4	$ 76	$ (2)	—	$ —	$ —	$ (2)
Municipal	63	347	(24)	21	99	(38)	(62)
Corporate	530	5,191	(224)	48	467	(71)	(295)
Foreign government	7	76	(4)	1	13	(2)	(6)
ABS	17	162	(1)	42	400	(33)	(34)
RMBS	35	42	(2)	47	129	(10)	(12)
CMBS	5	14	—	6	52	(7)	(7)
Redeemable preferred stock	—	—	—	—	—	—	—
Total fixed income securities	661	5,908	(257)	165	1,160	(161)	(418)
Equity securities	25	80	(5)	—	—	—	(5)
Total fixed income and equity securities	686	$ 5,988	$ (262)	165	$ 1,160	$ (161)	$ (423)
Investment grade fixed income securities	526	$ 5,272	$ (236)	110	$ 834	$ (112)	$ (348)
Below investment grade fixed income securities	135	636	(21)	55	326	(49)	(70)
Total fixed income securities	661	$ 5,908	$ (257)	165	$ 1,160	$ (161)	$ (418)

As of December 31, 2014, $147 million of unrealized losses are related to securities with an unrealized loss position less than 20% of amortized cost or cost, the degree of which suggests that these securities do not pose a high risk of being other-than-temporarily impaired. Of the $147 million, $79 million are related to unrealized losses on investment grade fixed income securities. 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, Fitch, Dominion, Kroll or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. Unrealized losses on investment grade securities are principally related to increasing risk-free interest rates or widening credit spreads since the time of initial purchase.

As of December 31, 2014, the remaining $58 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost. Investment grade fixed income securities comprising $28 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 $58 million, $29 million are related to below investment grade fixed income securities and $1 million are related to equity securities. Of these amounts, $6 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 December 31, 2014.

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

As of December 31, 2014, the Company has not made the decision to sell and it is not more likely than not the Company will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis. As of December 31, 2014, the Company had the intent and ability to hold equity securities with unrealized losses for a period of time sufficient for them to recover.

Limited partnerships

As of December 31, 2014 and 2013, the carrying value of equity method limited partnerships totaled $1.52 billion and $1.46 billion, respectively. The Company recognizes an impairment loss for equity method limited partnerships when evidence demonstrates that the loss is other than temporary. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment.

As of December 31, 2014 and 2013, the carrying value for cost method limited partnerships was $508 million and $605 million, respectively. To determine if an other-than-temporary impairment has occurred, the Company evaluates whether an impairment indicator has occurred in the period that may have a significant adverse effect on the carrying value of the investment. Impairment indicators may include: significantly reduced valuations of the investments held by the limited partnerships; actual recent cash flows received being significantly less than expected cash flows; reduced valuations based on financing completed at a lower value; completed sale of a material underlying investment at a price significantly lower than expected; or any other adverse events since the last financial statements received that might affect the fair value of the investee's capital. Additionally, the Company's portfolio monitoring process includes a quarterly review of all cost method limited partnerships to identify instances where the net asset value is below established thresholds for certain periods of time, as well as investments that are performing below expectations, for further impairment consideration. If a cost method limited partnership is other-than-temporarily impaired, the carrying value is written down to fair value, generally estimated to be equivalent to the reported net asset value of the underlying funds.

Tax credit funds were reclassified from limited partnership interests to other assets during 2014 since the return on these funds is in the form of tax credits rather than investment income. These tax credit funds totaled $277 million as of December 31, 2014.

Mortgage loans

The Company's mortgage loans are commercial mortgage loans collateralized by a variety of commercial real estate property types located across the United States and totaled, net of valuation allowance, $3.69 billion and $4.17 billion as of December 31, 2014 and 2013, respectively. Substantially all of the commercial mortgage loans are non-recourse to the borrower. The following table shows the principal geographic distribution of commercial real estate represented in the Company's mortgage loan portfolio. No other state represented more than 5% of the portfolio as of December 31.

(% of mortgage loan portfolio carrying value)	**2014**	**2013**
California	24.8%	24.0%
Illinois	9.2	9.7
New Jersey	8.3	7.2
Texas	7.7	6.3
New York	6.0	6.2
Florida	4.7	5.2
District of Columbia	2.0	5.4

The types of properties collateralizing the mortgage loans as of December 31 are as follows:

(% of mortgage loan portfolio carrying value)	2014	2013
Office buildings	25.6%	28.3%
Retail	24.1	22.9
Apartment complex	20.0	19.2
Warehouse	18.1	18.6
Other	12.2	11.0
Total	100.0%	100.0%

The contractual maturities of the mortgage loan portfolio as of December 31, 2014 are as follows:

($ in millions)	Number of loans	Carrying value	Percent
2015	21	$ 236	6.4%
2016	27	217	5.9
2017	35	395	10.7
2018	30	345	9.4
Thereafter	185	2,493	67.6
Total	298	$ 3,686	100.0%

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. 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 December 31, 2014.

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

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

The following table reflects the carrying value of non-impaired fixed rate and variable rate mortgage loans summarized by debt service coverage ratio distribution as of December 31.

($ in millions)	2014			2013		
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	$ 110	$ —	$ 110	$ 153	$ —	$ 153
1.0 - 1.25	387	—	387	560	—	560
1.26 - 1.50	1,118	1	1,119	1,167	2	1,169
Above 1.50	2,054	—	2,054	2,176	38	2,214
Total non-impaired mortgage loans	$ 3,669	$ 1	$ 3,670	$ 4,056	$ 40	$ 4,096

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

The net carrying value of impaired mortgage loans as of December 31 is as follows:

($ in millions)	2014	2013
Impaired mortgage loans with a valuation allowance	$ 16	$ 77
Impaired mortgage loans without a valuation allowance	—	—
Total impaired mortgage loans	$ 16	$ 77
Valuation allowance on impaired mortgage loans	$ 8	$ 21

The average balance of impaired loans was $26 million, $86 million and $202 million during 2014, 2013 and 2012, respectively.

The rollforward of the valuation allowance on impaired mortgage loans for the years ended December 31 is as follows:

($ in millions)	2014	2013	2012
Beginning balance	$ 21	$ 42	$ 63
Net decrease in valuation allowance	(5)	(11)	(5)
Charge offs	(8)	(8)	(16)
Mortgage loans classified as held for sale	—	(2)	—
Ending balance	$ 8	$ 21	$ 42

Payments on all mortgage loans were current as of December 31, 2014 and 2013.

Municipal bonds

The Company maintains a diversified portfolio of municipal bonds. The following table shows the principal geographic distribution of municipal bond issuers represented in the Company's portfolio as of December 31. No other state represents more than 5% of the portfolio.

(% of municipal bond portfolio carrying value)	2014	2013
California	17.0%	15.9%
Texas	13.6	13.5
Oregon	5.8	5.4
Illinois	5.3	5.1
New Jersey	5.1	5.2
New York	4.9	5.2

Concentration of credit risk

As of December 31, 2014, the Company is not exposed to any credit concentration risk of a single issuer and its affiliates greater than 10% of the Company's shareholder's equity.

Securities loaned

The Company's business activities include securities lending programs with third parties, mostly large banks. As of December 31, 2014 and 2013, fixed income securities with a carrying value of $492 million and $312 million, respectively, were on loan under these agreements. Interest income on collateral, net of fees, was $1 million in each of 2014, 2013 and 2012.

Other investment information

Included in fixed income securities are below investment grade assets totaling $3.31 billion and $2.89 billion as of December 31, 2014 and 2013, respectively.

As of December 31, 2014, fixed income securities and short-term investments with a carrying value of $43 million were on deposit with regulatory authorities as required by law.

As of December 31, 2014, the carrying value of fixed income securities that were non-income producing was $14 million.

7. 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 Consolidated Statements of Financial Position at fair value are categorized in the fair value hierarchy based on the observability of inputs to the valuation techniques as follows:

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

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

(a) Quoted prices for similar assets or liabilities in active markets;
(b) Quoted prices for identical or similar assets or liabilities in markets that are not active; or
(c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

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

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

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

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

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

Certain assets are not carried at fair value on a recurring basis, including investments such as mortgage loans, limited partnership interests, bank loans 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 consolidated financial statements. In addition, derivatives embedded in fixed income securities are not disclosed in the hierarchy as free-standing derivatives since they are presented with the host contracts in fixed income securities.

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

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

Level 1 measurements

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

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, including privately placed: 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. Also included are privately placed securities 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 and 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. Certain ABS are valued based on non-binding broker quotes whose inputs have been corroborated to be market observable.

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

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

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

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

- Assets held for sale: Comprise U.S. government and agencies, municipal, corporate, foreign government, ABS, RMBS and CMBS fixed income securities, and short-term investments. The valuation is based on the respective asset type as described above.

Level 3 measurements

- Fixed income securities:

  Municipal: Comprise municipal bonds that are not rated by third party credit rating agencies but are rated by the National Association of Insurance Commissioners ("NAIC"). The primary inputs to the valuation of these municipal bonds include quoted prices for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements, contractual cash flows, benchmark yields and credit spreads. Also included are municipal bonds valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. Also includes auction rate securities ("ARS") primarily backed by student loans that have become illiquid due to failures in the auction market and are valued using a discounted cash flow model that is widely accepted in the financial services industry and uses significant non-market observable inputs, including the anticipated date liquidity will return to the market.

  Corporate, including privately placed: Primarily valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. Also included are equity-indexed notes which are valued using a discounted cash flow model that is widely accepted in the financial services industry and uses significant non-market observable inputs, such as volatility. 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, RMBS and CMBS: Valued based on non-binding broker quotes received from brokers who are familiar with the investments and where the inputs have not been corroborated to be market observable.

- Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements.

- Other investments: Certain OTC derivatives, such as interest rate caps, certain credit default swaps and certain options (including swaptions), are valued using models that are widely accepted in the financial services industry. These are categorized as Level 3 as a result of the significance of non-market observable inputs such as volatility. Other primary inputs include interest rate yield curves and credit spreads.

- Assets held for sale: Comprise municipal, corporate, ABS and CMBS fixed income securities that were classified as held for sale as of December 31, 2013. The valuation is based on the respective asset type as described above.

- Contractholder funds: Derivatives embedded in certain life and annuity contracts are valued internally using models widely accepted in the financial services industry that determine a single best estimate of fair value for the embedded derivatives within a block of contractholder liabilities. The models primarily use stochastically determined cash flows based on the contractual elements of embedded derivatives, projected option cost and applicable market data, such as interest rate yield curves and equity index volatility assumptions. These are categorized as Level 3 as a result of the significance of non-market observable inputs.

- Liabilities held for sale: Comprise derivatives embedded in life and annuity contracts that were classified as held for sale as of December 31, 2013. The valuation is the same as described above for contractholder funds.

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

Mortgage loans written-down to fair value in connection with recognizing impairments are valued based on the fair value of the underlying collateral less costs to sell. Limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments are valued using net asset values. The carrying value of the LBL business was written-down to fair value in connection with being classified as held for sale.

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2014.

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of December 31, 2014
Assets					
Fixed income securities:					
U.S. government and agencies	$ 147	$ 623	$ —		$ 770
Municipal	—	3,556	106		3,662
Corporate	—	20,193	792		20,985
Foreign government	—	735	—		735
ABS	—	636	129		765
RMBS	—	605	—		605
CMBS	—	578	1		579
Redeemable preferred stock	—	16	—		16
Total fixed income securities	147	26,942	1,028		28,117
Equity securities	927	6	37		970
Short-term investments	90	767	—		857
Other investments: Free-standing derivatives	—	90	2	$ (2)	90
Separate account assets	4,396	—	—		4,396
Other assets	1	—	1		2
Total recurring basis assets	5,561	27,805	1,068	(2)	34,432
Non-recurring basis [1]	—	—	9		9
Total assets at fair value	$ 5,561	$ 27,805	$ 1,077	$ (2)	$ 34,441
% of total assets at fair value	16.2%	80.7%	3.1%	— %	100%
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (323)		$ (323)
Other liabilities: Free-standing derivatives	—	(24)	(9)	$ 2	(31)
Total liabilities at fair value	$ —	$ (24)	$ (332)	$ 2	$ (354)
% of total liabilities at fair value	—%	6.8%	93.8%	(0.6)%	100%

[1] Includes $6 million of mortgage loans and $3 million of limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments.

