UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

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

For the transition period from ______ to ______

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(847) 402-5000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ___ No X

As of October 18, 2016, the registrant had 368,246,845 common shares, $.01 par value, outstanding.

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

($ in millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Revenues				
Property-liability insurance premiums	$ 7,869	$ 7,650	$ 23,406	$ 22,625
Life and annuity premiums and contract charges	571	538	1,701	1,611
Net investment income	748	807	2,241	2,446
Realized capital gains and losses:				
Total other-than-temporary impairment ("OTTI") losses	(73)	(186)	(241)	(286)
OTTI losses reclassified to (from) other comprehensive income	—	12	8	20
Net OTTI losses recognized in earnings	(73)	(174)	(233)	(266)
Sales and other realized capital gains and losses	106	207	141	546
Total realized capital gains and losses	33	33	(92)	280
	9,221	9,028	27,256	26,962
Costs and expenses				
Property-liability insurance claims and claims expense	5,553	5,255	17,138	15,835
Life and annuity contract benefits	484	460	1,393	1,347
Interest credited to contractholder funds	183	194	558	578
Amortization of deferred policy acquisition costs	1,138	1,092	3,393	3,248
Operating costs and expenses	1,021	992	3,043	3,143
Restructuring and related charges	5	9	21	32
Interest expense	73	73	218	219
	8,457	8,075	25,764	24,402
Gain on disposition of operations	1	2	4	2
Income from operations before income tax expense	765	955	1,496	2,562
Income tax expense	245	305	459	880
Net income	520	650	1,037	1,682
Preferred stock dividends	29	29	87	87
Net income applicable to common shareholders	$ 491	$ 621	$ 950	$ 1,595
Earnings per common share:				
Net income applicable to common shareholders per common share - Basic	$ 1.32	$ 1.56	$ 2.54	$ 3.92
Weighted average common shares - Basic	371.5	397.0	374.4	406.5
Net income applicable to common shareholders per common share - Diluted	$ 1.31	$ 1.54	$ 2.51	$ 3.87
Weighted average common shares - Diluted	375.9	402.1	378.9	412.4
Cash dividends declared per common share	$ 0.33	$ 0.30	$ 0.99	$ 0.90

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Net income	$ 520	$ 650	$ 1,037	$ 1,682
Other comprehensive income (loss), after-tax				
Changes in:				
Unrealized net capital gains and losses	193	(540)	1,197	(1,047)
Unrealized foreign currency translation adjustments	(7)	(14)	12	(50)
Unrecognized pension and other postretirement benefit cost	21	25	48	74
Other comprehensive income (loss), after-tax	207	(529)	1,257	(1,023)
Comprehensive income	$ 727	$ 121	$ 2,294	$ 659

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in millions, except par value data)	September 30, 2016	December 31, 2015
Assets	(unaudited)	
Investments		
Fixed income securities, at fair value (amortized cost $57,775 and $57,201)	$ 60,306	$ 57,948
Equity securities, at fair value (cost $4,800 and $4,806)	5,288	5,082
Mortgage loans	4,396	4,338
Limited partnership interests	5,588	4,874
Short-term, at fair value (amortized cost $1,863 and $2,122)	1,863	2,122
Other	3,663	3,394
Total investments	81,104	77,758
Cash	389	495
Premium installment receivables, net	5,799	5,544
Deferred policy acquisition costs	3,886	3,861
Reinsurance recoverables, net	8,922	8,518
Accrued investment income	567	569
Property and equipment, net	1,013	1,024
Goodwill	1,219	1,219
Other assets	2,169	2,010
Separate Accounts	3,469	3,658
Total assets	$ 108,537	$ 104,656
Liabilities		
Reserve for property-liability insurance claims and claims expense	$ 25,450	$ 23,869
Reserve for life-contingent contract benefits	12,228	12,247
Contractholder funds	20,583	21,295
Unearned premiums	12,772	12,202
Claim payments outstanding	934	842
Deferred income taxes	935	90
Other liabilities and accrued expenses	6,122	5,304
Long-term debt	5,110	5,124
Separate Accounts	3,469	3,658
Total liabilities	87,603	84,631
Commitments and Contingent Liabilities (Note 10)		
Shareholders' equity		
Preferred stock and additional capital paid-in, $1 par value, 25 million shares authorized, 72.2 thousand shares issued and outstanding, and $1,805 aggregate liquidation preference	1,746	1,746
Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 368 million and 381 million shares outstanding	9	9
Additional capital paid-in	3,237	3,245
Retained income	39,990	39,413
Deferred ESOP expense	(13)	(13)
Treasury stock, at cost (532 million and 519 million shares)	(24,537)	(23,620)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	56	56
Other unrealized net capital gains and losses	1,902	608
Unrealized adjustment to DAC, DSI and insurance reserves	(141)	(44)
Total unrealized net capital gains and losses	1,817	620
Unrealized foreign currency translation adjustments	(48)	(60)
Unrecognized pension and other postretirement benefit cost	(1,267)	(1,315)
Total accumulated other comprehensive income (loss)	502	(755)
Total shareholders' equity	20,934	20,025
Total liabilities and shareholders' equity	$ 108,537	$ 104,656

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

($ in millions)	Nine months ended September 30, 2016	Nine months ended September 30, 2015
	(unaudited)	
Preferred stock par value	$ —	$ —
Preferred stock additional capital paid-in	1,746	1,746
Common stock	9	9
Additional capital paid-in		
Balance, beginning of period	3,245	3,199
Forward contract on accelerated share repurchase agreement	(37)	—
Equity incentive plans activity	29	25
Balance, end of period	3,237	3,224
Retained income		
Balance, beginning of period	39,413	37,842
Net income	1,037	1,682
Dividends on common stock	(373)	(369)
Dividends on preferred stock	(87)	(87)
Balance, end of period	39,990	39,068
Deferred ESOP expense	(13)	(23)
Treasury stock		
Balance, beginning of period	(23,620)	(21,030)
Shares acquired	(1,094)	(2,230)
Shares reissued under equity incentive plans, net	177	202
Balance, end of period	(24,537)	(23,058)
Accumulated other comprehensive income		
Balance, beginning of period	(755)	561
Change in unrealized net capital gains and losses	1,197	(1,047)
Change in unrealized foreign currency translation adjustments	12	(50)
Change in unrecognized pension and other postretirement benefit cost	48	74
Balance, end of period	502	(462)
Total shareholders' equity	$ 20,934	$ 20,504

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	Nine months ended September 30, 2016	2015
Cash flows from operating activities	(unaudited)	
Net income	$ 1,037	$ 1,682
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	285	275
Realized capital gains and losses	92	(280)
Gain on disposition of operations	(4)	(2)
Interest credited to contractholder funds	558	578
Changes in:		
Policy benefits and other insurance reserves	978	500
Unearned premiums	540	762
Deferred policy acquisition costs	(159)	(219)
Premium installment receivables, net	(236)	(290)
Reinsurance recoverables, net	(420)	(133)
Income taxes	30	(60)
Other operating assets and liabilities	41	(127)
Net cash provided by operating activities	2,742	2,686
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	19,132	22,796
Equity securities	4,069	2,688
Limited partnership interests	634	795
Mortgage loans	—	6
Other investments	206	178
Investment collections		
Fixed income securities	3,430	3,248
Mortgage loans	403	305
Other investments	281	254
Investment purchases		
Fixed income securities	(22,282)	(22,928)
Equity securities	(4,113)	(3,238)
Limited partnership interests	(1,128)	(930)
Mortgage loans	(460)	(524)
Other investments	(674)	(743)
Change in short-term investments, net	94	(577)
Change in other investments, net	(60)	(16)
Purchases of property and equipment, net	(190)	(219)
Net cash (used in) provided by investing activities	(658)	1,095
Cash flows from financing activities		
Repayments of long-term debt	(16)	(20)
Contractholder fund deposits	785	784
Contractholder fund withdrawals	(1,537)	(1,793)
Dividends paid on common stock	(364)	(365)
Dividends paid on preferred stock	(87)	(87)
Treasury stock purchases	(1,154)	(2,216)
Shares reissued under equity incentive plans, net	123	121
Excess tax benefits on share-based payment arrangements	25	44
Other	35	(1)
Net cash used in financing activities	(2,190)	(3,533)
Net (decrease) increase in cash	(106)	248
Cash at beginning of period	495	657
Cash at end of period	$ 389	$ 905

See notes to condensed consolidated financial statements.

1. General

Basis of presentation

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

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

Adopted accounting standards

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

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

Amendments to the Consolidation Analysis

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

Pending accounting standards

Revenue from Contracts with Customers

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

Disclosures about Short-Duration Contracts

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

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued guidance requiring equity investments, including equity securities and limited partnership interests, that are not accounted for under the equity method of accounting or result in consolidation to be measured at fair value with changes in fair value recognized in net income. Equity investments without readily determinable fair values may be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. When a qualitative assessment of equity investments without readily determinable fair values indicates that impairment exists, the carrying value is required to be adjusted to fair value, if lower. The guidance clarifies that an entity should evaluate the realizability of a deferred tax asset related to available-for-sale fixed income securities in combination with the entity's other deferred tax assets. The guidance also changes certain disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2017, and is to be applied through a cumulative-effect adjustment to beginning retained income as of the beginning of the period of adoption. The new guidance related to equity investments without readily determinable fair values is to be applied prospectively as of the date of adoption. The Company is in the process of evaluating the impact of adoption. The most significant impacts, using values as of September 30, 2016, are expected to be the change in accounting for equity securities where $488 million of pre-tax unrealized net capital gains would be reclassified from accumulated other comprehensive income to retained income and cost method limited partnership interests (excluding limited partnership interests accounted for on a cost recovery basis) where the carrying value would increase by approximately $191 million, pre-tax, with the adjustment recorded in retained income.

Accounting for Leases

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

Employee Share-Based Payment Accounting

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

Transition to Equity Method Accounting

In March 2016, the FASB issued guidance amending the accounting requirements for transitioning to the equity method of accounting ("EMA"), including a transition from the cost method. The guidance requires the cost of acquiring an additional interest in an investee to be added to the existing carrying value to establish the initial basis of the EMA investment. Under the new guidance, no retroactive adjustment is required when an investment initially qualifies for EMA treatment. The guidance is effective for interim and annual periods beginning after December 15, 2016, and is to be applied prospectively. The guidance will principally affect the future accounting for investments that qualify for EMA after application of the cost method of accounting. The Company is in the process of evaluating the impact of adoption, which is not expected to be material to the Company's results of operations or financial position.

Measurement of Credit Losses on Financial Instruments

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

2. Earnings per Common Share

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

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

($ in millions, except per share data)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2016	**2015**	**2016**	**2015**
Numerator:				
Net income	$ 520	$ 650	$ 1,037	$ 1,682
Less: Preferred stock dividends	29	29	87	87
Net income applicable to common shareholders [1]	$ 491	$ 621	$ 950	$ 1,595
Denominator:				
Weighted average common shares outstanding	371.5	397.0	374.4	406.5
Effect of dilutive potential common shares:				
Stock options	3.2	3.6	3.3	4.2
Restricted stock units (non-participating) and performance stock awards	1.2	1.5	1.2	1.7
Weighted average common and dilutive potential common shares outstanding	375.9	402.1	378.9	412.4
Earnings per common share - Basic	$ 1.32	$ 1.56	$ 2.54	$ 3.92
Earnings per common share - Diluted	$ 1.31	$ 1.54	$ 2.51	$ 3.87

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

The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per common share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect. Options to purchase 3.6 million and 2.2 million Allstate common shares, with exercise prices ranging from $58.14 to $71.29 and $52.22 to $71.29, were outstanding for the three-month periods ended September 30, 2016 and 2015, respectively, but were not included in the computation of diluted earnings per common share in those periods. Options to purchase 4.7 million and 2.2 million Allstate common shares, with exercise prices ranging from $57.29 to $71.29 and $57.98 to $71.29, were outstanding for the nine-month periods ended September 30, 2016 and 2015, respectively, but were not included in the computation of diluted earnings per common share in those periods.