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2013.

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of December 31, 2013
Assets					
Fixed income securities:					
U.S. government and agencies	$ 145	$ 621	$ —		$ 766
Municipal	—	3,185	119		3,304
Corporate	—	20,308	1,008		21,316
Foreign government	—	792	—		792
ABS	—	895	112		1,007
RMBS	—	790	—		790
CMBS	—	763	1		764
Redeemable preferred stock	—	16	1		17
Total fixed income securities	145	27,370	1,241		28,756
Equity securities	593	51	6		650
Short-term investments	129	461	—		590
Other investments: Free-standing derivatives	—	268	9	$ (11)	266
Separate account assets	5,039	—	—		5,039
Assets held for sale	1,854	9,812	362		12,028
Total recurring basis assets	7,760	37,962	1,618	(11)	47,329
Non-recurring basis [(1)]	—	—	17		17
Total assets at fair value	$ 7,760	$ 37,962	$ 1,635	$ (11)	$ 47,346
% of total assets at fair value	16.4%	80.2%	3.4%	— %	100%
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (307)		$ (307)
Other liabilities: Free-standing derivatives	—	(185)	(14)	$ 7	(192)
Liabilities held for sale	—	—	(246)		(246)
Total recurring basis liabilities	—	(185)	(567)	7	(745)
Non-recurring basis [(2)]	—	—	(11,088)		(11,088)
Total liabilities at fair value	$ —	$ (185)	$ (11,655)	$ 7	$ (11,833)
% of total liabilities at fair value	—%	1.6%	98.5%	(0.1)%	100%

(1) Includes $8 million of mortgage loans and $9 million of limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments.

(2) Relates to LBL business held for sale (see Note 3). The total fair value measurement includes $15,593 million of assets held for sale and $(14,899) million of liabilities held for sale, less $12,028 million of assets and $(246) million of liabilities measured at fair value on a recurring basis.

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

($ in millions)	**Fair value**		**Valuation technique**	**Unobservable input**	**Range**	**Weighted average**
December 31, 2014						
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$	(278)	Stochastic cash flow model	Projected option cost	1.0 - 2.0 %	1.76%
December 31, 2013						
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$	(247)	Stochastic cash flow model	Projected option cost	1.0 - 2.0 %	1.75%
Liabilities held for sale – Equity-indexed and forward starting options	$	(246)	Stochastic cash flow model	Projected option cost	1.0 - 2.0 %	1.91%

If the projected option cost increased (decreased), it would result in a higher (lower) liability fair value.

As of December 31, 2014 and 2013, Level 3 fair value measurements include $914 million and $1.15 billion, respectively, of fixed income securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. As of December 31, 2013, Level 3 fair value measurements for assets held for sale include $319 million of fixed income securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. 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.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the year ended December 31, 2014.

($ in millions)		Total gains (losses) included in:			
	Balance as of December 31, 2013	Net income [(1)]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 119	$ —	$ 18	$ —	$ (17)
Corporate	1,008	20	(14)	85	(114)
ABS	112	—	3	16	(12)
CMBS	1	—	—	—	(4)
Redeemable preferred stock	1	—	—	—	—
Total fixed income securities	1,241	20	7	101	(147)
Equity securities	6	—	(1)	—	(1)
Free-standing derivatives, net	(5)	—	—	—	—
Other assets	—	1	—	—	—
Assets held for sale	362	(1)	2	4	(2)
Total recurring Level 3 assets	$ 1,604	$ 20	$ 8	$ 105	$ (150)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (307)	$ (8)	$ —	$ —	$ —
Liabilities held for sale	(246)	17	—	—	—
Total recurring Level 3 liabilities	$ (553)	$ 9	$ —	$ —	$ —

	Sold in LBL disposition [(3)]	Purchases/ Issues [(4)]	Sales	Settlements	Balance as of December 31, 2014
Assets					
Fixed income securities:					
Municipal	$ —	$ —	$ (11)	$ (3)	$ 106
Corporate	—	20	(109)	(104)	792
ABS	—	21	—	(11)	129
CMBS	4	—	—	—	1
Redeemable preferred stock	—	—	(1)	—	—
Total fixed income securities	4	41	(121)	(118)	1,028
Equity securities	—	39	(6)	—	37
Free-standing derivatives, net	—	2	—	(4)	(7) [(2)]
Other assets	—	—	—	—	1
Assets held for sale	(351)	—	(8)	(6)	—
Total recurring Level 3 assets	$ (347)	$ 82	$ (135)	$ (128)	$ 1,059
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ (14)	$ —	$ 6	$ (323)
Liabilities held for sale	230	(4)	—	3	—
Total recurring Level 3 liabilities	$ 230	$ (18)	$ —	$ 9	$ (323)

(1) The effect to net income totals $29 million and is reported in the Consolidated Statements of Operations and Comprehensive Income as follows: $11 million in realized capital gains and losses, $12 million in net investment income, $(5) million in interest credited to contractholder funds, $15 million in contract benefits and $(4) million in loss on disposition of operations.

(2) Comprises $2 million of assets and $9 million of liabilities.

(3) Includes transfers from held for sale that took place in first quarter 2014 of $4 million for CMBS and $(4) million for Assets held for sale.

(4) Represents purchases for assets and issues for liabilities.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the year ended December 31, 2013.

($ in millions)	Balance as of December 31, 2012	Total gains (losses) included in: Net income (1)	Total gains (losses) included in: OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 338	$ (12)	$ 19	$ —	$ —
Corporate	1,501	32	(32)	84	(172)
ABS	199	(2)	30	17	(16)
RMBS	—	—	—	—	—
CMBS	21	(1)	3	—	—
Redeemable preferred stock	1	—	—	—	—
Total fixed income securities	2,060	17	20	101	(188)
Equity securities	7	—	—	—	—
Free-standing derivatives, net	(27)	19	—	—	—
Other assets	1	(1)	—	—	—
Assets held for sale	—	(2)	(6)	13	(13)
Total recurring Level 3 assets	$ 2,041	$ 33	$ 14	$ 114	$ (201)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (553)	$ 89	$ —	$ —	$ —
Liabilities held for sale	—	20	—	—	—
Total recurring Level 3 liabilities	$ (553)	$ 109	$ —	$ —	$ —

	Transfer to held for sale	Purchases/ Issues (2)	Sales	Settlements	Balance as of December 31, 2013
Assets					
Fixed income securities:					
Municipal	$ (51)	$ —	$ (173)	$ (2)	$ 119
Corporate	(244)	145	(173)	(133)	1,008
ABS	(85)	—	(8)	(23)	112
RMBS	—	—	—	—	—
CMBS	(5)	—	(17)	—	1
Redeemable preferred stock	—	—	—	—	1
Total fixed income securities	(385)	145	(371)	(158)	1,241
Equity securities	—	—	(1)	—	6
Free-standing derivatives, net	—	9	—	(6)	(5) (3)
Other assets	—	—	—	—	—
Assets held for sale	385	—	(10)	(5)	362
Total recurring Level 3 assets	$ —	$ 154	$ (382)	$ (169)	$ 1,604
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ 265	$ (111)	$ —	$ 3	$ (307)
Liabilities held for sale	(265)	(6)	—	5	(246)
Total recurring Level 3 liabilities	$ —	$ (117)	$ —	$ 8	$ (553)

(1) The effect to net income totals $142 million and is reported in the Consolidated Statements of Operations and Comprehensive Income as follows: $20 million in realized capital gains and losses, $14 million in net investment income, $40 million in interest credited to contractholder funds, $74 million in contract benefits and $(6) million in loss on disposition of operations.

(2) Represents purchases for assets and issues for liabilities.

(3) Comprises $9 million of assets and $14 million of liabilities.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the year ended December 31, 2012.

($ in millions)

	Balance as of December 31, 2011	Total gains (losses) included in: Net income [1]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 387	$ (5)	$ 22	$ 53	$ (10)
Corporate	1,319	20	63	381	(64)
ABS	254	24	59	42	(7)
RMBS	47	—	—	—	(47)
CMBS	30	(4)	10	—	—
Redeemable preferred stock	1	—	—	—	—
Total fixed income securities	2,038	35	154	476	(128)
Equity securities	14	—	—	—	—
Free-standing derivatives, net	(88)	25	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	$ 1,965	$ 60	$ 154	$ 476	$ (128)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (723)	$ 168	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (723)	$ 168	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of December 31, 2012
Assets					
Fixed income securities:					
Municipal	$ —	$ (107)	$ —	$ (2)	$ 338
Corporate	125	(223)	—	(120)	1,501
ABS	11	(165)	—	(19)	199
RMBS	—	—	—	—	—
CMBS	—	—	—	(15)	21
Redeemable preferred stock	1	(1)	—	—	1
Total fixed income securities	137	(496)	—	(156)	2,060
Equity securities	5	(12)	—	—	7
Free-standing derivatives, net	27	—	—	9	(27) [2]
Other assets	—	—	—	—	1
Total recurring Level 3 assets	$ 169	$ (508)	$ —	$ (147)	$ 2,041
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (79)	$ 81	$ (553)
Total recurring Level 3 liabilities	$ —	$ —	$ (79)	$ 81	$ (553)

(1) The effect to net income totals $228 million and is reported in the Consolidated Statements of Operations and Comprehensive Income as follows:$38 million in realized capital gains and losses, $22 million in net investment income, $132 million in interest credited to contractholder funds and $36 million in contract benefits.

(2) Comprises $3 million of assets and $30 million of liabilities.

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

There were no transfers between Level 1 and Level 2 during 2014 or 2013. During 2012, certain U.S. government securities were transferred into Level 1 from Level 2 as a result of increased liquidity in the market and a sustained increase in the market activity for these assets.

Transfers into Level 3 during 2014, 2013 and 2012 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 2014, 2013 and 2012 included situations where a broker quote was used in the prior period and a fair value quote became available from the Company's independent third-party valuation service provider in the current period. A quote utilizing the new pricing source was not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities were not significant.

The following table provides the change in unrealized gains and losses included in net income for Level 3 assets and liabilities held as of December 31.

($ in millions)	**2014**	**2013**	**2012**
Assets			
Fixed income securities:			
Municipal	$ (1)	$ (4)	$ —
Corporate	11	13	15
ABS	—	(2)	—
CMBS	1	(2)	(3)
Total fixed income securities	11	5	12
Equity securities	—	—	—
Free-standing derivatives, net	5	10	6
Other assets	1	(1)	—
Assets held for sale	—	(2)	—
Total recurring Level 3 assets	$ 17	$ 12	$ 18
Liabilities			
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (8)	$ 89	$ 168
Liabilities held for sale	17	20	—
Total recurring Level 3 liabilities	$ 9	$ 109	$ 168

The amounts in the table above represent the change in unrealized gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total $26 million in 2014 and are reported as follows: $4 million in realized capital gains and losses, $12 million in net investment income, $(5) million in interest credited to contractholder funds and $15 million in contract benefits. These gains and losses total $121 million in 2013 and are reported as follows: $9 million in realized capital gains and losses, $9 million in net investment income, $35 million in interest credited to contractholder funds, $74 million in contract benefits and $(6) million in loss on disposition of operations. These gains and losses total $186 million in 2012 and are reported as follows: $19 million in net investment income, $131 million in interest credited to contractholder funds and $36 million in contract benefits.