3. Supplemental Cash Flow Information

Non-cash investing activities include $290 million and $84 million related to mergers and exchanges completed with equity securities and modifications of certain mortgage loans and other investments for the nine months ended September 30, 2016 and 2015, respectively. Non-cash financing activities include $40 million and $74 million related to the issuance of Allstate common shares for vested equity awards for the nine months ended September 30, 2016 and 2015, respectively. Non-cash financing activities also include $34 million related to debt acquired in conjunction with the purchase of an investment for the nine months ended September 30, 2016.

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

($ in millions)	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net change in proceeds managed		
Net change in fixed income securities	$ (436)	$ —
Net change in short-term investments	181	(2)
Operating cash flow used	(255)	(2)
Net change in cash	—	1
Net change in proceeds managed	$ (255)	$ (1)
Net change in liabilities		
Liabilities for collateral, beginning of period	$ (840)	$ (782)
Liabilities for collateral, end of period	(1,095)	(783)
Operating cash flow provided	$ 255	$ 1

4. Investments

Fair values

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

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
September 30, 2016				
U.S. government and agencies	$ 4,199	$ 107	$ (2)	$ 4,304
Municipal	7,432	483	(13)	7,902
Corporate	42,670	1,925	(121)	44,474
Foreign government	1,060	59	—	1,119
Asset-backed securities ("ABS")	1,393	12	(15)	1,390
Residential mortgage-backed securities ("RMBS")	696	90	(8)	778
Commercial mortgage-backed securities ("CMBS")	304	20	(9)	315
Redeemable preferred stock	21	3	—	24
Total fixed income securities	$ 57,775	$ 2,699	$ (168)	$ 60,306
December 31, 2015				
U.S. government and agencies	$ 3,836	$ 90	$ (4)	$ 3,922
Municipal	7,032	389	(20)	7,401
Corporate	41,674	1,032	(879)	41,827
Foreign government	983	50	—	1,033
ABS	2,359	11	(43)	2,327
RMBS	857	100	(10)	947
CMBS	438	32	(4)	466
Redeemable preferred stock	22	3	—	25
Total fixed income securities	$ 57,201	$ 1,707	$ (960)	$ 57,948

Scheduled maturities

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

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 4,084	$ 4,115
Due after one year through five years	29,357	30,222
Due after five years through ten years	16,576	17,315
Due after ten years	5,365	6,171
	55,382	57,823
ABS, RMBS and CMBS	2,393	2,483
Total	$ 57,775	$ 60,306

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

Net investment income

Net investment income is as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Fixed income securities	$ 508	$ 546	$ 1,546	$ 1,681
Equity securities	31	23	103	77
Mortgage loans	56	53	162	165
Limited partnership interests	136	167	383	483
Short-term investments	4	4	11	8
Other	55	49	163	143
Investment income, before expense	790	842	2,368	2,557
Investment expense	(42)	(35)	(127)	(111)
Net investment income	$ 748	$ 807	$ 2,241	$ 2,446

Realized capital gains and losses

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Fixed income securities	$ (1)	$ 221	$ (48)	$ 361
Equity securities	45	(150)	(34)	(24)
Mortgage loans	—	1	1	2
Limited partnership interests	12	(55)	25	(52)
Derivatives	(15)	24	(22)	4
Other	(8)	(8)	(14)	(11)
Realized capital gains and losses	$ 33	$ 33	$ (92)	$ 280

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Impairment write-downs	$ (63)	$ (47)	$ (185)	$ (77)
Change in intent write-downs	(10)	(127)	(48)	(189)
Net other-than-temporary impairment losses recognized in earnings	(73)	(174)	(233)	(266)
Sales and other	121	183	166	545
Valuation and settlements of derivative instruments	(15)	24	(25)	1
Realized capital gains and losses	$ 33	$ 33	$ (92)	$ 280

Gross gains of $150 million and $357 million and gross losses of $62 million and $120 million were realized on sales of fixed income and equity securities during the three months ended September 30, 2016 and 2015, respectively. Gross gains of $456 million and $828 million and gross losses of $347 million and $241 million were realized on sales of fixed income and equity securities during the nine months ended September 30, 2016 and 2015, respectively.

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

($ in millions)	Three months ended September 30, 2016			Three months ended September 30, 2015		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$ —	$ —	$ —	$ (1)	$ —	$ (1)
Corporate	(13)	—	(13)	(9)	—	(9)
ABS	—	—	—	(16)	12	(4)
RMBS	(1)	—	(1)	—	—	—
CMBS	(3)	—	(3)	(1)	—	(1)
Total fixed income securities	(17)	—	(17)	(27)	12	(15)
Equity securities	(27)	—	(27)	(151)	—	(151)
Limited partnership interests	(22)	—	(22)	(2)	—	(2)
Other	(7)	—	(7)	(6)	—	(6)
Other-than-temporary impairment losses	$ (73)	$ —	$ (73)	$ (186)	$ 12	$ (174)

	Nine months ended September 30, 2016			Nine months ended September 30, 2015		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$ —	$ —	$ —	$ (5)	$ 4	$ (1)
Corporate	(30)	7	(23)	(19)	4	(15)
ABS	(6)	—	(6)	(20)	13	(7)
RMBS	(1)	—	(1)	1	(1)	—
CMBS	(7)	1	(6)	(1)	—	(1)
Total fixed income securities	(44)	8	(36)	(44)	20	(24)
Equity securities	(155)	—	(155)	(226)	—	(226)
Limited partnership interests	(33)	—	(33)	(7)	—	(7)
Other	(9)	—	(9)	(9)	—	(9)
Other-than-temporary impairment losses	$ (241)	$ 8	$ (233)	$ (286)	$ 20	$ (266)

The total amount of other-than-temporary impairment losses included in accumulated other comprehensive income at the time of impairment for fixed income securities, which were not included in earnings, are presented in the following table. The amounts exclude $223 million and $233 million as of September 30, 2016 and December 31, 2015, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

($ in millions)	September 30, 2016	December 31, 2015
Municipal	$ (8)	$ (9)
Corporate	(5)	(7)
ABS	(23)	(23)
RMBS	(93)	(102)
CMBS	(7)	(6)
Total	$ (136)	$ (147)

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Beginning balance	$ (331)	$ (372)	$ (392)	$ (380)
Additional credit loss for securities previously other-than-temporarily impaired	(3)	(7)	(14)	(10)
Additional credit loss for securities not previously other-than-temporarily impaired	(14)	(8)	(22)	(14)
Reduction in credit loss for securities disposed or collected	12	23	92	37
Change in credit loss due to accretion of increase in cash flows	—	—	—	3
Ending balance	$ (336)	$ (364)	$ (336)	$ (364)

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

Unrealized net capital gains and losses

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

($ in millions) September 30, 2016	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
Fixed income securities	$ 60,306	$ 2,699	$ (168)	$ 2,531
Equity securities	5,288	592	(104)	488
Short-term investments	1,863	—	—	—
Derivative instruments [(1)]	4	4	(3)	1
Equity method ("EMA") limited partnerships [(2)]				(5)
Unrealized net capital gains and losses, pre-tax				3,015
Amounts recognized for:				
Insurance reserves [(3)]				—
DAC and DSI [(4)]				(216)
Amounts recognized				(216)
Deferred income taxes				(982)
Unrealized net capital gains and losses, after-tax				$ 1,817

(1) Included in the fair value of derivative instruments is $(4) million classified as liabilities.

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

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

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

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

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

Change in unrealized net capital gains and losses

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

($ in millions)		
Fixed income securities	$	1,784
Equity securities		212
Derivative instruments		(5)
EMA limited partnerships		(1)
Total		1,990
Amounts recognized for:		
Insurance reserves		—
DAC and DSI		(149)
Amounts recognized		(149)
Deferred income taxes		(644)
Increase in unrealized net capital gains and losses, after-tax	$	1,197

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	
September 30, 2016							
Fixed income securities							
U.S. government and agencies	17	$ 1,530	$ (2)	—	$ —	$ —	$ (2)
Municipal	302	785	(2)	9	28	(11)	(13)
Corporate	226	3,733	(38)	112	882	(83)	(121)
ABS	12	102	—	23	308	(15)	(15)
RMBS	61	30	(1)	177	97	(7)	(8)
CMBS	17	93	(7)	3	8	(2)	(9)
Total fixed income securities	635	6,273	(50)	324	1,323	(118)	(168)
Equity securities	190	689	(82)	42	121	(22)	(104)
Total fixed income and equity securities	825	$ 6,962	$ (132)	366	$ 1,444	$ (140)	$ (272)
Investment grade fixed income securities	525	$ 5,095	$ (17)	220	$ 808	$ (61)	$ (78)
Below investment grade fixed income securities	110	1,178	(33)	104	515	(57)	(90)
Total fixed income securities	635	$ 6,273	$ (50)	324	$ 1,323	$ (118)	$ (168)
December 31, 2015							
Fixed income securities							
U.S. government and agencies	53	$ 1,874	$ (4)	—	$ —	$ —	$ (4)
Municipal	222	810	(6)	9	36	(14)	(20)
Corporate	1,361	17,915	(696)	111	1,024	(183)	(879)
Foreign government	9	44	—	—	—	—	—
ABS	133	1,733	(24)	20	324	(19)	(43)
RMBS	88	69	—	176	125	(10)	(10)
CMBS	13	75	(2)	1	2	(2)	(4)
Total fixed income securities	1,879	22,520	(732)	317	1,511	(228)	(960)
Equity securities	265	1,397	(107)	37	143	(32)	(139)
Total fixed income and equity securities	2,144	$ 23,917	$ (839)	354	$ 1,654	$ (260)	$ (1,099)
Investment grade fixed income securities	1,405	$ 17,521	$ (362)	225	$ 972	$ (105)	$ (467)
Below investment grade fixed income securities	474	4,999	(370)	92	539	(123)	(493)
Total fixed income securities	1,879	$ 22,520	$ (732)	317	$ 1,511	$ (228)	$ (960)

As of September 30, 2016, $161 million of the $272 million unrealized losses are related to securities with an unrealized loss position less than 20% of amortized cost or cost, the degree of which suggests that these securities do not pose a high risk of being other-than-temporarily impaired. Of the $161 million, $44 million are related to unrealized losses on investment grade fixed income securities and $64 million are related to equity securities. Of the remaining $53 million, $23 million have been in an unrealized loss position for less than 12 months. Investment grade is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from Standard and Poor's ("S&P"), a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third party rating. Unrealized losses on investment grade securities are principally related to an increase in market yields which may include increased risk-free interest rates and/or wider credit spreads since the time of initial purchase.