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

Financial assets

($ in millions)	**December 31, 2014**		**December 31, 2013**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Mortgage loans	$ 3,686	$ 3,922	$ 4,173	$ 4,300
Cost method limited partnerships	508	686	605	799
Bank loans	431	427	160	161
Agent loans	368	361	341	325
Notes due from related party	275	275	275	275
Assets held for sale	—	—	1,458	1,532

The fair value of mortgage loans, including those classified as assets held for sale, is based on discounted contractual cash flows or, if the loans are impaired due to credit reasons, the fair value of collateral less costs to sell. Risk adjusted discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics, using similar types of properties as collateral. The fair value of cost method limited partnerships is determined using reported net asset values of the underlying funds. The fair value of bank loans, which are reported in other investments or assets held for sale, is based on broker quotes from brokers familiar with the loans and current market conditions. The fair value of agent loans, which are reported in other investments, is based on discounted cash flow calculations that use discount rates with a spread over U.S. Treasury rates. Assumptions used in developing estimated cash flows and discount rates consider the loan's credit and liquidity risks. The fair value of notes due from related party, which are reported in other investments, is based on discounted cash flow calculations using current interest rates for instruments with comparable terms. The fair value measurements for mortgage loans, cost method limited partnerships, bank loans, agent loans, notes due from related party and assets held for sale are categorized as Level 3.

Financial liabilities

($ in millions)	**December 31, 2014**		**December 31, 2013**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Contractholder funds on investment contracts	$ 13,708	$ 14,364	$ 15,542	$ 16,198
Notes due to related parties	275	275	282	282
Liability for collateral	510	510	328	328
Liabilities held for sale	—	—	7,417	7,298

The fair value of contractholder funds on investment contracts, including those classified as liabilities held for sale, is based on the terms of the underlying contracts utilizing prevailing market rates for similar contracts adjusted for the Company's own credit risk. Deferred annuities included in contractholder funds are valued using discounted cash flow models which incorporate market value margins, which are based on the cost of holding economic capital, and the Company's own credit risk. Immediate annuities without life contingencies and fixed rate funding agreements are valued at the present value of future benefits using market implied interest rates which include the Company's own credit risk. The fair value measurements for contractholder funds on investment contracts and liabilities held for sale are categorized as Level 3.

The fair value of notes due to related parties is based on discounted cash flow calculations using current interest rates for instruments with comparable terms and considers the Company's own credit risk. The liability for collateral is valued at carrying value due to its short-term nature. The fair value measurements for liability for collateral are categorized as Level 2. The fair value measurements for notes due to related parties are categorized as Level 3.

8. Derivative Financial Instruments and Off-balance sheet Financial Instruments

The Company uses derivatives to manage risks with certain assets and liabilities arising from the potential adverse impacts from changes in risk-free interest rates, changes in equity market valuations, increases in credit spreads and foreign currency fluctuations, and for asset replication.

Asset-liability management is a risk management strategy that is principally employed to balance the respective interest-rate sensitivities of the Company's assets and liabilities. Depending upon the attributes of the assets acquired and liabilities issued, derivative instruments such as interest rate swaps, caps, swaptions and futures are utilized to change the interest rate characteristics of existing assets and liabilities to ensure the relationship is maintained within specified ranges and to reduce exposure to rising or falling interest rates. The Company uses financial futures and interest rate swaps to hedge anticipated asset purchases and liability issuances and futures and options for hedging the equity exposure contained in its equity indexed life and annuity product contracts that offer equity returns to contractholders. In addition, the Company uses interest rate swaps to hedge interest rate risk inherent in funding agreements. The Company uses foreign currency swaps and forwards primarily to reduce the foreign currency risk associated with holding foreign currency denominated investments. Credit default swaps are typically used to mitigate the credit risk within the Company's fixed income portfolio.

The Company may also use derivatives to manage the risk associated with corporate actions, including the sale of a business. During 2014 and December 2013, swaptions were utilized to hedge the expected proceeds from the disposition of LBL.

Asset replication refers to the "synthetic" creation of assets through the use of derivatives and primarily investment grade host bonds to replicate securities that are either unavailable in the cash markets or more economical to acquire in synthetic form. The Company replicates fixed income securities using a combination of a credit default swap and one or more highly rated fixed income securities to synthetically replicate the economic characteristics of one or more cash market securities.

The Company also has derivatives embedded in non-derivative host contracts that are required to be separated from the host contracts and accounted for at fair value with changes in fair value of embedded derivatives reported in net income. The Company's primary embedded derivatives are equity options in life and annuity product contracts, which provide equity returns to contractholders; conversion options in fixed income securities, which provide the Company with the right to convert the instrument into a predetermined number of shares of common stock; credit default swaps in synthetic collateralized debt obligations, which provide enhanced coupon rates as a result of selling credit protection; and equity-indexed notes containing equity call options, which provide a coupon payout that is determined using one or more equity-based indices.

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

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

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive or pay to terminate the derivative contracts at the reporting date. The carrying value amounts for OTC derivatives are further adjusted for the effects, if any, of enforceable master netting agreements and are presented on a net basis, by counterparty agreement, in the Consolidated Statements of Financial Position. For certain exchange traded and cleared derivatives, margin deposits are required as well as daily cash settlements of margin accounts. As of December 31, 2014, the Company pledged $30 million of cash and securities in the form of margin deposits.

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

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

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Consolidated Statement of Financial Position as of December 31, 2014.

($ in millions, except number of contracts)	Balance sheet location	Volume [(1)] Notional amount	Volume [(1)] Number of contracts	Fair value, net	Gross asset	Gross liability
Asset derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other investments	$ 85	n/a	$ 3	$ 3	$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other investments	163	n/a	2	2	—
Equity and index contracts						
Options	Other investments	—	3,225	83	83	—
Financial futures contracts	Other assets	—	704	1	1	—
Foreign currency contracts						
Foreign currency forwards	Other investments	57	n/a	—	—	—
Credit default contracts						
Credit default swaps – buying protection	Other investments	19	n/a	—	—	—
Credit default swaps – selling protection	Other investments	80	n/a	2	2	—
Other contracts						
Other contracts	Other assets	3	n/a	1	1	—
Subtotal		322	3,929	89	89	—
Total asset derivatives		$ 407	3,929	$ 92	$ 92	$ —
Liability derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$ 50	n/a	$ (1)	$ —	$ (1)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	85	n/a	1	1	—
Interest rate cap agreements	Other liabilities & accrued expenses	11	n/a	—	—	—
Financial futures contract	Other liabilities & accrued expenses	—	200	—	—	—
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	—	3,131	(22)	—	(22)
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	36	n/a	1	1	—
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	615	n/a	(32)	—	(32)
Guaranteed withdrawal benefits	Contractholder funds	425	n/a	(13)	—	(13)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,786	n/a	(278)	—	(278)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	—	—	—
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	49	n/a	(1)	—	(1)
Credit default swaps – selling protection	Other liabilities & accrued expenses	100	n/a	(9)	—	(9)
Subtotal		3,192	3,331	(353)	2	(355)
Total liability derivatives		3,242	3,331	(354)	$ 2	$ (356)
Total derivatives		$ 3,649	7,260	$ (262)		

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

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Consolidated Statement of Financial Position as of December 31, 2013.

($ in millions, except number of contracts)		Volume [1]				
Asset derivatives	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other investments	$ 16	n/a	$ 1	$ 1	$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swaption agreements	Other investments	1,420	n/a	—	—	—
Interest rate cap agreements	Other investments	61	n/a	2	2	—
Equity and index contracts						
Options and warrants [2]	Other investments	3	10,035	261	261	—
Financial futures contracts	Other assets	—	627	—	—	—
Foreign currency contracts						
Foreign currency forwards	Other investments	47	n/a	—	—	—
Embedded derivative financial instruments						
Credit default swaps	Fixed income securities	12	n/a	(12)	—	(12)
Credit default contracts						
Credit default swaps – buying protection	Other investments	1	n/a	—	—	—
Credit default swaps – selling protection	Other investments	85	n/a	2	2	—
Other contracts						
Other contracts	Other assets	4	n/a	—	—	—
Subtotal		1,633	10,662	253	265	(12)
Total asset derivatives		$ 1,649	10,662	$ 254	$ 266	$ (12)
Liability derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$ 132	n/a	$ (15)	$ —	$ (15)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	85	n/a	4	4	—
Interest rate swaption agreements	Other liabilities & accrued expenses	4,570	n/a	1	1	—
Interest rate cap agreements	Other liabilities & accrued expenses	262	n/a	4	4	—
Equity and index contracts						
Options	Other liabilities & accrued expenses	55	10,035	(165)	2	(167)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	738	n/a	(43)	—	(43)
Guaranteed withdrawal benefits	Contractholder funds	506	n/a	(13)	—	(13)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,693	n/a	(247)	—	(247)
	Liabilities held for sale	2,363	n/a	(246)	—	(246)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(4)	—	(4)
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	171	n/a	(2)	—	(2)
Credit default swaps – selling protection	Other liabilities & accrued expenses	100	n/a	(15)	—	(15)
Subtotal		10,628	10,035	(726)	11	(737)
Total liability derivatives		10,760	10,035	(741)	$ 11	$ (752)
Total derivatives		$ 12,409	20,697	$ (487)		

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

[2] In addition to the number of contracts presented in the table, the Company held 837,100 stock warrants. Stock warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

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

($ in millions)		Offsets				
	Gross amount	Counter-party netting	Cash collateral (received) pledged	Net amount on balance sheet	Securities collateral (received) pledged	Net amount
December 31, 2014						
Asset derivatives	$ 7	$ (2)	$ —	$ 5	$ (4)	$ 1
Liability derivatives	(11)	2	—	(9)	7	(2)
December 31, 2013						
Asset derivatives	$ 14	$ (11)	$ —	$ 3	$ (3)	$ —
Liability derivatives	(33)	11	(4)	(26)	22	(4)

The following table provides a summary of the impacts of the Company's foreign currency contracts in cash flow hedging relationships for the years ended December 31. Amortization of net gains from accumulated other comprehensive income related to cash flow hedges is expected to be a gain of $2 million during the next twelve months. There was no hedge ineffectiveness reported in realized gains and losses in 2014, 2013 or 2012.

($ in millions)	2014	2013	2012
Gain (loss) recognized in OCI on derivatives during the period	$ 12	$ 3	$ (6)
Gain (loss) recognized in OCI on derivatives during the term of the hedging relationship	2	(13)	(17)
Loss reclassified from AOCI into income (net investment income)	(1)	(1)	—
Loss reclassified from AOCI into income (realized capital gains and losses)	(2)	—	(1)

The following tables present gains and losses from valuation, settlements and hedge ineffectiveness reported on derivatives used in fair value hedging relationships and derivatives not designated as accounting hedging instruments in the Consolidated Statements of Operations and Comprehensive Income for the years ended December 31. In 2014 and 2013, the Company had no derivatives used in fair value hedging relationships.

($ in millions)	Net investment income	Realized capital gains and losses	Contract benefits	Interest credited to contractholder funds	Loss on disposition of operations	Total gain (loss) recognized in net income on derivatives
2014						
Interest rate contracts	$ —	$ (3)	$ —	$ —	$ (4)	$ (7)
Equity and index contracts	—	(1)	—	38	—	37
Embedded derivative financial instruments	—	—	15	(14)	—	1
Foreign currency contracts	—	10	—	—	—	10
Credit default contracts	—	8	—	—	—	8
Other contracts	—	—	—	(2)	—	(2)
Total	$ —	$ 14	$ 15	$ 22	$ (4)	$ 47
2013						
Interest rate contracts	$ —	$ 3	$ —	$ —	$ (6)	$ (3)
Equity and index contracts	—	—	—	94	—	94
Embedded derivative financial instruments	—	(1)	74	(75)	—	(2)
Foreign currency contracts	—	(2)	—	—	—	(2)
Credit default contracts	—	14	—	—	—	14
Other contracts	—	—	—	(3)	—	(3)
Total	$ —	$ 14	$ 74	$ 16	$ (6)	$ 98
2012						
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	$ (1)	$ —	$ —	$ —	$ —	$ (1)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts	—	2	—	—	—	2
Equity and index contracts	—	—	—	56	—	56
Embedded derivative financial instruments	—	20	36	134	—	190
Foreign currency contracts	—	(2)	—	—	—	(2)
Credit default contracts	—	15	—	—	—	15
Other contracts	—	—	—	3	—	3
Subtotal	—	35	36	193	—	264
Total	$ (1)	$ 35	$ 36	$ 193	$ —	$ 263

Changes in fair value of the Company's fair value hedging relationships for 2012 resulted in a $3 million gain on interest rate contract derivatives and a $3 million loss on the hedged risk of investments, both of which were reported in net investment income.