As of September 30, 2016, the remaining $111 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 $34 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 $111 million, $37 million are related to below investment grade fixed income securities and $40 million are related to equity securities. Of these amounts, $20 million are related to below investment grade fixed income securities that had been in an unrealized loss position greater than or equal to 20% of amortized cost for a period of twelve or more consecutive months as of September 30, 2016.

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

As of September 30, 2016, the Company has not made the decision to sell and it is not more likely than not the Company will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis. As of September 30, 2016, the Company had the intent and ability to hold equity securities with unrealized losses for a period of time sufficient for them to recover.

Limited partnerships

As of September 30, 2016 and December 31, 2015, the carrying value of equity method limited partnerships totaled $4.21 billion and $3.72 billion, respectively. The Company recognizes an impairment loss for equity method limited partnerships when evidence demonstrates that the loss is other than temporary. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment.

As of September 30, 2016 and December 31, 2015, the carrying value for cost method limited partnerships was $1.38 billion and $1.15 billion, respectively. To determine if an other-than-temporary impairment has occurred, the Company evaluates whether an impairment indicator has occurred in the period that may have a significant adverse effect on the carrying value of the investment. Impairment indicators may include: significantly reduced valuations of the investments held by the limited partnerships; actual recent cash flows received being significantly less than expected cash flows; reduced valuations based on financing completed at a lower value; completed sale of a material underlying investment at a price significantly lower than expected; or any other adverse events since the last financial statements received that might affect the fair value of the investee's capital. Additionally, the Company's portfolio monitoring process includes a quarterly review of all cost method limited partnerships to identify instances where the net asset value is below established thresholds for certain periods of time, as well as investments that are performing below expectations, for further impairment consideration. If a cost method limited partnership is other-than-temporarily impaired, the carrying value is written down to fair value, generally estimated to be equivalent to the reported net asset value.

Mortgage loans

Mortgage loans are evaluated for impairment on a specific loan basis through a quarterly credit monitoring process and review of key credit quality indicators. Mortgage loans are considered impaired when it is probable that the Company will not collect the contractual principal and interest. Valuation allowances are established for impaired loans to reduce the carrying value to the fair value of the collateral less costs to sell or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate. Impaired mortgage loans may not have a valuation allowance when the fair value of the collateral less costs to sell is higher than the carrying value. Valuation allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell or present value of the loan's expected future repayment cash flows. Mortgage loans are charged off against their corresponding valuation allowances when there is no reasonable expectation of recovery. The impairment evaluation is non-statistical in respect to the aggregate portfolio but considers facts and circumstances attributable to each loan. It is not considered probable that additional impairment losses, beyond those identified on a specific loan basis, have been incurred as of September 30, 2016.

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

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

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

($ in millions)	September 30, 2016			December 31, 2015		
	Fixed rate mortgage loans	Variable rate mortgage loans	Total	Fixed rate mortgage loans	Variable rate mortgage loans	Total
Below 1.0	$ 61	$ —	$ 61	$ 64	$ —	$ 64
1.0 - 1.25	321	—	321	382	—	382
1.26 - 1.50	1,198	—	1,198	1,219	—	1,219
Above 1.50	2,785	25	2,810	2,667	—	2,667
Total non-impaired mortgage loans	$ 4,365	$ 25	$ 4,390	$ 4,332	$ —	$ 4,332

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

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

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

The average balance of impaired loans was $6 million and $12 million for the nine months ended September 30, 2016 and 2015, respectively.

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

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

Payments on all mortgage loans were current as of September 30, 2016 and December 31, 2015.

5. Fair Value of Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

Certain assets are not carried at fair value on a recurring basis, including investments such as mortgage loans, limited partnership interests, bank loans, agent loans and policy loans. Accordingly, such investments are only included in the fair value hierarchy disclosure when the investment is subject to remeasurement at fair value after initial recognition and the resulting remeasurement is reflected in the condensed consolidated financial statements. In addition, derivatives embedded in fixed income securities are not disclosed in the hierarchy as free-standing derivatives since they are presented with the host contracts in fixed income securities.

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

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

<u>Level 1 measurements</u>

- <u>Fixed income securities:</u> 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.
- <u>Equity securities:</u> 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.
- <u>Short-term:</u> Comprise U.S. Treasury bills valued based on unadjusted quoted prices for identical assets in active markets that the Company can access and actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access.
- <u>Separate account assets:</u> 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.

<u>Level 2 measurements</u>

- <u>Fixed income securities:</u>

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

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

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

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

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

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

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

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

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

- <u>Equity securities:</u> 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.
- <u>Short-term:</u> The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. For certain short-term investments, amortized cost is used as the best estimate of fair value.

- Other investments: Free-standing exchange listed derivatives that are not actively traded are valued based on quoted prices for identical instruments in markets that are not active.

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

Level 3 measurements

- Fixed income securities:

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

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

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

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

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

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

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

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

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of September 30, 2016.

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of September 30, 2016
Assets					
Fixed income securities:					
U.S. government and agencies	$ 3,440	$ 864	$ —		$ 4,304
Municipal	—	7,742	160		7,902
Corporate - public	—	31,789	98		31,887
Corporate - privately placed	—	12,271	316		12,587
Foreign government	—	1,119	—		1,119
ABS - CDO	—	636	74		710
ABS - consumer and other	—	601	79		680
RMBS	—	777	1		778
CMBS	—	292	23		315
Redeemable preferred stock	—	24	—		24
Total fixed income securities	3,440	56,115	751		60,306
Equity securities	4,941	187	160		5,288
Short-term investments	343	1,520	—		1,863
Other investments: Free-standing derivatives	—	92	1	$ (8)	85
Separate account assets	3,469	—	—		3,469
Other assets	1	—	1		2
Total recurring basis assets	12,194	57,914	913	(8)	71,013
Non-recurring basis [1]	—	—	25		25
Total assets at fair value	$ 12,194	$ 57,914	$ 938	$ (8)	$ 71,038
% of total assets at fair value	17.2%	81.5%	1.3%	— %	100%
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (307)		$ (307)
Other liabilities: Free-standing derivatives	(1)	(66)	(4)	$ 22	(49)
Total liabilities at fair value	$ (1)	$ (66)	$ (311)	$ 22	$ (356)
% of total liabilities at fair value	0.3%	18.5%	87.4%	(6.2)%	100%

[1] Includes $16 million of limited partnership interests and $9 million of other investments 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, 2015.

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of December 31, 2015
Assets					
Fixed income securities:					
U.S. government and agencies	$ 3,056	$ 861	$ 5		$ 3,922
Municipal	—	7,240	161		7,401
Corporate - public	—	30,356	46		30,402
Corporate - privately placed	—	10,923	502		11,425
Foreign government	—	1,033	—		1,033
ABS - CDO	—	716	61		777
ABS - consumer and other	—	1,500	50		1,550
RMBS	—	946	1		947
CMBS	—	446	20		466
Redeemable preferred stock	—	25	—		25
Total fixed income securities	3,056	54,046	846		57,948
Equity securities	4,786	163	133		5,082
Short-term investments	615	1,507	—		2,122
Other investments: Free-standing derivatives	—	65	1	$ (13)	53
Separate account assets	3,658	—	—		3,658
Other assets	2	—	1		3
Total recurring basis assets	12,117	55,781	981	(13)	68,866
Non-recurring basis [(1)]	—	—	55		55
Total assets at fair value	$ 12,117	$ 55,781	$ 1,036	$ (13)	$ 68,921
% of total assets at fair value	17.6%	80.9%	1.5%	— %	100%
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (299)		$ (299)
Other liabilities: Free-standing derivatives	(1)	(23)	(8)	$ 7	(25)
Total liabilities at fair value	$ (1)	$ (23)	$ (307)	$ 7	$ (324)
% of total liabilities at fair value	0.3%	7.1%	94.8%	(2.2)%	100%

(1) Includes $42 million of limited partnership interests and $13 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

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

($ in millions)	Fair value	Valuation technique	Unobservable input	Range	Weighted average
September 30, 2016					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$ (256)	Stochastic cash flow model	Projected option cost	1.0 - 2.2%	1.75%
December 31, 2015					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$ (247)	Stochastic cash flow model	Projected option cost	1.0 - 2.2%	1.76%

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

As of September 30, 2016 and December 31, 2015, Level 3 fair value measurements of fixed income securities total $751 million and $846 million, respectively, and include $311 million and $625 million, respectively, of securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and $86 million and $96 million, respectively, of municipal fixed income securities that are not rated by third party credit rating agencies. The Company does not develop the unobservable inputs used in measuring fair value; therefore, these are not included in the table above. However, an increase (decrease) in credit spreads for fixed income securities valued based on non-binding broker quotes would result in a lower (higher) fair value, and an increase (decrease) in the credit rating of municipal bonds that are not rated by third party credit rating agencies would result in a higher (lower) fair value.

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

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

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

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

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

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

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

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2016
Assets					
Fixed income securities:					
U.S. government and agencies	$ —	$ —	$ —	$ (1)	$ —
Municipal	22	(33)	—	(1)	160
Corporate - public	47	(6)	—	(2)	98
Corporate - privately placed	181	—	—	(39)	316
ABS - CDO	40	(2)	—	(37)	74
ABS - consumer and other	35	(5)	—	(2)	79
RMBS	—	—	—	—	1
CMBS	5	—	—	(2)	23
Total fixed income securities	330	(46)	—	(84)	751
Equity securities	52	—	—	—	160
Free-standing derivatives, net	—	—	—	—	(3) [2]
Other assets	—	—	—	—	1
Total recurring Level 3 assets	$ 382	$ (46)	$ —	$ (84)	$ 909
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (2)	$ 5	$ (307)
Total recurring Level 3 liabilities	$ —	$ —	$ (2)	$ 5	$ (307)

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

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

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three months ended September 30, 2015.

($ in millions)	Balance as of June 30, 2015	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:					
U.S. government and agencies	$ 5	$ —	$ —	$ —	$ —
Municipal	215	3	—	3	—
Corporate	626	11	(10)	—	(24)
ABS	120	—	(1)	31	—
RMBS	1	—	—	—	—
CMBS	28	—	—	—	—
Total fixed income securities	995	14	(11)	34	(24)
Equity securities	108	(2)	(3)	—	—
Short-term investments	35	—	—	—	—
Free-standing derivatives, net	(7)	(1)	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	$ 1,132	$ 11	$ (14)	$ 34	$ (24)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (315)	$ 19	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (315)	$ 19	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2015
Assets					
Fixed income securities:					
U.S. government and agencies	$ —	$ —	$ —	$ —	$ 5
Municipal	—	(32)	—	—	189
Corporate	10	(11)	—	(2)	600
ABS	60	—	—	(28)	182
RMBS	—	—	—	—	1
CMBS	4	—	—	(13)	19
Total fixed income securities	74	(43)	—	(43)	996
Equity securities	38	—	—	—	141
Short-term investments	5	—	—	—	40
Free-standing derivatives, net	—	—	—	—	(8) [2]
Other assets	—	—	—	—	1
Total recurring Level 3 assets	$ 117	$ (43)	$ —	$ (43)	$ 1,170
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ —	$ 1	$ (295)
Total recurring Level 3 liabilities	$ —	$ —	$ —	$ 1	$ (295)

(1) The effect to net income totals $30 million and is reported in the Condensed Consolidated Statements of Operations as follows: $8 million in realized capital gains and losses, $3 million in net investment income, $27 million in interest credited to contractholder funds and $(8) million in life and annuity contract benefits.