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements ("MNAs") and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions that permit either party to net payments due for transactions and collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of December 31, 2014, counterparties pledged $4 million in cash and securities to the Company, and the Company pledged $7 million in securities to counterparties which includes $7 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives, including futures and certain option contracts, are traded on organized exchanges which require margin deposits and guarantee the execution of trades, thereby mitigating any potential credit risk.

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

The following table summarizes the counterparty credit exposure as of December 31 by counterparty credit rating as it relates to the Company's OTC derivatives.

($ in millions)	2014				2013			
Rating [(1)]	Number of counter-parties	Notional amount [(2)]	Credit exposure [(2)]	Exposure, net of collateral [(2)]	Number of counter-parties	Notional amount [(2)]	Credit exposure [(2)]	Exposure, net of collateral [(2)]
A+	1	$ 164	$ 2	$ 1	1	$ 22	$ 1	$ 1
A	3	88	3	1	4	1,523	2	—
A-	1	8	—	—	1	24	1	—
BBB+	1	11	—	—	1	3	—	—
BBB	1	52	—	—	1	76	1	—
Total	7	$ 323	$ 5	$ 2	8	$ 1,648	$ 5	$ 1

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

Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. Market risk exists for all of the derivative financial instruments the Company currently holds, as these instruments may become less valuable due to adverse changes in market conditions. To limit this risk, the Company's senior management has established risk control limits. In addition, changes in fair value of the derivative financial instruments that the Company uses for risk management purposes are generally offset by the change in the fair value or cash flows of the hedged risk component of the related assets, liabilities or forecasted transactions.

Certain of the Company's derivative instruments contain credit-risk-contingent termination events, cross-default provisions and credit support annex agreements. Credit-risk-contingent termination events allow the counterparties to terminate the derivative on certain dates if ALIC's or Allstate Life Insurance Company of New York's ("ALNY") financial strength credit ratings by Moody's or S&P fall below a certain level or in the event ALIC or ALNY are no longer rated by either Moody's or S&P. Credit-risk-contingent cross-default provisions allow the counterparties to terminate the derivative instruments if the Company defaults by pre-determined threshold amounts on certain debt instruments. Credit-risk-contingent credit support annex agreements specify the amount of collateral the Company must post to counterparties based on ALIC's or ALNY's financial strength credit ratings by Moody's or S&P, or in the event ALIC or ALNY are no longer rated by either Moody's or S&P.

The following summarizes the fair value of derivative instruments with termination, cross-default or collateral credit-risk-contingent features that are in a liability position as of December 31, as well as the fair value of assets and collateral that are netted against the liability in accordance with provisions within legally enforceable MNAs.

($ in millions)	2014	2013
Gross liability fair value of contracts containing credit-risk-contingent features	$ 11	$ 25
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(2)	(9)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	(7)	(14)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	$ 2	$ 2

Credit derivatives - selling protection

Free-standing credit default swaps ("CDS") are utilized for selling credit protection against a specified credit event. A credit default swap is a derivative instrument, representing an agreement between two parties to exchange the credit risk of a specified entity (or a group of entities), or an index based on the credit risk of a group of entities (all commonly referred to as the "reference entity" or a portfolio of "reference entities"), in return for a periodic premium. In selling protection, CDS are used to replicate fixed income securities and to complement the cash market when credit exposure to certain issuers is not available or when the derivative alternative is less expensive than the cash market alternative. CDS typically have a five-year term.

The following table shows the CDS notional amounts by credit rating and fair value of protection sold.

($ in millions)	Notional amount					
	AA	A	BBB	BB and lower	Total	Fair value
December 31, 2014						
Single name						
Corporate debt	$ —	$ —	$ —	$ —	$ —	$ —
First-to-default Basket						
Municipal	—	100	—	—	100	(9)
Index						
Corporate debt	—	22	52	6	80	2
Total	$ —	$ 122	$ 52	$ 6	$ 180	$ (7)
December 31, 2013						
Single name						
Corporate debt	$ —	$ 5	$ —	$ —	$ 5	$ —
First-to-default Basket						
Municipal	—	100	—	—	100	(15)
Index						
Corporate debt	1	20	55	4	80	2
Total	$ 1	$ 125	$ 55	$ 4	$ 185	$ (13)

In selling protection with CDS, the Company sells credit protection on an identified single name, a basket of names in a first-to-default ("FTD") structure or credit derivative index ("CDX") that is generally investment grade, and in return receives periodic premiums through expiration or termination of the agreement. With single name CDS, this premium or credit spread generally corresponds to the difference between the yield on the reference entity's public fixed maturity cash instruments and swap rates at the time the agreement is executed. With a FTD basket, because of the additional credit risk inherent in a basket of named reference entities, the premium generally corresponds to a high proportion of the sum of the credit spreads of the names in the basket and the correlation between the names. CDX is utilized to take a position on multiple (generally 125) reference entities. Credit events are typically defined as bankruptcy, failure to pay, or restructuring, depending on the nature of the reference entities. If a credit event occurs, the Company settles with the counterparty, either through physical settlement or cash settlement. In a physical settlement, a reference asset is delivered by the buyer of protection to the Company, in exchange for cash payment at par, whereas in a cash settlement, the Company pays the difference between par and the prescribed value of the reference asset. When a credit event occurs in a single name or FTD basket (for FTD, the first credit event occurring for any one name in the basket), the contract terminates at the time of settlement. For CDX, the reference entity's name incurring the credit event is removed from the index while the contract continues until expiration. The maximum payout on a CDS is the contract notional amount. A physical settlement may afford the Company with recovery rights as the new owner of the asset.

The Company monitors risk associated with credit derivatives through individual name credit limits at both a credit derivative and a combined cash instrument/credit derivative level. The ratings of individual names for which protection has been sold are also monitored.

Off-balance sheet financial instruments

The contractual amounts of off-balance sheet financial instruments as of December 31 are as follows:

($ in millions)	2014	2013
Commitments to invest in limited partnership interests	$ 1,223	$ 1,366
Commitments to extend mortgage loans	44	1
Private placement commitments	25	5
Other loan commitments	46	26

In the preceding table, the contractual amounts represent the amount at risk if the contract is fully drawn upon, the counterparty defaults and the value of any underlying security becomes worthless. Unless noted otherwise, the Company does not require collateral or other security to support off-balance sheet financial instruments with credit risk.

Commitments to invest in limited partnership interests represent agreements to acquire new or additional participation in certain limited partnership investments. The Company enters into these agreements in the normal course of business. Because the investments in limited partnerships are not actively traded, it is not practical to estimate the fair value of these commitments.

Commitments to extend mortgage loans are agreements to lend to a borrower provided there is no violation of any condition established in the contract. The Company enters into these agreements to commit to future loan fundings at a predetermined interest rate. Commitments generally have fixed expiration dates or other termination clauses. The fair value of commitments to extend mortgage loans, which are secured by the underlying properties, is $1 million as of December 31, 2014, and is valued based on estimates of fees charged by other institutions to make similar commitments to similar borrowers.

Private placement commitments represent conditional commitments to purchase private placement debt and equity securities at a specified future date. The Company enters into these agreements in the normal course of business. The fair value of these commitments generally cannot be estimated on the date the commitment is made as the terms and conditions of the underlying private placement securities are not yet final.

Other loan commitments are agreements to lend to a borrower provided there is no violation of any condition established in the contract. The Company enters into these agreements to commit to future loan fundings at predetermined interest rates. Commitments generally have varying expiration dates or other termination clauses. The fair value of these commitments is insignificant.

9. Reserve for Life-Contingent Contract Benefits and Contractholder Funds

As of December 31, the reserve for life-contingent contract benefits consists of the following:

($ in millions)	2014	2013
Immediate fixed annuities:		
Structured settlement annuities	$ 6,682	$ 6,645
Other immediate fixed annuities	2,246	2,279
Traditional life insurance	2,303	2,329
Accident and health insurance	238	236
Other	97	100
Total reserve for life-contingent contract benefits	$ 11,566	$ 11,589

The following table highlights the key assumptions generally used in calculating the reserve for life-contingent contract benefits.

Product	Mortality	Interest rate	Estimation method
Structured settlement annuities	U.S. population with projected calendar year improvements; mortality rates adjusted for each impaired life based on reduction in life expectancy	Interest rate assumptions range from 2.7% to 9.0%	Present value of contractually specified future benefits
Other immediate fixed annuities	1983 group annuity mortality table with internal modifications; 1983 individual annuity mortality table; Annuity 2000 mortality table with internal modifications; Annuity 2000 mortality table; 1983 individual annuity mortality table with internal modifications	Interest rate assumptions range from 0% to 11.5%	Present value of expected future benefits based on historical experience
Traditional life insurance	Actual company experience plus loading	Interest rate assumptions range from 2.5% to 11.3%	Net level premium reserve method using the Company's withdrawal experience rates; includes reserves for unpaid claims
Accident and health insurance	Actual company experience plus loading	Interest rate assumptions range from 3.0% to 6.0%	Unearned premium; additional contract reserves for mortality risk and unpaid claims
Other: Variable annuity guaranteed minimum death benefits [1]	Annuity 2012 mortality table with internal modifications	Interest rate assumptions range from 2.6% to 5.8%	Projected benefit ratio applied to cumulative assessments

[1] In 2006, the Company disposed of substantially all of its variable annuity business through reinsurance agreements with The Prudential Insurance Company of America, a subsidiary of Prudential Financial, Inc. (collectively "Prudential").

To the extent that unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve is recorded for certain immediate annuities with life contingencies. A liability of $28 million is included in the reserve for life-contingent contract benefits with respect to this deficiency as of December 31, 2014. The offset to this liability is recorded as a reduction of the unrealized net capital gains included in accumulated other comprehensive income. The liability was zero as of December 31, 2013.

As of December 31, contractholder funds consist of the following:

($ in millions)	2014	2013
Interest-sensitive life insurance	$ 7,193	$ 7,104
Investment contracts:		
Fixed annuities	14,284	16,172
Funding agreements backing medium-term notes	85	89
Other investment contracts	254	239
Total contractholder funds	$ 21,816	$ 23,604

The following table highlights the key contract provisions relating to contractholder funds.

Product	Interest rate	Withdrawal/surrender charges
Interest-sensitive life insurance	Interest rates credited range from 0% to 9.0% for equity-indexed life (whose returns are indexed to the S&P 500) and 1.0% to 6.0% for all other products	Either a percentage of account balance or dollar amount grading off generally over 20 years
Fixed annuities	Interest rates credited range from 0% to 9.8% for immediate annuities; (8.0)% to 13.5% for equity-indexed annuities (whose returns are indexed to the S&P 500); and 0.1% to 6.0% for all other products	Either a declining or a level percentage charge generally over ten years or less. Additionally, approximately 21.5% of fixed annuities are subject to market value adjustment for discretionary withdrawals
Funding agreements backing medium-term notes	Interest rate credited is 2.49%	Not applicable
Other investment contracts: Guaranteed minimum income, accumulation and withdrawal benefits on variable (1) and fixed annuities and secondary guarantees on interest-sensitive life insurance and fixed annuities	Interest rates used in establishing reserves range from 1.7% to 10.3%	Withdrawal and surrender charges are based on the terms of the related interest-sensitive life insurance or fixed annuity contract

(1) In 2006, the Company disposed of substantially all of its variable annuity business through reinsurance agreements with Prudential.

Contractholder funds include funding agreements held by VIEs issuing medium-term notes. The VIEs are Allstate Life Funding, LLC and Allstate Life Global Funding, and their primary assets are funding agreements used exclusively to back medium-term note programs.