(2) Comprises $1 million of assets and $9 million of liabilities.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the nine months ended September 30, 2015.

($ in millions)	Balance as of December 31, 2014	Total gains (losses) included in: Net income [1]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
U.S. government and agencies	$ 6	$ —	$ —	$ —	$ —
Municipal	270	5	(4)	3	(2)
Corporate	891	11	(16)	5	(232)
ABS	196	(2)	1	43	(84)
RMBS	1	—	—	—	—
CMBS	23	—	—	—	—
Total fixed income securities	1,387	14	(19)	51	(318)
Equity securities	83	(1)	1	—	—
Short-term investments	5	—	—	—	—
Free-standing derivatives, net	(7)	—	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	$ 1,469	$ 13	$ (18)	$ 51	$ (318)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (323)	$ 24	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (323)	$ 24	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2015
Assets					
Fixed income securities:					
U.S. government and agencies	$ —	$ —	$ —	$ (1)	$ 5
Municipal	—	(81)	—	(2)	189
Corporate	70	(57)	—	(72)	600
ABS	70	(5)	—	(37)	182
RMBS	—	—	—	—	1
CMBS	9	—	—	(13)	19
Total fixed income securities	149	(143)	—	(125)	996
Equity securities	58	—	—	—	141
Short-term investments	35	—	—	—	40
Free-standing derivatives, net	—	—	—	(1)	(8) [2]
Other assets	—	—	—	—	1
Total recurring Level 3 assets	$ 242	$ (143)	$ —	$ (126)	$ 1,170
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (1)	$ 5	$ (295)
Total recurring Level 3 liabilities	$ —	$ —	$ (1)	$ 5	$ (295)

(1) The effect to net income totals $37 million and is reported in the Condensed Consolidated Statements of Operations as follows: $4 million in realized capital gains and losses, $9 million in net investment income, $32 million in interest credited to contractholder funds and $(8) million in life and annuity contract benefits.

(2) Comprises $1 million of assets and $9 million of liabilities.

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

There were no transfers between Level 1 and Level 2 during the three months and nine months ended September 30, 2016 or 2015.

Transfers into Level 3 during the three months and nine months ended September 30, 2016 and 2015 included situations where a fair value quote was not provided by the Company's independent third-party valuation service provider and as a result the price was stale or had been replaced with a broker quote where the inputs had not been corroborated to be market observable resulting in the security being classified as Level 3. Transfers out of Level 3 during the three months and nine months ended September 30, 2016 and 2015 included situations where a broker quote was used in the prior period and a fair value quote became available from the Company's independent third-party valuation service provider in the current period. A quote utilizing the new pricing source was not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities were not significant.

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

($ in millions)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2016	**2015**	**2016**	**2015**
Assets				
Fixed income securities:				
Municipal	$ 1	$ —	$ 2	$ (1)
Corporate	—	3	1	7
ABS	—	(1)	—	3
Total fixed income securities	1	2	3	9
Equity securities	(1)	(2)	(33)	(2)
Free-standing derivatives, net	4	(1)	4	—
Total recurring Level 3 assets	$ 4	$ (1)	$ (26)	$ 7
Liabilities				
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (3)	$ 19	$ (11)	$ 24
Total recurring Level 3 liabilities	$ (3)	$ 19	$ (11)	$ 24

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 $1 million for the three months ended September 30, 2016 and are reported as follows: $1 million in realized capital gains and losses, $3 million in net investment income, $(6) million in interest credited to contractholder funds and $3 million in life and annuity contract benefits. These gains and losses total $18 million for the three months ended September 30, 2015 and are reported as follows: $(3) million in realized capital gains and losses, $2 million in net investment income, $27 million in interest credited to contractholder funds and $(8) million in life and annuity contract benefits. These gains and losses total $(37) million for the nine months ended September 30, 2016 and are reported as follows: $(37) million in realized capital gains and losses, $11 million in net investment income, $(12) million in interest credited to contractholder funds and $1 million in life and annuity contract benefits. These gains and losses total $31 million for the nine months ended September 30, 2015 and are reported as follows: $(6) million in realized capital gains and losses, $13 million in net investment income, $32 million in interest credited to contractholder funds and $(8) million in life and annuity contract benefits.

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

Financial assets

($ in millions)	**September 30, 2016**		**December 31, 2015**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Mortgage loans	$ 4,396	$ 4,573	$ 4,338	$ 4,489
Cost method limited partnerships	1,375	1,600	1,154	1,450
Bank loans	1,660	1,665	1,565	1,527
Agent loans	463	452	422	408

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

Financial liabilities

($ in millions)	September 30, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	$ 11,644	$ 12,345	$ 12,424	$ 12,874
Long-term debt	5,110	5,992	5,124	5,648
Liability for collateral	1,095	1,095	840	840

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

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

6. Derivative Financial Instruments

The Company uses derivatives for risk reduction and to increase investment portfolio returns through asset replication. Risk reduction activity is focused on managing the risks with certain assets and liabilities arising from the potential adverse impacts from changes in risk-free interest rates, changes in equity market valuations, increases in credit spreads and foreign currency fluctuations.

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

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

Asset replication refers to the "synthetic" creation of assets through the use of derivatives. The Company replicates fixed income securities using a combination of a credit default swap or a foreign currency forward contract and one or more highly rated fixed income securities, primarily investment grade host bonds, to synthetically replicate the economic characteristics of one or more cash market securities. The Company replicates equity securities using futures to increase equity exposure.

The Company also has derivatives embedded in non-derivative host contracts that are required to be separated from the host contracts and accounted for at fair value with changes in fair value of embedded derivatives reported in net income. The Company's primary embedded derivatives are equity options in life and annuity product contracts, which provide equity returns to contractholders, and conversion options in fixed income securities, which provide the Company with the right to convert the instrument into a predetermined number of shares of common stock.

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

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

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive or pay to terminate the derivative contracts at the reporting date. The carrying value amounts for OTC derivatives are further adjusted for the effects, if any, of enforceable master netting agreements and are presented on a net basis, by counterparty agreement, in the Condensed Consolidated Statements of Financial Position. For certain exchange traded and cleared derivatives, margin deposits are required as well as daily cash settlements of margin accounts. As of September 30, 2016, the Company pledged $23 million of cash in the form of margin deposits.

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

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

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statement of Financial Position as of September 30, 2016.

($ 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 not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other investments	$ 23	n/a	$ —	$ —	$ —
Equity and index contracts						
Options	Other investments	—	4,246	84	84	—
Financial futures contracts	Other assets	—	837	1	1	—
Foreign currency contracts						
Foreign currency forwards	Other investments	347	n/a	(19)	1	(20)
Credit default contracts						
Credit default swaps – buying protection	Other investments	49	n/a	(1)	—	(1)
Credit default swaps – selling protection	Other investments	120	n/a	2	2	—
Other contracts						
Other contracts	Other assets	3	n/a	1	1	—
Subtotal		542	5,083	68	89	(21)
Total asset derivatives		$ 542	5,083	$ 68	$ 89	$ (21)
Liability derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$ 49	n/a	$ 4	$ 4	$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	85	n/a	—	—	—
Interest rate cap agreements	Other liabilities & accrued expenses	44	n/a	1	1	—
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	—	7,016	(28)	—	(28)
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	352	n/a	(4)	1	(5)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	420	n/a	(38)	—	(38)
Guaranteed withdrawal benefits	Contractholder funds	299	n/a	(13)	—	(13)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,750	n/a	(256)	—	(256)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	—	—	—
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	364	n/a	(13)	—	(13)
Credit default swaps – selling protection	Other liabilities & accrued expenses	125	n/a	(4)	—	(4)
Subtotal		3,524	7,016	(355)	2	(357)
Total liability derivatives		3,573	7,016	(351)	$ 6	$ (357)
Total derivatives		$ 4,115	12,099	$ (283)		

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

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

($ in millions, except number of contracts)	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	$ 45	n/a	$ 6	$ 6	$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other investments	42	n/a	—	—	—
Equity and index contracts						
Options and warrants [2]	Other investments	—	3,730	44	44	—
Financial futures contracts	Other assets	—	1,897	2	2	—
Foreign currency contracts						
Foreign currency forwards	Other investments	185	n/a	1	2	(1)
Embedded derivative financial instruments						
Other embedded derivative financial instruments	Other investments	1,000	n/a	—	—	—
Credit default contracts						
Credit default swaps – buying protection	Other investments	112	n/a	4	5	(1)
Credit default swaps – selling protection	Other investments	150	n/a	2	2	—
Other contracts						
Other contracts	Other investments	31	n/a	1	1	—
Other contracts	Other assets	3	n/a	1	1	—
Subtotal		1,523	5,627	55	57	(2)
Total asset derivatives		$ 1,568	5,627	$ 61	$ 63	$ (2)
Liability derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$ 19	n/a	$ 4	$ 4	$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	85	n/a	—	—	—
Interest rate cap agreements	Other liabilities & accrued expenses	72	n/a	1	1	—
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	—	4,406	(7)	—	(7)
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	361	n/a	(12)	1	(13)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	481	n/a	(38)	—	(38)
Guaranteed withdrawal benefits	Contractholder funds	332	n/a	(14)	—	(14)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,781	n/a	(247)	—	(247)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	—	—	—
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	88	n/a	(2)	—	(2)
Credit default swaps – selling protection	Other liabilities & accrued expenses	105	n/a	(8)	—	(8)
Subtotal		3,390	4,406	(327)	2	(329)
Total liability derivatives		3,409	4,406	(323)	$ 6	$ (329)
Total derivatives		$ 4,977	10,033	$ (262)		

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

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

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

($ in millions)	Gross amount	Offsets: Counter-party netting	Offsets: Cash collateral (received) pledged	Net amount on balance sheet	Securities collateral (received) pledged	Net amount
September 30, 2016						
Asset derivatives	$ 8	$ (27)	$ 19	$ —	$ 3	$ 3
Liability derivatives	(35)	27	(5)	(13)	10	(3)
December 31, 2015						
Asset derivatives	$ 21	$ (8)	$ (5)	$ 8	$ (4)	$ 4
Liability derivatives	(25)	8	(1)	(18)	9	(9)

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Gain (loss) recognized in OCI on derivatives during the period	$ —	$ 4	$ (1)	$ 11
Gain recognized in OCI on derivatives during the term of the hedging relationship	1	7	1	7
Gain (loss) reclassified from AOCI into income (net investment income)	1	—	1	(1)
Gain reclassified from AOCI into income (realized capital gains and losses)	—	—	3	3

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

($ in millions)	**Realized capital gains and losses**	**Life and annuity contract benefits**	**Interest credited to contractholder funds**	**Operating costs and expenses**	**Total gain (loss) recognized in net income on derivatives**
Three months ended September 30, 2016					
Equity and index contracts	$ (10)	$ —	$ 14	$ 7	$ 11
Embedded derivative financial instruments	—	3	(6)	—	(3)
Foreign currency contracts	(5)	—	—	(5)	(10)
Credit default contracts	—	—	—	—	—
Total	$ (15)	$ 3	$ 8	$ 2	$ (2)
Nine months ended September 30, 2016					
Interest rate contracts	$ (1)	$ —	$ —	$ —	$ (1)
Equity and index contracts	(15)	—	9	11	5
Embedded derivative financial instruments	—	1	(9)	—	(8)
Foreign currency contracts	(4)	—	—	(26)	(30)
Credit default contracts	(5)	—	—	—	(5)
Total	$ (25)	$ 1	$ —	$ (15)	$ (39)
Three months ended September 30, 2015					
Interest rate contracts	$ (3)	$ —	$ —	$ —	$ (3)
Equity and index contracts	24	—	(27)	(12)	(15)
Embedded derivative financial instruments	—	(8)	28	—	20
Foreign currency contracts	(2)	—	—	(6)	(8)
Credit default contracts	5	—	—	—	5
Other contracts	—	—	(1)	—	(1)
Total	$ 24	$ (8)	$ —	$ (18)	$ (2)
Nine months ended September 30, 2015					
Interest rate contracts	$ (1)	$ —	$ —	$ —	$ (1)
Equity and index contracts	19	—	(23)	(8)	(12)
Embedded derivative financial instruments	—	(8)	36	—	28
Foreign currency contracts	(22)	—	—	(3)	(25)
Credit default contracts	5	—	—	—	5
Total	$ 1	$ (8)	$ 13	$ (11)	$ (5)

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 September 30, 2016, counterparties pledged $5 million in cash to the Company, and the Company pledged $32 million in cash and securities to counterparties as collateral posted under MNAs for contracts without credit-risk-contingent features. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives, including futures and certain option contracts, are traded on organized exchanges which require margin deposits and guarantee the execution of trades, thereby mitigating any potential credit risk.