Contractholder funds activity for the years ended December 31 is as follows:

($ in millions)	2014	2013	2012
Balance, beginning of year	$ 23,604	$ 38,634	$ 41,669
Classified as held for sale, beginning balance	10,945	—	—
Total, including those classified as held for sale	34,549	38,634	41,669
Deposits	1,227	2,338	2,180
Interest credited	892	1,268	1,296
Benefits	(1,178)	(1,521)	(1,454)
Surrenders and partial withdrawals	(2,253)	(3,279)	(3,969)
Maturities of and interest payments on institutional products	(2)	(1,799)	(138)
Contract charges	(798)	(1,032)	(995)
Net transfers from separate accounts	7	12	11
Other adjustments	34	(72)	34
Sold in LBL disposition	(10,662)	—	—
Classified as held for sale, ending balance	—	(10,945)	—
Balance, end of year	$ 21,816	$ 23,604	$ 38,634

The Company offered various guarantees to variable annuity contractholders. Liabilities for variable contract guarantees related to death benefits are included in the reserve for life-contingent contract benefits and the liabilities related to the income, withdrawal and accumulation benefits are included in contractholder funds. All liabilities for variable contract guarantees are reported on a gross basis on the balance sheet with a corresponding reinsurance recoverable asset for those contracts subject to reinsurance. In 2006, the Company disposed of substantially all of its variable annuity business through reinsurance agreements with Prudential.

Absent any contract provision wherein the Company guarantees either a minimum return or account value upon death, a specified contract anniversary date, partial withdrawal or annuitization, variable annuity and variable life insurance contractholders bear the investment risk that the separate accounts' funds may not meet their stated investment objectives. The account balances of variable annuities contracts' separate accounts with guarantees included $3.82 billion and $5.20 billion of equity, fixed income and balanced mutual funds and $467 million and $748 million of money market mutual funds as of December 31, 2014 and 2013, respectively.

The table below presents information regarding the Company's variable annuity contracts with guarantees. The Company's variable annuity contracts may offer more than one type of guarantee in each contract; therefore, the sum of amounts listed exceeds the total account balances of variable annuity contracts' separate accounts with guarantees.

($ in millions)	December 31,	
	2014	2013
In the event of death		
Separate account value	$ 4,288	$ 5,951
Net amount at risk [(1)]	$ 581	$ 636
Average attained age of contractholders	69 years	68 years
At annuitization (includes income benefit guarantees)		
Separate account value	$ 1,142	$ 1,463
Net amount at risk [(2)]	$ 238	$ 252
Weighted average waiting period until annuitization options available	None	None
For cumulative periodic withdrawals		
Separate account value	$ 382	$ 488
Net amount at risk [(3)]	$ 8	$ 9
Accumulation at specified dates		
Separate account value	$ 480	$ 732
Net amount at risk [(4)]	$ 24	$ 27
Weighted average waiting period until guarantee date	4 years	5 years

(1) Defined as the estimated current guaranteed minimum death benefit in excess of the current account balance as of the balance sheet date.
(2) Defined as the estimated present value of the guaranteed minimum annuity payments in excess of the current account balance.
(3) Defined as the estimated current guaranteed minimum withdrawal balance (initial deposit) in excess of the current account balance as of the balance sheet date.
(4) Defined as the estimated present value of the guaranteed minimum accumulation balance in excess of the current account balance.

The liability for death and income benefit guarantees is equal to a benefit ratio multiplied by the cumulative contract charges earned, plus accrued interest less contract excess guarantee benefit payments. The benefit ratio is calculated as the estimated present value of all expected contract excess guarantee benefits divided by the present value of all expected contract charges. The establishment of reserves for these guarantees requires the projection of future fund values, mortality, persistency and customer benefit utilization rates. These assumptions are periodically reviewed and updated. For guarantees related to death benefits, benefits represent the projected excess guaranteed minimum death benefit payments. For guarantees related to income benefits, benefits represent the present value of the minimum guaranteed annuitization benefits in excess of the projected account balance at the time of annuitization.

Projected benefits and contract charges used in determining the liability for certain guarantees are developed using models and stochastic scenarios that are also used in the development of estimated expected gross profits. Underlying assumptions for the liability related to income benefits include assumed future annuitization elections based on factors such as the extent of benefit to the potential annuitant, eligibility conditions and the annuitant's attained age. The liability for guarantees is re-evaluated periodically, and adjustments are made to the liability balance through a charge or credit to contract benefits.

Guarantees related to the majority of withdrawal and accumulation benefits are considered to be derivative financial instruments; therefore, the liability for these benefits is established based on its fair value.

The following table summarizes the liabilities for guarantees.

($ in millions)	**Liability for guarantees related to death benefits and interest-sensitive life products**	**Liability for guarantees related to income benefits**	**Liability for guarantees related to accumulation and withdrawal benefits**	**Total**
Balance, December 31, 2013 [(1)]	$ 377	$ 113	$ 65	$ 555
Less reinsurance recoverables	100	99	56	255
Net balance as of December 31, 2013	277	14	9	300
Incurred guarantee benefits	34	—	9	43
Paid guarantee benefits	—	—	—	—
Sold in LBL disposition	(214)	(10)	(3)	(227)
Net change	(180)	(10)	6	(184)
Net balance as of December 31, 2014	97	4	15	116
Plus reinsurance recoverables	98	91	45	234
Balance, December 31, 2014 [(2)]	$ 195	$ 95	$ 60	$ 350
Balance, December 31, 2012 [(3)]	$ 309	$ 235	$ 129	$ 673
Less reinsurance recoverables	113	220	125	458
Net balance as of December 31, 2012	196	15	4	215
Incurred guarantee benefits	83	(1)	5	87
Paid guarantee benefits	(2)	—	—	(2)
Net change	81	(1)	5	85
Net balance as of December 31, 2013	277	14	9	300
Plus reinsurance recoverables	100	99	56	255
Balance, December 31, 2013 [(1)]	$ 377	$ 113	$ 65	$ 555

(1) Included in the total liability balance as of December 31, 2013 are reserves for variable annuity death benefits of $98 million, variable annuity income benefits of $99 million, variable annuity accumulation benefits of $43 million, variable annuity withdrawal benefits of $13 million and other guarantees of $302 million.
(2) Included in the total liability balance as of December 31, 2014 are reserves for variable annuity death benefits of $96 million, variable annuity income benefits of $92 million, variable annuity accumulation benefits of $32 million, variable annuity withdrawal benefits of $13 million and other guarantees of $117 million.
(3) Included in the total liability balance as of December 31, 2012 are reserves for variable annuity death benefits of $112 million, variable annuity income benefits of $221 million, variable annuity accumulation benefits of $86 million, variable annuity withdrawal benefits of $39 million and other guarantees of $215 million.

10. Reinsurance

The Company reinsures certain of its risks to other insurers primarily under yearly renewable term, coinsurance and modified coinsurance agreements. These agreements result in a passing of the agreed-upon percentage of risk to the reinsurer in exchange for negotiated reinsurance premium payments. Modified coinsurance is similar to coinsurance, except that the cash and investments that support the liability for contract benefits are not transferred to the assuming company and settlements are made on a net basis between the companies.

For certain term life insurance policies issued prior to October 2009, the Company ceded up to 90% of the mortality risk depending on the year of policy issuance under coinsurance agreements to a pool of fourteen unaffiliated reinsurers. Effective October 2009, mortality risk on term business is ceded under yearly renewable term agreements under which the Company cedes mortality in excess of its retention, which is consistent with how the Company generally reinsures its permanent life insurance business. The following table summarizes those retention limits by period of policy issuance.

Period	Retention limits
April 2011 through current	Single life: $5 million per life, $3 million age 70 and over, and $10 million for contracts that meet specific criteria Joint life: $8 million per life, and $10 million for contracts that meet specific criteria
July 2007 through March 2011	$5 million per life, $3 million age 70 and over, and $10 million for contracts that meet specific criteria
September 1998 through June 2007	$2 million per life, in 2006 the limit was increased to $5 million for instances when specific criteria were met
August 1998 and prior	Up to $1 million per life

In addition, the Company has used reinsurance to effect the disposition of certain blocks of business. The Company had reinsurance recoverables of $1.46 billion and $1.51 billion as of December 31, 2014 and 2013, respectively, due from Prudential related to the disposal of substantially all of its variable annuity business that was effected through reinsurance agreements. In 2014, premiums and contract charges of $109 million, contract benefits of $36 million, interest credited to contractholder funds of $21 million, and operating costs and expenses of $20 million were ceded to Prudential. In 2013, premiums and contract charges of $120 million, contract benefits of $139 million, interest credited to contractholder funds of $22 million, and operating costs and expenses of $23 million were ceded to Prudential. In 2012, premiums and contract charges of $128 million, contract benefits of $91 million, interest credited to contractholder funds of $23 million, and operating costs and expenses of $25 million were ceded to Prudential. In addition, as of December 31, 2014 and 2013 the Company had reinsurance recoverables of $157 million and $156 million, respectively, due from subsidiaries of Citigroup (Triton Insurance and American Health and Life Insurance) and Scottish Re (U.S.) Inc. in connection with the disposition of substantially all of the direct response distribution business in 2003.

As of December 31, 2014, the gross life insurance in force was $424.34 billion of which $97.57 billion was ceded to the unaffiliated reinsurers.

The effects of reinsurance on premiums and contract charges for the years ended December 31 are as follows:

($ in millions)	2014	2013	2012
Direct	$ 1,084	$ 2,093	$ 2,121
Assumed			
Affiliate	130	124	115
Non-affiliate	614	68	40
Ceded-non-affiliate	(392)	(618)	(654)
Premiums and contract charges, net of reinsurance	$ 1,436	$ 1,667	$ 1,622

The effects of reinsurance on contract benefits for the years ended December 31 are as follows:

($ in millions)	2014	2013	2012
Direct	$ 1,295	$ 1,805	$ 2,051
Assumed			
Affiliate	88	82	80
Non-affiliate	398	50	34
Ceded-non-affiliate	(329)	(331)	(644)
Contract benefits, net of reinsurance	$ 1,452	$ 1,606	$ 1,521

The effects of reinsurance on interest credited to contractholder funds for the years ended December 31 are as follows:

($ in millions)	2014	2013	2012
Direct	$ 827	$ 1,240	$ 1,288
Assumed			
Affiliate	9	9	10
Non-affiliate	82	29	19
Ceded-non-affiliate	(27)	(27)	(28)
Interest credited to contractholder funds, net of reinsurance	$ 891	$ 1,251	$ 1,289

Reinsurance recoverables on paid and unpaid benefits as of December 31 are summarized in the following table.

($ in millions)	2014	2013
Annuities	$ 1,594	$ 1,648
Life insurance	910	1,025
Long-term care insurance	80	78
Other	2	3
Total	$ 2,586	$ 2,754

As of December 31, 2014 and 2013, approximately 92% and 92%, respectively, of the Company's reinsurance recoverables are due from companies rated A- or better by S&P.

11. Deferred Policy Acquisition and Sales Inducement Costs

Deferred policy acquisition costs for the years ended December 31 are as follows:

($ in millions)	2014	2013	2012
Balance, beginning of year	$ 1,331	$ 1,834	$ 2,165
Classified as held for sale, beginning balance	743	—	—
Total, including those classified as held for sale	2,074	1,834	2,165
Acquisition costs deferred	163	254	262
Amortization charged to income	(162)	(240)	(324)
Effect of unrealized gains and losses	(97)	226	(269)
Sold in LBL disposition	(707)	(743)	—
Balance, end of year	$ 1,271	$ 1,331	$ 1,834

DSI activity, which primarily relates to fixed annuities and interest-sensitive life contracts, for the years ended December 31 was as follows:

($ in millions)	2014	2013	2012
Balance, beginning of year	$ 42	$ 41	$ 41
Classified as held for sale, beginning balance	28	—	—
Total, including those classified as held for sale	70	41	41
Sales inducements deferred	4	24	22
Amortization charged to income	(4)	(7)	(14)
Effect of unrealized gains and losses	(3)	12	(8)
Sold in LBL disposition	(23)	—	—
Classified as held for sale, ending balance	—	(28)	—
Balance, end of year	$ 44	$ 42	$ 41

12. Guarantees and Contingent Liabilities

Guaranty funds

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. Amounts assessed to each company are typically related to its proportion of business written in each state. The Company's policy is to accrue assessments when the entity for which the insolvency relates has met its state of domicile's statutory definition of insolvency and the amount of the loss is reasonably estimable. In most states, the definition is met with a declaration of financial insolvency by a court of competent jurisdiction. In certain states there must also be a final order of liquidation. As of December 31, 2014 and 2013, the liability balance included in other liabilities and accrued expenses was $10 million and $27 million, respectively. The related premium tax offsets included in other assets were $15 million and $31 million as of December 31, 2014 and 2013, respectively.