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

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

($ in millions)	September 30, 2016				December 31, 2015			
Rating [1]	Number of counter-parties	Notional amount [2]	Credit exposure [2]	Exposure, net of collateral [2]	Number of counter-parties	Notional amount [2]	Credit exposure [2]	Exposure, net of collateral [2]
A+	1	$ 63	$ 3	$ —	1	$ 82	$ 5	$ —
A	4	301	2	1	5	375	9	6
A-	—	—	—	—	1	41	3	—
BBB+	2	12	—	—	2	49	—	1
Total	7	$ 376	$ 5	$ 1	9	$ 547	$ 17	$ 7

(1) Rating is the lower of S&P or Moody's ratings.

(2) Only OTC derivatives with a net positive fair value are included for each counterparty.

Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. 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 agreement or a specific trade on certain dates if AIC's, 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. Credit-risk-contingent cross-default provisions allow the counterparties to terminate the derivative agreement 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 AIC's, ALIC's or ALNY's financial strength credit ratings by Moody's or S&P, or in the event AIC, 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 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)	September 30, 2016	December 31, 2015
Gross liability fair value of contracts containing credit-risk-contingent features	$ 6	$ 21
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(1)	(3)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	—	(13)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	$ 5	$ 5

Credit derivatives - selling protection

A credit default swap ("CDS") 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
September 30, 2016						
Single name						
Corporate debt	$ 20	$ 10	$ 35	$ —	$ 65	$ 1
First-to-default Basket						
Municipal	—	—	100	—	100	(4)
Index						
Corporate debt	1	19	49	11	80	1
Total	$ 21	$ 29	$ 184	$ 11	$ 245	$ (2)
December 31, 2015						
Single name						
Corporate debt	$ 20	$ 10	$ 45	$ —	$ 75	$ 1
First-to-default Basket						
Municipal	—	—	100	—	100	(8)
Index						
Corporate debt	1	20	52	7	80	1
Total	$ 21	$ 30	$ 197	$ 7	$ 255	$ (6)

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.

7. Reserve for Property-Liability Insurance Claims and Claims Expense

The Company establishes reserves for claims and claims expense on reported and unreported claims of insured losses. The Company's reserving process takes into account known facts and interpretations of circumstances and factors including the Company's experience with similar cases, actual claims paid, historical trends involving claim payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, changes in law and regulation, judicial decisions, and economic conditions. In the normal course of business, the Company may also supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, and other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

Because reserves are estimates of unpaid portions of losses that have occurred, including incurred but not reported ("IBNR") losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. The highest degree of uncertainty is associated with reserves for losses incurred in the current reporting period as it contains the greatest proportion of losses that have not been reported or settled. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reported in property-liability insurance claims and claims expense in the Condensed Consolidated Statements of Operations in the period such changes are determined.

Management believes that the reserve for property-liability insurance claims and claims expense, net of reinsurance recoverables, is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by the date of the Condensed Consolidated Statements of Financial Position based on available facts, technology, laws and regulations.

8. Reinsurance

Property-liability insurance premiums earned and life and annuity premiums and contract charges have been reduced by reinsurance ceded amounts shown in the following table.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Property-liability insurance premiums earned	$ 244	$ 246	$ 741	$ 757
Life and annuity premiums and contract charges	78	82	230	252

Property-liability insurance claims and claims expense, life and annuity contract benefits and interest credited to contractholder funds have been reduced by the reinsurance ceded amounts shown in the following table.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Property-liability insurance claims and claims expense	$ 493	$ 107	$ 895	$ 441
Life and annuity contract benefits	25	23	172	150
Interest credited to contractholder funds	7	6	18	19

9. Company Restructuring

The Company undertakes various programs to reduce expenses. These programs generally involve a reduction in staffing levels, and in certain cases, office closures. Restructuring and related charges primarily include employee termination and relocation benefits, and post-exit rent expenses in connection with these programs, and non-cash charges resulting from pension benefit payments made to agents and certain legal expenses incurred in connection with the 1999 reorganization of Allstate's multiple agency programs to a single exclusive agency program. The expenses related to these activities are included in the Condensed Consolidated Statements of Operations as restructuring and related charges, and totaled $5 million and $9 million during the three months ended September 30, 2016 and 2015, respectively, and $21 million and $32 million during the nine months ended September 30, 2016 and 2015, respectively.

The following table presents changes in the restructuring liability during the nine months ended September 30, 2016.

($ in millions)	Employee costs	Exit costs	Total liability
Balance as of December 31, 2015	$ 1	$ 1	$ 2
Expense incurred	7	1	8
Adjustments to liability	—	—	—
Payments applied against liability	(7)	(1)	(8)
Balance as of September 30, 2016	$ 1	$ 1	$ 2

The payments applied against the liability for employee costs primarily reflect severance costs, and the payments for exit costs generally consist of post-exit rent expenses and contract termination penalties. As of September 30, 2016, the cumulative amount incurred to date for active programs totaled $78 million for employee costs and $62 million for exit costs.

10. Guarantees and Contingent Liabilities

Shared markets and state facility assessments

The Company is required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations in various states that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Underwriting results related to these arrangements, which tend to be adverse, have been immaterial to the Company's results of operations. Because of the Company's participation, it may be exposed to losses that surpass the capitalization of these facilities and/or assessments from these facilities.

Guarantees

The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective September 30, 2016, the Company's maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be $45 million as of September 30, 2016. The remaining term of each residual value guarantee is equal to the term of the underlying lease that ranges from less than one year to four years. Historically, the Company has not made any material payments pursuant to these guarantees.

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.

Related to the sale of LBL on April 1, 2014, ALIC agreed to indemnify Resolution Life Holdings, Inc. in connection with certain representations, warranties and covenants of ALIC, and certain liabilities specifically excluded from the transaction, subject to specific contractual limitations regarding ALIC’s maximum obligation. Management does not believe these indemnifications 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 Allstate Financial’s variable annuity business to Prudential in 2006, the Company and its consolidated subsidiaries, ALIC and ALNY, have agreed to indemnify Prudential for certain pre-closing contingent liabilities (including extra-contractual liabilities of ALIC and ALNY and liabilities specifically excluded from the transaction) that ALIC and ALNY have agreed to retain. In addition, the Company, ALIC and ALNY will each indemnify Prudential for certain post-closing liabilities that may arise from the acts of ALIC, ALNY and their agents, including certain liabilities arising from ALIC’s and ALNY’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.

The aggregate liability balance related to all guarantees was not material as of September 30, 2016.

Regulation and Compliance

The Company is subject to extensive laws, regulations, administrative directives, and regulatory actions. From time to time, regulatory authorities or legislative bodies seek to influence and restrict premium rates, require premium refunds to policyholders, require reinstatement of terminated policies, prescribe rules or guidelines on how affiliates compete in the marketplace, restrict the ability of insurers to cancel or non-renew policies, require insurers to continue to write new policies or limit their ability to write new policies, limit insurers’ ability to change coverage terms or to impose underwriting standards, 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 Regulatory Authority, the Department of Labor, the U.S. Equal Employment Opportunity Commission, 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.

Legal and regulatory proceedings and inquiries

The Company and certain subsidiaries are involved in a number of lawsuits, regulatory inquiries, and other legal proceedings arising out of various aspects of its business.

Background

These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard, or investigated; changes in assigned judges; differences or developments in applicable laws and judicial interpretations; judges reconsidering prior rulings; the length of time before many of these matters might be resolved by settlement, through litigation, or otherwise; adjustments with respect to anticipated trial schedules and other proceedings; developments in similar actions against other companies; the fact that some of the lawsuits are putative class actions in which a class has not been certified and in which the purported class may not be clearly defined; the fact that some of the lawsuits involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear; and the current challenging legal environment faced by corporations and insurance companies.

The outcome of these matters may be affected by decisions, verdicts, and settlements, and the timing of such decisions, verdicts, and settlements, in other individual and class action lawsuits that involve the Company, other insurers, or other entities and by other legal, governmental, and regulatory actions that involve the Company, other insurers, or other entities. The outcome may also be affected by future state or federal legislation, the timing or substance of which cannot be predicted.

In the lawsuits, plaintiffs seek a variety of remedies which may include equitable relief in the form of injunctive and other remedies and monetary relief in the form of contractual and extra-contractual damages. In some cases, the monetary damages sought may include punitive or treble damages. Often specific information about the relief sought, such as the amount of damages, is not available because plaintiffs have not requested specific relief in their pleadings. When specific monetary demands are made, they are often set just below a state court jurisdictional limit in order to seek the maximum amount available in state court, regardless of the specifics of the case, while still avoiding the risk of removal to federal court. In Allstate's experience, monetary demands in pleadings bear little relation to the ultimate loss, if any, to the Company.

In connection with regulatory examinations and proceedings, government authorities may seek various forms of relief, including penalties, restitution, and changes in business practices. The Company may not be advised of the nature and extent of relief sought until the final stages of the examination or proceeding.

Accrual and disclosure policy

The Company reviews its lawsuits, regulatory inquiries, and other legal proceedings on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. The Company establishes accruals for such matters at management's best estimate when the Company assesses that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company does not establish accruals for such matters when the Company does not believe both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company's assessment of whether a loss is reasonably possible or probable is based on its assessment of the ultimate outcome of the matter following all appeals. The Company does not include potential recoveries in its estimates of reasonably possible or probable losses. Legal fees are expensed as incurred.

The Company continues to monitor its lawsuits, regulatory inquiries, and other legal proceedings for further developments that would make the loss contingency both probable and estimable, and accordingly accruable, or that could affect the amount of accruals that have been previously established. There may continue to be exposure to loss in excess of any amount accrued. Disclosure of the nature and amount of an accrual is made when there have been sufficient legal and factual developments such that the Company's ability to resolve the matter would not be impaired by the disclosure of the amount of accrual.

When the Company assesses it is reasonably possible or probable that a loss has been incurred, it discloses the matter. When it is possible to estimate the reasonably possible loss or range of loss above the amount accrued, if any, for the matters disclosed, that estimate is aggregated and disclosed. Disclosure is not required when an estimate of the reasonably possible loss or range of loss cannot be made.

For certain of the matters described below in the "Claims related proceedings" and "Other proceedings" subsections, the Company is able to estimate the reasonably possible loss or range of loss above the amount accrued, if any. In determining whether it is possible to estimate the reasonably possible loss or range of loss, the Company reviews and evaluates the disclosed matters, in conjunction with counsel, in light of potentially relevant factual and legal developments.

These developments may include information learned through the discovery process, rulings on dispositive motions, settlement discussions, information obtained from other sources, experience from managing these and other matters, and other rulings by courts, arbitrators or others. When the Company possesses sufficient appropriate information to develop an estimate of the reasonably possible loss or range of loss above the amount accrued, if any, that estimate is aggregated and disclosed below. There may be other disclosed matters for which a loss is probable or reasonably possible but such an estimate is not possible. Disclosure of the estimate of the reasonably possible loss or range of loss above the amount accrued, if any, for any individual matter would only be considered when there have been sufficient legal and factual developments such that the Company's ability to resolve the matter would not be impaired by the disclosure of the individual estimate.

The Company currently estimates that the aggregate range of reasonably possible loss in excess of the amount accrued, if any, for the disclosed matters where such an estimate is possible is zero to $875 million, pre-tax. This disclosure is not an indication of expected loss, if any. Under accounting guidance, an event is "reasonably possible" if "the chance of the future event or events occurring is more than remote but less than likely" and an event is "remote" if "the chance of the future event or events occurring is slight." This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimate will change from time to time, and actual results may vary significantly from the current estimate. The estimate does not include matters or losses for which an estimate is not possible. Therefore, this estimate represents an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum possible loss exposure. Information is provided below regarding the nature of all of the disclosed matters and, where specified, the amount, if any, of plaintiff claims associated with these loss contingencies.

Due to the complexity and scope of the matters disclosed in the "Claims related proceedings" and "Other proceedings" subsections below and the many uncertainties that exist, the ultimate outcome of these matters cannot be predicted. 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, if any, and may be material to the Company's operating results or cash flows for a particular quarterly or annual period. However, based on information currently known to it, management believes that the ultimate outcome of all matters described below, as they are resolved over time, is not likely to have a material effect on the financial position of the Company.

Claims related proceedings

The Company is litigating two class action cases in California in which the plaintiffs allege off-the-clock wage and hour claims. Plaintiffs in both cases seek recovery of unpaid compensation, liquidated damages, penalties, and attorneys' fees and costs.

The first case is *Christopher Williams, et al. v. Allstate Insurance Company*. The *Williams* case is pending in Los Angeles Superior Court and was filed in December 2007. The case involves two classes. The first class includes auto field physical damage adjusters employed in the state of California from January 1, 2005 to the date of final judgment, to the extent the Company failed to pay for off-the-clock work to those adjusters who performed certain duties prior to their first assignments. The other class includes all non-exempt employees in California from December 19, 2006 until June 2011 who received pay statements from Allstate which allegedly did not comply with California law. On April 13, 2016, the court granted the Company's motion to decertify both classes; both classes are thus dissolved unless and until the appellate court orders the classes recertified. On May 17, 2016, plaintiffs filed their notice of appeal.

The second case is *Jack Jimenez, et al. v. Allstate Insurance Company*. *Jimenez* was filed in the U.S. District Court for the Central District of California in September 2010. The plaintiffs allege that they worked off-the-clock; they also allege other California Labor Code violations resulting from purported unpaid overtime. In April 2012, the court certified a class that includes all adjusters in the state of California, except auto field adjusters, from September 29, 2006 to final judgment. Allstate appealed the court's decision to certify the class, first to the Ninth Circuit Court of Appeals and then to the U.S. Supreme Court. On June 15, 2015, the U.S. Supreme Court denied Allstate's petition for a writ of certiorari. The case was scheduled for trial on September 27, 2016. On May 4, 2016, the court vacated that trial date in part because the court had not approved a trial plan.

In addition to the California class actions, the case of *Maria Victoria Perez and Kaela Brown, et al. v. Allstate Insurance Company* was filed in the U.S. District Court for the Eastern District of New York. Plaintiffs allege that no-fault claim adjusters have been improperly classified as exempt employees under New York Labor Law and the Fair Labor Standards Act. The case was filed in April 2011, and the plaintiffs are seeking unpaid wages, liquidated damages, injunctive relief, compensatory and punitive damages, and attorneys' fees. On September 16, 2014, the court certified a class of no-fault adjusters under New York Labor Law and refused to decertify a Fair Labor Standards Act class of no-fault adjusters. Notice to the class was issued in December 2015 and no opt outs were received. During the discovery phase of the case, it was determined that 50 Encompass adjusters had been erroneously omitted from the New York Labor Law and Fair Labor Standards Act classes. On April 8, 2016, notice was sent to the omitted Encompass adjusters. Eleven Encompass adjusters opted in. As a result, there are now 105 members of the Fair Labor Standards Act class and 137 members of the New York Labor Law class.

In the Company's judgment, a loss is not probable in these three cases.

The Florida personal injury protection statute permits insurers to pay personal injury protection benefits for reasonable medical expenses based on certain benefit reimbursement limitations which are authorized by the personal injury protection statute (generally referred to as "fee schedules") resulting from automobile accidents. The Company is involved in litigation challenging whether the Company's personal injury protection policies include sufficient language providing notice of the Company's election to apply the fee schedules.

The Company is litigating one class action, *Randy Rosenberg, et al. v. Allstate Fire & Casualty Insurance Company, Allstate Insurance Company*, and *Allstate Property & Casualty Insurance Company,* in the U.S. District Court for the Northern District of Illinois. This case is brought on behalf of health care providers and insureds who submitted claims for no-fault benefits under personal injury protection policies which were in effect from 2008 through 2012 and were reimbursed based on the fee schedules. They seek a declaratory judgment that Allstate could not properly apply the fee schedules and seek damages for the difference between what they allege are the reasonable medical expenses payable under the personal injury protection coverage and the fee schedule amounts Allstate actually paid. They also seek recovery of attorneys' fees and costs pursuant to Florida statutes. This case has been stayed by the Illinois federal court pending a decision on this issue by the Florida Supreme Court.

This fee schedule issue has also been the subject of thousands of individual lawsuits filed against Allstate in Florida. On March 18, 2015, in *Stand-Up MRI of Tallahassee, et al. v. Allstate Fire & Casualty Insurance Company,* the District Court of Appeal for the First District unanimously reversed a summary judgment that had been entered against Allstate. The court held that Allstate's language was clear and unambiguous and provided adequate notice of its intent to use the fee schedules. The plaintiff's appeal to the Florida Supreme Court was stayed.

On August 19, 2015, in *Orthopedic Specialists, et al. v. Allstate Insurance Company*, the District Court of Appeal for the Fourth District issued a divided decision (three separate opinions, two against Allstate and one dissenting opinion deeming Allstate's language sufficient), holding that Allstate's language was not sufficient. Allstate's motion for rehearing was denied. The court certified that its decision is in direct conflict with the District Court of Appeal for the First District's decision. Allstate's notice to the Florida Supreme Court seeking to invoke the discretionary jurisdiction of that court was accepted on January 20, 2016. The Florida Medical Association was granted leave to file an amicus brief in support of the plaintiff. The Florida Supreme Court heard oral argument on September 1, 2016, and has taken the matter under advisement. The decision by the Florida Supreme Court will establish Florida law on the sufficiency of Allstate's fee schedule policy language which will be binding on all Florida courts, as well as the Illinois federal class action. An outcome in favor of Allstate's position that the fee schedule policy language was sufficient will result in the resolution of all related claims that are currently in litigation along with those claims that are not currently in litigation. Allstate may be able to seek restitution from some plaintiffs for attorneys' fees and costs. An outcome in the plaintiffs' favor will result in significant costs to Allstate in the form of additional benefits due to medical providers along with penalties, interest, postage, and attorneys' fees. The Company does not know when the Florida Supreme Court will issue their decision.

On March 30, 2016, in *Markley Chiropractic & Acupuncture LLC, et al. v. Allstate Indemnity Insurance Company*, the District Court of Appeal for the Second District unanimously reversed a summary judgment that had been entered against Allstate. The court held that Allstate's language gave legally sufficient notice of its election to use the fee schedules. On June 20, 2016, the plaintiff filed a notice with the Florida Supreme Court seeking to invoke the discretionary jurisdiction of the court. On June 24, 2016, the Florida Supreme Court issued an order staying the entire case pending the disposition of the *Orthopedic Specialists* case.

On July 13, 2016, in *Florida Wellness & Rehabilitation Center of Hialeah, et al. v. Allstate Fire & Casualty Insurance Company*, the District Court of Appeal for the Third District unanimously affirmed summary judgment for Allstate and upheld the validity of Allstate's personal injury protection fee schedule language. The court also certified a conflict with the District Court of Appeal for the Fourth District's decision in *Orthopedic Specialists.* Further appeal of this case to the Florida Supreme Court has been stayed pending the disposition of the *Orthopedic Specialists* case.

In the Company's judgment, a loss is not probable in any of these cases.

Other proceedings

The Company is defending certain matters in the U.S. District Court for the Eastern District of Pennsylvania relating to the Company's agency program reorganization announced in 1999. The principal focus in these matters has related to a release of claims signed by the vast majority of the former agents whose employment contracts were terminated in the reorganization program. The court recently entered a schedule for determining the merits of certain claims asserted in the matters described below, with the release issue to be addressed in unspecified future proceedings.

Romero I: In 2001, approximately 32 former employee agents, on behalf of a putative class of approximately 6,300 former employee agents, filed a putative class action alleging claims for age discrimination under the Age Discrimination in Employment Act ("ADEA"), interference with benefits under ERISA, breach of contract, and breach of fiduciary duty. Plaintiffs also assert a claim for a declaratory judgment that the release of claims constitutes unlawful retaliation and should be set aside. Plaintiffs seek broad but unspecified "make whole relief," including back pay, compensatory and punitive damages, liquidated damages, lost investment capital, attorneys' fees and costs, and equitable relief, including reinstatement to employee agent status with all attendant benefits.

Romero II: A putative nationwide class action was also filed in 2001 by former employee agents alleging various violations of ERISA ("*Romero II*"). This action has been consolidated with *Romero I.* The *Romero II* plaintiffs, most of whom are also plaintiffs in *Romero I,* are challenging certain amendments to the Agents Pension Plan and seek to have service as exclusive agent independent contractors count toward eligibility for benefits under the Agents Pension Plan. Plaintiffs seek broad but unspecified "make whole" or other equitable relief, including loss of benefits as a result of their conversion to exclusive agent independent contractor status or retirement from the Company between November 1, 1999 and December 31, 2000. They also seek repeal of the challenged amendments to the Agents Pension Plan with all attendant benefits revised and recalculated for thousands of former employee agents, and attorneys' fees and costs. The court granted the Company's initial motion to dismiss the complaint. The Third Circuit Court of Appeals reversed that dismissal and remanded for further proceedings.