Guarantees

The Company owns certain investments that obligate the Company to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the reference entities. In the event all such specified credit events were to occur, the Company's maximum amount at risk on these investments, as measured by the amount of the aggregate initial investment, was $4 million as of December 31, 2014. The obligations associated with these investments expire at various dates on or before March 11, 2018.

Related to the sale of LBL on April 1, 2014, the Company has agreed to indemnify Resolution Life Holdings, Inc. related to representations, warranties and covenants of the Company, as well as for certain liabilities specifically excluded from the transaction, subject to certain contractual limitations as to the Company's maximum obligation. Indemnifications related to representations and warranties made by the Company will expire by March 31, 2015, except for those pertaining to certain tax items. Management does not believe these indemnification provisions will have a material effect on results of operations, cash flows or financial position of the Company.

Related to the disposal through reinsurance of substantially all of the Company's variable annuity business to Prudential in 2006, the Company and the Corporation have agreed to indemnify Prudential for certain pre-closing contingent liabilities (including extra-contractual liabilities of the Company and liabilities specifically excluded from the transaction) that the Company has agreed to retain. In addition, the Company and the Corporation will each indemnify Prudential for certain post-closing liabilities that may arise from the acts of the Company and its agents, including certain liabilities arising from the Company's provision of transition services. The reinsurance agreements contain no limitations or indemnifications with regard to insurance risk transfer, and transferred all of the future risks and responsibilities for performance on the underlying variable annuity contracts to Prudential, including those related to benefit guarantees. Management does not believe this agreement will have a material effect on results of operations, cash flows or financial position of the Company.

In the normal course of business, the Company provides standard indemnifications to contractual counterparties in connection with numerous transactions, including acquisitions and divestitures. The types of indemnifications typically provided include indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and are entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Consequently, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

The aggregate liability balance related to all guarantees was not material as of December 31, 2014.

Regulation and Compliance

The Company is subject to extensive laws, regulations and regulatory actions. From time to time, regulatory authorities or legislative bodies seek to impose additional regulations regarding agent and broker compensation, regulate the nature of and amount of investments, impose fines and penalties for unintended errors or mistakes, and otherwise expand overall regulation of insurance products and the insurance industry. In addition, the Company is subject to laws and regulations administered and enforced by federal agencies and other organizations, including but not limited to the Securities and Exchange Commission, the Financial Industry Regulation Authority, and the U.S. Department of Justice. The Company has established procedures and policies to facilitate compliance with laws and regulations, to foster prudent business operations, and to support financial reporting. The Company routinely reviews its practices to validate compliance with laws and regulations and with internal procedures and policies. As a result of these reviews, from time to time the Company may decide to modify some of its procedures and policies. Such modifications, and the reviews that led to them, may be accompanied by payments being made and costs being incurred. The ultimate changes and eventual effects of these actions on the Company's business, if any, are uncertain.

The Company is currently being examined by certain states for compliance with unclaimed property laws. It is possible that this examination may result in additional payments of abandoned funds to states and to changes in the Company's practices and procedures for the identification of escheatable funds, which could impact benefit payments and reserves, among other consequences; however, it is not likely to have a material effect on the consolidated financial statements of the Company.

13. Income Taxes

ALIC and its subsidiaries (the "Allstate Life Group") join with the Corporation (the "Allstate Group") in the filing of a consolidated federal income tax return and are party to a federal income tax allocation agreement (the "Allstate Tax Sharing Agreement"). Under the Allstate Tax Sharing Agreement, the Allstate Life Group pays to or receives from the Corporation the amount, if any, by which the Allstate Group's federal income tax liability is affected by virtue of inclusion of the Allstate Life Group in the consolidated federal income tax return. Effectively, this results in the Allstate Life Group's annual income tax provision being computed, with adjustments, as if the Allstate Life Group filed a separate return.

The Internal Revenue Service ("IRS") is currently examining the Allstate Group's 2011 and 2012 federal income tax returns. The IRS has completed its examination of the Allstate Group's 2009 and 2010 federal income tax returns and a final settlement related to the examination was approved by the IRS Appeals Division on September 19, 2014. The Allstate Group's tax years prior to 2009 have been examined by the IRS and the statute of limitations has expired on those years. Any adjustments that may result from IRS examinations of the Allstate Group's tax returns are not expected to have a material effect on the results of operations, cash flows or financial position of the Company.

The Company had no liability for unrecognized tax benefits as of December 31, 2014, 2013 or 2012, and believes it is reasonably possible that the liability balance will not significantly increase within the next twelve months. No amounts have been accrued for interest or penalties.

The components of the deferred income tax assets and liabilities as of December 31 are as follows:

($ in millions)	**2014**	**2013**
Deferred assets		
Difference in tax bases of investments	$ 31	$ 44
Deferred reinsurance gain	20	23
Sale of subsidiary	—	173
Other assets	15	6
Total deferred assets	66	246
Deferred liabilities		
Unrealized net capital gains	(747)	(501)
DAC	(396)	(470)
Life and annuity reserves	(255)	(273)
Other liabilities	(75)	(94)
Total deferred liabilities	(1,473)	(1,338)
Net deferred liability before classification as held for sale	(1,407)	(1,092)
Deferred taxes classified as held for sale	—	(151)
Net deferred liability	$ (1,407)	$ (941)

Although realization is not assured, management believes it is more likely than not that the deferred tax assets will be realized based on the Company's assessment that the deductions ultimately recognized for tax purposes will be fully utilized.

The components of income tax expense for the years ended December 31 are as follows:

($ in millions)	**2014**	**2013**	**2012**
Current	$ 101	$ 71	$ (82)
Deferred	132	(52)	261
Total income tax expense	$ 233	$ 19	$ 179

The Company paid income taxes of $80 million in 2014 and received refunds of $11 million and $58 million in 2013 and 2012, respectively. The Company had current income tax receivable of $7 million as of December 31, 2014 and current income tax payable of $5 million as of December 31, 2013.

A reconciliation of the statutory federal income tax rate to the effective income tax rate on income from operations for the years ended December 31 is as follows:

	2014	2013	2012
Statutory federal income tax rate - (benefit) expense	35.0 %	(35.0)%	35.0 %
Tax credits	(1.9)	(181.8)	(3.8)
Dividends received deduction	(0.9)	(46.1)	(1.4)
Adjustments to prior year tax liabilities	(0.2)	(14.1)	(0.3)
Sale of subsidiary	(1.8)	351.3	—
State income taxes	0.1	15.3	—
Non-deductible expenses	0.2	6.8	0.1
Other	0.2	0.1	—
Effective income tax rate - expense	30.7 %	96.5 %	29.6 %

14. Capital Structure

Debt outstanding

All of the Company's outstanding debt as of December 31, 2014 and 2013 relates to intercompany obligations. These obligations reflect notes due to related parties and are discussed in Note 5. The Company paid $16 million, $27 million and $48 million of interest on debt in 2014, 2013 and 2012, respectively.

15. Statutory Financial Information and Dividend Limitations

ALIC and its insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

All states require domiciled insurance companies to prepare statutory-basis financial statements in conformity with the NAIC Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the applicable insurance commissioner and/or director. Statutory accounting practices differ from GAAP primarily since they require charging policy acquisition and certain sales inducement costs to expense as incurred, establishing life insurance reserves based on different actuarial assumptions, and valuing certain investments and establishing deferred taxes on a different basis.

Statutory net income of ALIC and its insurance subsidiaries was $1.01 billion, $447 million and $382 million in 2014, 2013 and 2012, respectively. Statutory capital and surplus was $2.71 billion and $2.88 billion as of December 31, 2014 and 2013, respectively.

Dividend Limitations

The ability of ALIC to pay dividends is dependent on business conditions, income, cash requirements and other relevant factors. The payment of shareholder dividends by ALIC to AIC without the prior approval of the Illinois Department of Insurance ("IL DOI") is limited to formula amounts based on net income and capital and surplus, determined in conformity with statutory accounting practices, as well as the timing and amount of dividends paid in the preceding twelve months. The Company did not pay dividends in 2014. Based on the formula and absent the limitation discussed as follows, the maximum amount of dividends ALIC would be able to pay without prior IL DOI approval at a given point in time during 2015 is $819 million. However, any dividend must be paid out of unassigned surplus excluding unrealized appreciation from investments, which for ALIC totaled $122 million as of December 31, 2014.

Under state insurance laws, insurance companies are required to maintain paid up capital of not less than the minimum capital requirement applicable to the types of insurance they are authorized to write. Insurance companies are also subject to risk-based capital ("RBC") requirements adopted by state insurance regulators. A company's "authorized control level RBC" is calculated using various factors applied to certain financial balances and activity. Companies that do not maintain statutory capital and surplus at a level in excess of the company action level RBC, which is two times authorized control level RBC, are required to take specified actions. Company action level RBC is significantly in excess of the minimum capital requirements. Total statutory capital and surplus and authorized control level RBC of ALIC were $2.71 billion and $499 million, respectively, as of December 31, 2014. ALIC's insurance subsidiaries are included as a component of ALIC's total statutory capital and surplus.

Intercompany transactions

Notification and approval of intercompany lending activities is also required by the IL DOI when ALIC does not have unassigned surplus and for transactions that exceed a level that is based on a formula using statutory admitted assets and statutory surplus.

16. Benefit Plans

Pension and other postretirement plans

Defined benefit pension plans, sponsored by the Corporation, cover most full-time employees, certain part-time employees and employee-agents. Benefits under the pension plans are based upon the employee's length of service and eligible annual compensation. The cost allocated to the Company for the pension plans was $7 million, $51 million and $36 million in 2014, 2013 and 2012, respectively.

The Corporation has reserved the right to modify or terminate its benefit plans at any time and for any reason.

Allstate 401(k) Savings Plan

Employees of AIC are eligible to become members of the Allstate 401(k) Savings Plan ("Allstate Plan"). The Corporation's contributions are based on the Corporation's matching obligation and certain performance measures. The cost allocated to the Company for the Allstate Plan was $7 million, $6 million and $6 million in 2014, 2013 and 2012, respectively.

17. Other Comprehensive Income

The components of other comprehensive (loss) income on a pre-tax and after-tax basis for the years ended December 31 are as follows:

($ in millions)	2014			2013			2012		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$ 805	$ (282)	$ 523	$ (1,047)	$ 367	$ (680)	$ 1,180	$ (414)	$ 766
Less: reclassification adjustment of realized capital gains and losses	104	(36)	68	42	(15)	27	(84)	29	(55)
Unrealized net capital gains and losses	701	(246)	455	(1,089)	382	(707)	1,264	(443)	821
Unrealized foreign currency translation adjustments	(6)	2	(4)	3	(1)	2	—	—	—
Other comprehensive income (loss)	$ 695	$ (244)	$ 451	$ (1,086)	$ 381	$ (705)	$ 1,264	$ (443)	$ 821

18. Quarterly Results (unaudited)

($ in millions)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2014	2013	2014	2013	2014	2013	2014	2013
Revenues	$ 1,049	$ 1,049	$ 851	$ 1,087	$ 823	$ 1,016	$ 937	$ 1,076
Net income (loss)	127	109	132	150	84	(394)	183	97

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of
Allstate Life Insurance Company
Northbrook, Illinois 60062

We have audited the accompanying Consolidated Statements of Financial Position of Allstate Life Insurance Company and subsidiaries (the “Company”), an affiliate of The Allstate Corporation, as of December 31, 2014 and 2013, and the related Consolidated Statements of Operations and Comprehensive Income, Shareholder’s Equity, and Cash Flows for each of the three years in the period ended December 31, 2014. Our audits also included the consolidated financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Allstate Life Insurance Company and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Chicago, Illinois
March 4, 2015

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the principal executive officer and the principal financial officer concluded that our disclosure controls and procedures are effective in providing reasonable assurance that material information required to be disclosed in our reports filed with or submitted to the Securities and Exchange Commission under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities Exchange Act and made known to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014 based on the criteria related to internal control over financial reporting described in "Internal Control – Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2014.