Romero I and II consolidated proceedings: In 2004, the court ruled that the release was voidable and certified classes of agents, including a mandatory class of agents who had signed the release, for purposes of effectuating the court's declaratory judgment that the release was voidable. In 2007, the court vacated its ruling and granted the Company's motion for summary judgment on all claims. Plaintiffs appealed and in July 2009, the U.S. Court of Appeals for the Third Circuit vacated the trial court's entry of summary judgment in the Company's favor, remanded the case to the trial court for additional discovery, and instructed the trial court to address the validity of the release after additional discovery. Following the completion of discovery limited to the validity of the release, the parties filed cross motions for summary judgment with respect to the validity of the release. On February 28, 2014, the trial court denied plaintiffs' and the Company's motions for summary judgment, concluding that the question of whether the releases were knowingly and voluntarily signed under a totality of circumstances test raised disputed issues of fact to be resolved at trial. Among other things, the court also held that the release, if valid, would bar all claims in *Romero I and II.* On May 23, 2014, plaintiffs moved to certify a class as to certain issues relating to the validity of the release. The court denied plaintiffs' class certification motion on October 6, 2014, stating, among other things, that individual factors and circumstances must be considered to determine whether each release signer entered into the release knowingly and voluntarily. The court entered an order on December 11, 2014, (a) stating that the court's October 6, 2014 denial of class certification as to release-related issues did not resolve whether issues relating to the merits of plaintiffs' claims may be subject to class certification at a later time, and (b) holding that the court's October 6, 2014 order restarted the running of the statute of limitation for any former employee agent who wished to challenge the validity of the release. In an order entered January 7, 2015, the court denied reconsideration of its December 11, 2014 order and clarified that all statutes of limitations to challenge the release would resume running on March 2, 2015. Since the Court's January 7, 2015 order, a total of 459 additional individual plaintiffs have filed separate lawsuits similar to *Romero I* or sought to intervene in the *Romero I* action. Trial proceedings commenced to determine the question of whether the releases of the original named plaintiffs in *Romero I* and *II* were knowingly and voluntarily signed. Additionally, plaintiffs asserted two equitable defenses to the release which were to be determined by the court and not the jury. As to the first trial proceeding involving ten plaintiffs, the jury reached verdicts on June 17, 2015 finding that two plaintiffs signed their releases knowingly and voluntarily and eight plaintiffs did not sign their releases knowingly and voluntarily. On January 28, 2016, the court entered its opinion and judgment finding in Allstate's favor as to all ten plaintiffs on the two equitable defenses to the release. The trial result is not yet final and may be subject to further proceedings. The remaining two trials for the original *Romero I* and *II* plaintiffs were scheduled to commence in the fourth quarter of 2015; however, the order setting these trials was subsequently vacated.

On February 1, 2016, these cases were reassigned to a new judge who initially entered orders addressing pending motions for reconsideration of the dismissal of plaintiffs' state law claims, but then vacated those orders. On April 12, 2016, these cases were again reassigned to a new judge. On May 2, 2016, the new judge entered an order vacating the setting of additional release trials, consolidating all of the original and intervening plaintiffs' claims, and granting leave to file a Consolidated Amended Complaint by May 20, 2016. The court entered a second order on May 2, 2016, scheduling deadlines for completion of discovery and filing of summary judgment motions on the merits of plaintiffs' ERISA and ADEA claims, and setting a non-jury ERISA trial to occur in December 2016. The court's order also sets deadlines for completion of discovery and summary judgment motions with regard to the remaining claims and defenses by the first quarter of 2017, with a jury trial on those claims and defenses to occur in May 2017. The court subsequently clarified the scope of the scheduled trials, ruling that (a) the December 2016 non-jury trial shall only resolve liability on plaintiffs' claims challenging certain plan amendments under ERISA ("Phase I"); (b) the second trial currently scheduled for May 2017 shall resolve alleged interference with employee benefits under ERISA and disparate impact under the ADEA, with the court deciding the ERISA claim ("Phase II"); and (c) plaintiffs' ADEA disparate treatment claims will not be resolved in the second trial but will be resolved in a manner to be determined at a later date. On May 4, 2016, the court entered an order denying Allstate's post-trial motion for judgment as a matter of law with respect to the jury's June 17, 2015 verdicts in favor of eight plaintiffs on the issue whether they knowingly and voluntarily signed their releases.

On May 20, 2016, a Consolidated Amended Complaint was filed on behalf of 499 plaintiffs, most of whom had previously filed separate lawsuits or intervened in *Romero I*. Allstate filed a partial motion to dismiss the Consolidated Amended Complaint, which the court granted in part and denied in part on July 6, 2016. Among other things, the court denied without prejudice Allstate's motion to dismiss the state law claims, granted dismissal of plaintiffs' retaliation claims under the ADEA and ERISA.

Phase I discovery is closed and the Company filed a motion for summary judgment as to all Phase I claims. Plaintiffs did not move for summary judgment. The parties also filed motions seeking to exclude each other's ERISA experts. The Court held argument on these motions on October 27, 2016.

On September 2, 2016, in two cases asserting similar claims to those asserted in *Romero I* that had been filed on May 15, 2015, the U.S. District Court for the Southern District of Texas entered judgment in Allstate's favor on statute of limitations and other grounds.

Based on the trial court's February 28, 2014 order in *Romero I* and *II*, if the validity of the release is decided in favor of the Company for any plaintiff, that would preclude any damages or other relief being awarded to that plaintiff. The final resolution of these matters is subject to various uncertainties and complexities including how trials, post trial motions, possible appeals with respect to the validity of the release, and any rulings on the merits will be resolved.

In the Company's judgment, a loss is not probable.

Asbestos and environmental

Allstate's reserves for asbestos claims were $936 million and $960 million, net of reinsurance recoverables of $463 million and $458 million, as of September 30, 2016 and December 31, 2015, respectively. Reserves for environmental claims were $190 million and $179 million, net of reinsurance recoverables of $43 million and $43 million, as of September 30, 2016 and December 31, 2015, respectively. Approximately 59% and 57% of the total net asbestos and environmental reserves as of September 30, 2016 and December 31, 2015, respectively, were for incurred but not reported estimated losses.

Management believes its net loss reserves for asbestos, environmental and other discontinued lines exposures are appropriately established based on available facts, technology, laws and regulations. However, establishing net loss reserves for asbestos, environmental and other discontinued lines claims is subject to uncertainties that are much greater than those presented by other types of claims. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimate. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure and unresolved legal issues regarding policy coverage; unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits; plaintiffs' evolving and expanding theories of liability; availability and collectability of recoveries from reinsurance; retrospectively determined premiums and other contractual agreements; estimates of the extent and timing of any contractual liability; the impact of bankruptcy protection sought by various asbestos producers and other asbestos defendants; and other uncertainties. There are also complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Further, insurers and claims administrators acting on behalf of insurers are increasingly pursuing evolving and expanding theories of reinsurance coverage for asbestos and environmental losses. Adjudication of reinsurance coverage is predominately decided in confidential arbitration proceedings which may have limited precedential or predictive value further complicating management's ability to estimate probable loss for reinsured asbestos and environmental claims. Management believes these issues are not likely to be resolved in the near future, and the ultimate costs may vary materially from the amounts currently recorded resulting in material changes in loss reserves. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate asbestos, environmental, and other discontinued lines net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. Due to the uncertainties and factors described above, management believes it is not practicable to develop a meaningful range for any such additional net loss reserves that may be required.

11. Benefit Plans

The components of net periodic cost for the Company's pension and postretirement benefit plans are as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Pension benefits				
Service cost	$ 28	$ 29	$ 84	$ 86
Interest cost	71	64	214	192
Expected return on plan assets	(99)	(106)	(298)	(318)
Amortization of:				
Prior service credit	(14)	(14)	(42)	(42)
Net actuarial loss	44	47	131	143
Settlement loss	7	6	23	18
Net periodic pension cost	$ 37	$ 26	$ 112	$ 79
Postretirement benefits				
Service cost	$ 2	$ 3	$ 7	$ 9
Interest cost	4	6	13	17
Amortization of:				
Prior service credit	(5)	(5)	(16)	(16)
Net actuarial gain	(2)	(3)	(18)	(7)
Net periodic postretirement (credit) cost	$ (1)	$ 1	$ (14)	$ 3

12. Reporting Segments

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

($ in millions)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Property-Liability				
Property-liability insurance premiums				
Auto	$ 5,353	$ 5,154	$ 15,879	$ 15,219
Homeowners	1,813	1,795	5,438	5,331
Other personal lines	426	425	1,271	1,268
Commercial lines	127	128	383	381
Other business lines	150	148	435	426
Allstate Protection	7,869	7,650	23,406	22,625
Discontinued Lines and Coverages	—	—	—	—
Total property-liability insurance premiums	7,869	7,650	23,406	22,625
Net investment income	310	307	928	957
Realized capital gains and losses	53	(161)	(20)	(84)
Total Property-Liability	8,232	7,796	24,314	23,498
Allstate Financial				
Life and annuity premiums and contract charges				
Life and annuity premiums				
Traditional life insurance	145	135	422	398
Accident and health insurance	216	194	646	585
Total life and annuity premiums	361	329	1,068	983
Contract charges				
Interest-sensitive life insurance	206	205	623	618
Fixed annuities	4	4	10	10
Total contract charges	210	209	633	628
Total life and annuity premiums and contract charges	571	538	1,701	1,611
Net investment income	427	491	1,281	1,464
Realized capital gains and losses	(21)	194	(70)	364
Total Allstate Financial	977	1,223	2,912	3,439
Corporate and Other				
Service fees	1	—	3	2
Net investment income	11	9	32	25
Realized capital gains and losses	1	—	(2)	—
Total Corporate and Other before reclassification of service fees	13	9	33	27
Reclassification of service fees [1]	(1)	—	(3)	(2)
Total Corporate and Other	12	9	30	25
Consolidated revenues	$ 9,221	$ 9,028	$ 27,256	$ 26,962

[1] For presentation in the Condensed Consolidated Statements of Operations, service fees of the Corporate and Other segment are reclassified to operating costs and expenses.

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

($ in millions)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Property-Liability				
Underwriting income				
Allstate Protection	$ 455	$ 540	$ 518	$ 1,001
Discontinued Lines and Coverages	(100)	(49)	(104)	(53)
Total underwriting income	355	491	414	948
Net investment income	310	307	928	957
Income tax expense on operations [1]	(218)	(256)	(429)	(653)
Realized capital gains and losses, after-tax	36	(104)	(10)	(55)
Loss on disposition of operations, after-tax	—	(1)	—	—
Property-Liability net income applicable to common shareholders	483	437	903	1,197
Allstate Financial				
Life and annuity premiums and contract charges	571	538	1,701	1,611
Net investment income	427	491	1,281	1,464
Contract benefits and interest credited to contractholder funds	(667)	(651)	(1,939)	(1,921)
Operating costs and expenses and amortization of deferred policy acquisition costs	(194)	(173)	(577)	(545)
Restructuring and related charges	—	(1)	(1)	(3)
Income tax expense on operations	(43)	(66)	(147)	(195)
Operating income	94	138	318	411
Realized capital gains and losses, after-tax	(14)	125	(46)	235
Valuation changes on embedded derivatives that are not hedged, after-tax	—	(2)	(8)	(3)
DAC and DSI amortization related to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax	(1)	(1)	(3)	(3)
Gain on disposition of operations, after-tax	1	2	3	1
Change in accounting for investments in qualified affordable housing projects, after-tax	—	—	—	(17)
Allstate Financial net income applicable to common shareholders	80	262	264	624
Corporate and Other				
Service fees [2]	1	—	3	2
Net investment income	11	9	32	25
Operating costs and expenses [2]	(81)	(86)	(241)	(248)
Income tax benefit on operations	26	28	77	82
Preferred stock dividends	(29)	(29)	(87)	(87)
Operating loss	(72)	(78)	(216)	(226)
Realized capital gains and losses, after-tax	—	—	(1)	—
Corporate and Other net loss applicable to common shareholders	(72)	(78)	(217)	(226)
Consolidated net income applicable to common shareholders	$ 491	$ 621	$ 950	$ 1,595

(1) Income tax on operations for the Property-Liability segment includes $28 million of expense for the nine months ended September 30, 2015 related to the change in accounting guidance for investments in qualified affordable housing projects.