Changes in Internal Control over Financial Reporting. During the fiscal quarter ended December 31, 2014, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Item 14. Principal Accounting Fees and Services

(1), (2), (3) and (4) Disclosure of fees -

The following fees have been, or are anticipated to be billed by Deloitte & Touche LLP, the member firms of Deloitte & Touche Tohmatsu, and their respective affiliates, for professional services rendered to us for the fiscal years ending December 31, 2014 and 2013.

	2014	2013 (c)
Audit fees (a)	$ 2,760,340	$ 3,037,600
Audit related fees (b)	81,000	102,000
Total fees	$ 2,841,340	$ 3,139,600

(a) Fees for audits of annual financial statements, reviews of quarterly financial statements, statutory audits, attest services, comfort letters, consents, and review of documents filed with the Securities and Exchange Commission. The amount disclosed does not reflect reimbursed audit fees received from third-party reinsurers in the amounts of $216,400 and $304,000 for 2014 and 2013, respectively.
(b) Audit related fees relate primarily to professional services such as other attest services.
(c) Total fees for 2013 have been adjusted to reflect an increase of $72,000 for scope changes related to a disposition transaction not included in the prior year disclosure.

(5)(i) and (ii) Audit Committee's pre-approval policies and procedures -

The Audit Committee of The Allstate Corporation has established pre-approval policies and procedures for itself and its consolidated subsidiaries, including Allstate Life. Those policies and procedures are incorporated into this Item 14 (5) by reference to Exhibit 99 – The Allstate Corporation Policy Regarding Pre-Approval of Independent Registered Public Accountant's Services (the "Pre-Approval Policy"). In addition, in 2005 the Audit Committee of Allstate Life adopted the Pre-Approval Policy, as it may be amended from time to time by the Audit Committee or the Board of Directors of the Corporation, as its own policy, provided that the Designated Member referred to in such policy need not be independent because the New York Stock Exchange corporate governance standards do not apply to Allstate Life. All of the services provided by Deloitte & Touche LLP to Allstate Life in 2014 and 2013 were approved by The Allstate Corporation and Allstate Life Audit Committees.

Part IV

Item 15. (a) (1) Exhibits and Financial Statement Schedules.

The following consolidated financial statements, notes thereto and related information of Allstate Life Insurance Company (the "Company") are included in Item 8.

Consolidated Statements of Operations and Comprehensive Income
Consolidated Statements of Financial Position
Consolidated Statements of Shareholder's Equity
Consolidated Statements of Cash Flows
Notes to the Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Item 15. (a) (2)

The following additional financial statement schedules are furnished herewith pursuant to the requirements of Form 10-K.

Allstate Life Insurance Company		Page
Schedules required to be filed under the provisions of Regulation S-X Article 7:		
Schedule I	Summary of Investments - Other than Investments in Related Parties	S-1
Schedule IV	Reinsurance	S-2
Schedule V	Valuation Allowances and Qualifying Accounts	S-3

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or in notes thereto.

Item 15. (a) (3)

The following is a list of the exhibits filed as part of this Form 10-K.

		Incorporated by Reference				
Exhibit Number	**Exhibit Description**	**Form**	**File Number**	**Exhibit**	**Filing Date**	**Filed or Furnished Herewith**
3(i)	Articles of Amendment to the Articles of Incorporation of Allstate Life Insurance Company dated December 29, 1999.	10	000-31248	3.1	April 24, 2002	
3(ii)	Amended and Restated By-Laws of Allstate Life Insurance Company effective March 15, 2007.	8-K	000-31248	3(ii)	March 20, 2007	
4	See Exhibits 3 (i) and 3 (ii).					
10.2	Credit Agreement dated April 27, 2012 among The Allstate Corporation, Allstate Insurance Company and Allstate Life Insurance Company, as Borrowers; the Lenders party thereto, Wells Fargo Bank, National Association, as Syndication Agent; Citibank, N.A. and Bank of America, N.A., as Documentation Agents; and JPMorgan Chase Bank, N.A., as Administrative Agent.	10-Q	1-11840	10.6	May 2, 2012	
10.3	Amendment No. 1 to Credit Agreement dated as of April 27, 2014	8-K	1-11840	10.1	April 29, 2014	
10.4	Surplus Note Purchase Agreement between Allstate Life Insurance Company and Kennett Capital, Inc. effective, August 1, 2005.	10-Q	000-31248	10.2	November 7, 2005	
10.5	Pledge and Security Agreement between Allstate Life Insurance Company and Kennett Capital, Inc. effective August 1, 2005.	10-Q	000-31248	10.3	November 7, 2005	
10.6	Intercompany Loan Agreement between The Allstate Corporation, Allstate Life Insurance Company, and other certain subsidiaries of The Allstate Corporation effective February 1, 1996.	10-K	000-31248	10.24	March 13, 2007	

10.7	Amended and Restated Intercompany Liquidity Agreement between Allstate Insurance Company, Allstate Life Insurance Company and The Allstate Corporation effective as of May 8, 2008.	10-Q	000-31248	10.2	May 14, 2008	
10.8	Revolving Loan Credit Agreement, effective December 20, 2010 between American Heritage Life Insurance Company and Road Bay Investments, LLC.	8-K	000-31248	10.1	December 27, 2010	
10.9	Pledge and Security Agreement, dated as of December 20, 2010, between Road Bay Investments, LLC and American Heritage Life Insurance Company securing obligations under the Revolving Loan Credit Agreement.	8-K	000-31248	10.2	December 27, 2010	
10.10	Capital Support Agreement between Allstate Life Insurance Company and Allstate Insurance Company effective December 14, 2007.	8-K	000-31248	10.1	February 7, 2008	
10.11	Form of Amended and Restated Service and Expense Agreement among Allstate Insurance Company, The Allstate Corporation and certain affiliates effective January 1, 2004.	10-K	000-31248	10.1	March 17, 2008	
10.12	Form of Amendment No. 1 effective January 1, 2009 to Amended and Restated Service and Expense Agreement among Allstate Insurance Company, The Allstate Corporation and certain affiliates dated as of January 1, 2009.	8-K	000-31248	10.1	February 17, 2010	
10.13	Letter Agreement among Allstate Insurance Company, The Allstate Corporation and certain affiliates, including Allstate Life Insurance Company, effective December 1, 2007.	8-K	000-31248	10.1	May 23, 2008	
10.14	Addendum among Allstate Insurance Company and certain affiliates dated August 17, 2011 to Amended and Restated Service and Expense Agreement among Allstate Insurance Company, The Allstate Corporation and certain affiliates effective as of January 1, 2004, as amended by amendment No. 1 effective as of January 1, 2009.	10-K	000-31248	10.20	March 8, 2012	
10.15	New York Insurer Supplement to Amended and Restated Service and Expense Agreement among Allstate Insurance Company, The Allstate Corporation, Allstate Life Insurance Company of New York and Intramerica Life Insurance Company, effective March 5, 2005.	10-Q	000-31248	10.2	August 8, 2005	
10.16	Limited Servicing Agreement among Allstate Life Insurance Company, Allstate Distributors, L.L.C. and Allstate Financial Services, LLC effective October 1, 2002.	10-K	000-31248	10.40	March 17, 2008	
10.17	Form of Investment Management Agreement among Allstate Investment Management Company, The Allstate Corporation and certain affiliates effective February 1, 2012.	8-K	000-31248	10.1	February 7, 2012	
10.18	Form of Investment Management Agreement among Allstate Investments, LLC, Allstate Insurance Company, The Allstate Corporation and certain affiliates effective January 1, 2007.	10-K	000-31248	10.12	March 17, 2008	
10.19	Investment Advisory Agreement and Amendment to Service Agreement as of January 1, 2002 between Allstate Insurance Company, Allstate Investments, LLC and Allstate Life Insurance Company of New York.	10	000-31248	10.31	April 24, 2002	
10.20	Investment Management Agreement between Allstate Investments, LLC and ALIC Reinsurance Company, effective July 1, 2005.	10-Q	000-31248	10.1	November 7, 2005	
10.21	Investment Management Agreement between Allstate Investments, LLC and ALIC Reinsurance Company effective as of March 31, 2008.	8-K	000-31248	10.1	December 23, 2008	
10.22	Investment Advisory Agreement by and between Allstate Insurance Company and Intramerica Life Insurance Company effective July 1, 1999.	10	000-31248	10.29	April 24, 2002	
10.23	Assignment and Assumption Agreement dated as of January 1, 2002 among Allstate Insurance Company, Allstate Investments, LLC and Intramerica Life Insurance Company.	10	000-31248	10.30	April 24, 2002	

10.24	Assignment & Delegation of Administrative Services Agreements, Underwriting Agreements, and Selling Agreements entered into as of September 1, 2011 between ALFS, Inc., Allstate Life Insurance Company, Allstate Life Insurance Company of New York, Allstate Distributors, L.L.C., Charter National Life Insurance Company, Intramerica Life Insurance Company, Allstate Financial Services, LLC, and Lincoln Benefit Life Company.	8-K	000-31248	10.1	September 1, 2011	
10.25	Selling Agreement by and among Allstate Life Insurance Company, Allstate Distributors, L.L.C. (ALFS, Inc., f/k/a Allstate Life Financial Services, Inc., merged with and into Allstate Distributors, L.L.C. effective September 1, 2011) and Allstate Financial Services, LLC (f/k/a LSA Securities, Inc.) effective July 26, 1999.	10-K	000-31248	10.6	March 26, 2004	
10.26	Amendment effective August 1, 1999 to Selling Agreement between Allstate Life Insurance Company, Allstate Distributors, L.L.C. (ALFS, Inc. merged with and into Allstate Distributors, L.L.C. effective September 1, 2011) and Allstate Financial Services, LLC effective July 26, 1999.	10-Q	000-31248	10.1	November 10, 2004	
10.27	Amendment effective September 28, 2001 to Selling Agreement between Allstate Life Insurance Company, Allstate Distributors, L.L.C. (ALFS, Inc. merged with and into Allstate Distributors, L.L.C. effective September 1, 2011) and Allstate Financial Services, LLC effective July 26, 1999.	10-Q	000-31248	10.2	November 10, 2004	
10.28	Amendment effective February 15, 2002 to Selling Agreement between Allstate Life Insurance Company, Allstate Distributors, L.L.C. (ALFS, Inc. merged with and into Allstate Distributors, L.L.C. effective September 1, 2011) and Allstate Financial Services, LLC effective July 26, 1999.	10-Q	000-31248	10.3	November 10, 2004	
10.29	Amendment effective April 21, 2003 to Selling Agreement between Allstate Life Insurance Company, Allstate Distributors, L.L.C. (ALFS, Inc. merged with and into Allstate Distributors, L.L.C. effective September 1, 2011) and Allstate Financial Services, LLC effective July 26, 1999.	10-Q	000-31248	10.4	November 10, 2004	
10.30	Selling Agreement and Addenda to Agreement between Allstate Life Insurance Company as successor in interest to Glenbrook Life and Annuity Company, Allstate Distributors, L.L.C. (ALFS, Inc. merged with and into Allstate Distributors, L.L.C. effective September 1, 2011) and Allstate Financial Services, LLC effective May 17, 2001, December 31, 2001 and November 18, 2002, respectively.	10-K	000-31248	10.39	March 17, 2008	
10.31	Selling Agreement by and among Allstate Life Insurance Company of New York, Allstate Distributors, L.L.C. (ALFS, Inc. merged with and into Allstate Distributors, L.L.C. effective September 1, 2011) and Allstate Financial Services, LLC effective May 1, 2005.	10-K	000-31248	10.7	March 26, 2004	
10.32	Selling Agreement by and between Lincoln Benefit Life Company, Allstate Distributors, L.L.C. (ALFS, Inc. merged with and into Allstate Distributors, L.L.C. effective September 1, 2011) and Allstate Financial Services, LLC effective August 2, 1999.	10-K	000-31248	10.8	March 26, 2004	
10.33	Marketing Coordination and Administrative Services Agreement among Allstate Insurance Company, Allstate Life Insurance Company and Allstate Financial Services, LLC effective January 1, 2003.	10-K	000-31248	10.9	March 26, 2004	
10.34	First Amendment to Marketing Coordination and Administrative Services Agreement by and among Allstate Life Insurance Company, Allstate Financial Services, LLC and Allstate Insurance Company effective January 1, 2006.	10-Q	000-31248	10.1	August 8, 2006	
10.35	Marketing Agreement by and among Allstate Life Insurance Company as successor in interest to Glenbrook Life and Annuity Company, Allstate Distributors, L.L.C. (ALFS, Inc. merged with and into Allstate Distributors, L.L.C. effective September 1, 2011) and Allstate Financial Services, LLC effective June 10, 2003.	10-K	000-31248	10.41	March 17, 2008	

10.36	Reinsurance and Administrative Services Agreement by and between American Heritage Life Insurance Company and Columbia Universal Life Insurance Company effective February 1, 1998.	8-K	000-31248	10.3	January 30, 2008	
10.37	Novation and Assignment Agreement by and among Allstate Life Insurance Company, American Heritage Life Insurance Company and Columbia Universal Life Insurance Company effective June 30, 2004.	8-K	000-31248	10.2	January 30, 2008	
10.38	Amendment to Reinsurance Agreement effective December 1, 2007, by and between American Heritage Life Insurance Company and Allstate Life Insurance Company.	8-K	000-31248	10.1	January 30, 2008	
10.39	Reinsurance Agreement between Allstate Life Insurance Company and American Heritage Life Insurance Company effective December 31, 2004.	8-K	000-31248	10.2	January 9, 2008	
10.40	Amendment No. 1 dated as of January 1, 2008 to Reinsurance Agreement between Allstate Life Insurance Company and American Heritage Life Insurance Company effective December 31, 2004.	8-K	000-31248	10.1	January 9, 2008	
10.41	Amendment No. 2 dated and effective as of April 1, 2011 to Reinsurance Agreement between Allstate Life Insurance Company and American Heritage Life Insurance Company effective December 31, 2004.	10-Q	000-31248	10.4	August 5, 2011	
10.42	Retrocessional Reinsurance Agreement between Allstate Life Insurance Company and American Heritage Life Insurance Company effective December 31, 2004.	10-K	000-31248	10.23	March 16, 2005	
10.43	Reinsurance Agreement effective October 1, 2008 between American Heritage Life Insurance Company and Allstate Life Insurance Company.	8-K	000-31248	10.1	October 28, 2008	
10.44	Reinsurance Agreement effective July 1, 2010 between Allstate Life Insurance Company and American Heritage Life Insurance Company.	8-K	000-31248	10.1	July 15, 2010	
10.45	Amendment No. 1 dated and effective as of July 18, 2011 to Reinsurance Agreement effective July 1, 2010 between Allstate Life Insurance Company and American Heritage Life Insurance Company.	10-Q	000-31248	10.3	August 5, 2011	
10.46	Reinsurance Agreement effective September 30, 2012 between Lincoln Benefit Life Company and Lincoln Benefit Reinsurance Company.	8-K	000-31248	10.1	October 3, 2012	
10.47	Form of Tax Sharing Agreement by and among The Allstate Corporation and certain affiliates dated as of November 12, 1996.	10-K	000-31248	10.24	March 17, 2008	
10.48	Agreement for the Settlement of State and Local Tax Credits among Allstate Insurance Company and certain of its affiliates, including Allstate Life Insurance Company effective January 1, 2007.	8-K	000-31248	10.1	February 21, 2008	
10.49	Stock Purchase Agreement, dated July 17, 2013, among the Registrant, Resolution Life Holdings, Inc., and Resolution Life L.P.	8-K	1-11840	10.1	July 22, 2013	
10.50	Amended and Restated Reinsurance Agreement, dated April 1, 2014, between the Registrant and Lincoln Benefit Life Company	8-K	1-11840	10.1	April 7, 2014	
10.51	Partial Commutation Agreement, dated April 1, 2014, between the Registrant and Lincoln Benefit Life Company	8-K	1-11840	10.2	April 7, 2014	
23	Consent of Independent Registered Public Accounting Firm					X
31(i)	Rule 13a-14(a) Certification of Principal Executive Officer					X
31(i)	Rule 13a-14(a) Certification of Principal Financial Officer					X
32	Section 1350 Certifications					X
99	The Allstate Corporation Policy Regarding Pre-Approval of Independent Registered Public Accountant’s Services effective February 23, 2009.	10-K	000-31248	99	March 19, 2009	
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase					X

101.LAB	XBRL Taxonomy Extension Label Linkbase					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase					X

Item 15. (b)

The exhibits are listed in Item 15. (a)(3) above.

Item 15. (c)

The financial statement schedules are listed in Item 15. (a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLSTATE LIFE INSURANCE COMPANY
(Registrant)

/s/ Samuel H. Pilch

By: Samuel H. Pilch
(Senior Group Vice President and Controller)
March 4, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Don Civgin Don Civgin	President, Chief Executive Officer and a Director (Principal Executive Officer)	March 4, 2015
/s/ Jesse E. Merten Jesse E. Merten	Senior Vice President, Chief Financial Officer and a Director (Principal Financial Officer)	March 4, 2015
/s/ Thomas J. Wilson Thomas J. Wilson	Chairman of the Board and a Director	March 4, 2015
/s/ Michael S. Downing Michael S. Downing	Director	March 4, 2015
/s/ Angela K. Fontana Angela K. Fontana	Director	March 4, 2015
/s/ Judith P. Greffin Judith P. Greffin	Director	March 4, 2015
/s/ Wilford J. Kavanaugh Wilford J. Kavanaugh	Director	March 4, 2015
/s/ Harry R. Miller Harry R. Miller	Director	March 4, 2015
/s/ Samuel H. Pilch Samuel H. Pilch	Director	March 4, 2015
/s/ John C. Pintozzi John C. Pintozzi	Director	March 4, 2015
/s/ Steven E. Shebik Steven E. Shebik	Director	March 4, 2015
/s/ Matthew E. Winter Matthew E. Winter	Director	March 4, 2015

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE I - SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES
DECEMBER 31, 2014

($ in millions)	**Cost/ amortized cost**	**Fair value**	**Amount at which shown in the Balance Sheet**
Type of investment			
Fixed maturities:			
Bonds:			
United States government, government agencies and authorities	$ 668	$ 770	$ 770
States, municipalities and political subdivisions	3,156	3,662	3,662
Foreign governments	654	735	735
Public utilities	3,736	4,235	4,235
Convertibles and bonds with warrants attached	178	156	156
All other corporate bonds	15,551	16,594	16,594
Asset-backed securities	773	765	765
Residential mortgage-backed securities	554	605	605
Commercial mortgage-backed securities	538	579	579
Redeemable preferred stocks	14	16	16
Total fixed maturities	25,822	$ 28,117	28,117
Equity securities:			
Common stocks:			
Public utilities	24	$ 24	24
Banks, trusts and insurance companies	177	177	177
Industrial, miscellaneous and all other	701	743	743
Nonredeemable preferred stocks	25	26	26
Total equity securities	927	$ 970	970
Mortgage loans on real estate	3,686	$ 3,922	3,686
Real estate (includes $5 acquired in satisfaction of debt)	32		32
Policy loans	616		616
Derivative instruments	87	$ 90	90
Limited partnership interests	2,024		2,024
Other long-term investments	1,074		1,074
Short-term investments	857	$ 857	857
Total investments	$ 35,125		$ 37,466

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE IV - REINSURANCE

($ in millions)	Gross amount	Ceded to other companies [1]	Assumed from other companies	Net amount	Percentage of amount assumed to net
Year ended December 31, 2014					
Life insurance in force	$ 119,024	$ 97,574	$ 305,313	$ 326,763	93.4%
Premiums and contract charges:					
Life insurance	$ 1,022	$ 353	$ 674	$ 1,343	50.2%
Accident and health insurance	62	39	70	93	75.3%
Total premiums and contract charges	$ 1,084	$ 392	$ 744	$ 1,436	51.8%
Year ended December 31, 2013					
Life insurance in force	$ 512,105	$ 195,414	$ 28,060	$ 344,751	8.1%
Premiums and contract charges:					
Life insurance	$ 1,969	$ 532	$ 125	$ 1,562	8.0%
Accident and health insurance	124	86	67	105	63.8%
Total premiums and contract charges	$ 2,093	$ 618	$ 192	$ 1,667	11.5%
Year ended December 31, 2012					
Life insurance in force	$ 505,436	$ 208,967	$ 28,211	$ 324,680	8.7%
Premiums and contract charges:					
Life insurance	$ 1,978	$ 550	$ 95	$ 1,523	6.2%
Accident and health insurance	143	104	60	99	60.6%
Total premiums and contract charges	$ 2,121	$ 654	$ 155	$ 1,622	9.6%

[1] No reinsurance or coinsurance income was netted against premium ceded in 2014, 2013 or 2012.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE V - VALUATION ALLOWANCES AND QUALIFYING ACCOUNTS

($ in millions)		Additions			
Description	Balance as of beginning of period	Charged to costs and expenses	Other additions	Deductions	Balance as of end of period
Year ended December 31, 2014					
Allowance for estimated losses on mortgage loans	$ 21	$ (5)	$ —	$ 8	$ 8
Year ended December 31, 2013					
Allowance for estimated losses on mortgage loans	$ 42	$ (11)	$ —	$ 10	$ 21
Year ended December 31, 2012					
Allowance for estimated losses on mortgage loans	$ 63	$ (5)	$ —	$ 16	$ 42

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following registration statements of our report dated March 4, 2015, relating to the financial statements and financial statement schedules of Allstate Life Insurance Company, appearing in this Annual Report on Form 10-K of Allstate Life Insurance Company for the year ended December 31, 2014, and to the reference to us under the heading "Experts" in the Prospectus, which is part of the registration statements.

Form S-3 Registration Statement Nos.	Form N-4 Registration Statement Nos.
333-178570	333-102934
333-199259	333-114560
333-199260	333-114561
333-199262	333-114562
333-199264	333-121687
333-199265	333-121691
333-199266	333-121692
333-199796	333-121693
333-199797	333-121695
333-200095	
333-200098	
333-200099	
333-202202	

/s/ Deloitte & Touche LLP

Chicago, Illinois
March 4, 2015

CERTIFICATIONS **EXHIBIT 31 (i)**

I, Don Civgin, certify that:

1. I have reviewed this report on Form 10-K of Allstate Life Insurance Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2015

/s/ Don Civgin

Don Civgin
President and Chief Executive Officer

CERTIFICATIONS **EXHIBIT 31 (i)**

I, Jesse E. Merten, certify that:

1. I have reviewed this report on Form 10-K of Allstate Life Insurance Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2015

/s/ Jesse E. Merten

Jesse E. Merten
Senior Vice President and Chief Financial Officer

EXHIBIT 32

SECTION 1350 CERTIFICATIONS

Each of the undersigned hereby certifies that to his knowledge the report on Form 10-K for the fiscal year ended December 31, 2014 of Allstate Life Insurance Company filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and result of operations of Allstate Life Insurance Company.

Date: March 4, 2015

/s/ Don Civgin
Don Civgin
President and Chief Executive Officer

/s/ Jesse E. Merten
Jesse E. Merten
Senior Vice President and Chief Financial Officer