(2) For presentation in the Condensed Consolidated Statements of Operations, service fees of the Corporate and Other segment are reclassified to operating costs and expenses.

13. Other Comprehensive Income

The components of other comprehensive income on a pre-tax and after-tax basis are as follows:

($ in millions)	Three months ended September 30,					
	2016			2015		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$ 350	$ (123)	$ 227	$ (813)	$ 285	$ (528)
Less: reclassification adjustment of realized capital gains and losses	53	(19)	34	18	(6)	12
Unrealized net capital gains and losses	297	(104)	193	(831)	291	(540)
Unrealized foreign currency translation adjustments	(11)	4	(7)	(22)	8	(14)
Unrecognized pension and other postretirement benefit cost arising during the period	1	—	1	7	(2)	5
Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses	(30)	10	(20)	(31)	11	(20)
Unrecognized pension and other postretirement benefit cost	31	(10)	21	38	(13)	25
Other comprehensive income (loss)	$ 317	$ (110)	$ 207	$ (815)	$ 286	$ (529)

	Nine months ended September 30,					
	2016			2015		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$ 1,685	$ (589)	$ 1,096	$ (1,306)	$ 457	$ (849)
Less: reclassification adjustment of realized capital gains and losses	(156)	55	(101)	304	(106)	198
Unrealized net capital gains and losses	1,841	(644)	1,197	(1,610)	563	(1,047)
Unrealized foreign currency translation adjustments	18	(6)	12	(77)	27	(50)
Unrecognized pension and other postretirement benefit cost arising during the period	(6)	3	(3)	15	(3)	12
Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses	(78)	27	(51)	(96)	34	(62)
Unrecognized pension and other postretirement benefit cost	72	(24)	48	111	(37)	74
Other comprehensive income (loss)	$ 1,931	$ (674)	$ 1,257	$ (1,576)	$ 553	$ (1,023)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
The Allstate Corporation
Northbrook, Illinois 60062

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries (the "Company") as of September 30, 2016, and the related condensed consolidated statements of operations, comprehensive income for the three-month and nine-month periods ended September 30, 2016 and 2015, and of shareholders' equity and cash flows for the nine-month periods ended September 30, 2016 and 2015. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of The Allstate Corporation and subsidiaries as of December 31, 2015, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 19, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2015 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
November 2, 2016

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as "we," "our," "us," the "Company" or "Allstate"). It should be read in conjunction with the condensed consolidated financial statements and notes thereto found under Part I. Item 1. contained herein, and with the discussion, analysis, consolidated financial statements and notes thereto in Part I. Item 1. and Part II. Item 7. and Item 8. of The Allstate Corporation Annual Report on Form 10-K for 2015. Further analysis of our insurance segments is provided in the Property-Liability Operations (which includes the Allstate Protection and the Discontinued Lines and Coverages segments) and in the Allstate Financial Segment sections of Management's Discussion and Analysis ("MD&A"). The segments are consistent with the way in which we use financial information to evaluate business performance and to determine the allocation of resources. Resources are allocated by the chief operating decision maker and performance is assessed for Allstate Protection, Discontinued Lines and Coverages and Allstate Financial. Allstate Protection and Allstate Financial performance and resources are managed by committees of senior officers of the respective segments.

Allstate is focused on the following priorities:

- better serve our customers through innovation, effectiveness and efficiency;
- achieve target economic returns on capital;
- grow insurance policies in force;
- proactively manage investments; and
- build and acquire long-term growth platforms.

HIGHLIGHTS

- Consolidated net income applicable to common shareholders was $491 million in the third quarter of 2016 compared to $621 million in the third quarter of 2015, and $950 million in the first nine months of 2016 compared to $1.60 billion in the first nine months of 2015. Net income applicable to common shareholders per diluted common share was $1.31 in the third quarter of 2016 compared to $1.54 in the third quarter of 2015, and $2.51 in the first nine months of 2016 compared to $3.87 in the first nine months of 2015.
- Property-Liability net income applicable to common shareholders was $483 million in the third quarter of 2016 compared to $437 million in the third quarter of 2015, and $903 million in the first nine months of 2016 compared to $1.20 billion in the first nine months of 2015.
- The Property-Liability combined ratio was 95.5 in the third quarter of 2016 compared to 93.6 in the third quarter of 2015, and 98.2 in the first nine months of 2016 compared to 95.8 in the first nine months of 2015.
- Allstate Financial net income applicable to common shareholders was $80 million in the third quarter of 2016 compared to $262 million in the third quarter of 2015, and $264 million in the first nine months of 2016 compared to $624 million in the first nine months of 2015.
- Total revenues were $9.22 billion in the third quarter of 2016 compared to $9.03 billion in the third quarter of 2015, and $27.26 billion in the first nine months of 2016 compared to $26.96 billion in the first nine months of 2015.
- Property-Liability premiums earned totaled $7.87 billion in the third quarter of 2016, an increase of 2.9% from $7.65 billion in the third quarter of 2015, and $23.41 billion in the first nine months of 2016, an increase of 3.5% from $22.63 billion in the first nine months of 2015.
- Investments totaled $81.10 billion as of September 30, 2016, increasing from $77.76 billion as of December 31, 2015. Net investment income was $748 million in the third quarter of 2016, a decrease of 7.3% from $807 million in the third quarter of 2015, and $2.24 billion in the first nine months of 2016, a decrease of 8.4% from $2.45 billion in the first nine months of 2015.
- Net realized capital gains were $33 million in both the third quarter of 2016 and the third quarter of 2015, and net realized capital losses were $92 million in the first nine months of 2016 compared to net realized capital gains of $280 million in the first nine months of 2015.
- Book value per diluted common share (ratio of common shareholders' equity to total common shares outstanding and dilutive potential common shares outstanding) was $51.48 as of September 30, 2016, an increase of 8.3% from $47.54 as of September 30, 2015, and an increase of 8.7% from $47.34 as of December 31, 2015.

- For the twelve months ended September 30, 2016, return on the average of beginning and ending period common shareholders' equity of 7.4% decreased by 4.8 points from 12.2% for the twelve months ended September 30, 2015.
- As of September 30, 2016, shareholders' equity was $20.93 billion. This total included $2.66 billion in deployable assets at the parent holding company level comprising cash and investments that are generally saleable within one quarter.

CONSOLIDATED NET INCOME

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenues				
Property-liability insurance premiums	$ 7,869	$ 7,650	$ 23,406	$ 22,625
Life and annuity premiums and contract charges	571	538	1,701	1,611
Net investment income	748	807	2,241	2,446
Realized capital gains and losses:				
Total other-than-temporary impairment ("OTTI") losses	(73)	(186)	(241)	(286)
OTTI losses reclassified to (from) other comprehensive income	—	12	8	20
Net OTTI losses recognized in earnings	(73)	(174)	(233)	(266)
Sales and other realized capital gains and losses	106	207	141	546
Total realized capital gains and losses	33	33	(92)	280
Total revenues	9,221	9,028	27,256	26,962
Costs and expenses				
Property-liability insurance claims and claims expense	(5,553)	(5,255)	(17,138)	(15,835)
Life and annuity contract benefits	(484)	(460)	(1,393)	(1,347)
Interest credited to contractholder funds	(183)	(194)	(558)	(578)
Amortization of deferred policy acquisition costs	(1,138)	(1,092)	(3,393)	(3,248)
Operating costs and expenses	(1,021)	(992)	(3,043)	(3,143)
Restructuring and related charges	(5)	(9)	(21)	(32)
Interest expense	(73)	(73)	(218)	(219)
Total costs and expenses	(8,457)	(8,075)	(25,764)	(24,402)
Gain on disposition of operations	1	2	4	2
Income tax expense	(245)	(305)	(459)	(880)
Net income	520	650	1,037	1,682
Preferred stock dividends	(29)	(29)	(87)	(87)
Net income applicable to common shareholders	$ 491	$ 621	$ 950	$ 1,595
Property-Liability	$ 483	$ 437	$ 903	$ 1,197
Allstate Financial	80	262	264	624
Corporate and Other	(72)	(78)	(217)	(226)
Net income applicable to common shareholders	$ 491	$ 621	$ 950	$ 1,595

PROPERTY-LIABILITY HIGHLIGHTS

- Net income applicable to common shareholders was $483 million in the third quarter of 2016 compared to $437 million in the third quarter of 2015, and $903 million in the first nine months of 2016 compared to $1.20 billion in the first nine months of 2015.
- Premiums written totaled $8.31 billion in the third quarter of 2016, an increase of 2.1% from $8.14 billion in the third quarter of 2015, and $23.88 billion in the first nine months of 2016, an increase of 2.4% from $23.32 billion in the first nine months of 2015.
- Premiums earned totaled $7.87 billion in the third quarter of 2016, an increase of 2.9% from $7.65 billion in the third quarter of 2015, and $23.41 billion in the first nine months of 2016, an increase of 3.5% from $22.63 billion in the first nine months of 2015.
- The loss ratio was 70.6 in the third quarter of 2016 compared to 68.7 in the third quarter of 2015, and 73.2 in the first nine months of 2016 compared to 70.0 in the first nine months of 2015.
- Catastrophe losses were $481 million in the third quarter of 2016 compared to $270 million in the third quarter of 2015, and $2.27 billion in the first nine months of 2016 compared to $1.36 billion in the first nine months of 2015. The effect of catastrophes on the combined ratio was 6.1 in the third quarter of 2016 compared to 3.5 in the third quarter of 2015, and 9.7 in the first nine months of 2016 compared to 6.0 in the first nine months of 2015.
- Prior year reserve reestimates totaled $99 million unfavorable in the third quarter of 2016 compared to $47 million unfavorable in the third quarter of 2015, and $120 million unfavorable in the first nine months of 2016 compared to $112 million unfavorable in the first nine months of 2015. These amounts include unfavorable reestimates of $96 million and $44 million from our annual Discontinued Lines and Coverages reserve review performed in the third quarter of 2016 and 2015, respectively.
- Underwriting income was $355 million in the third quarter of 2016 compared to $491 million in the third quarter of 2015, and $414 million in the first nine months of 2016 compared to $948 million in the first nine months of 2015. Underwriting income, a measure not based on accounting principles generally accepted in the United States of America (“GAAP”), is defined below.
- Investments were $41.06 billion as of September 30, 2016, an increase of 6.7% from $38.48 billion as of December 31, 2015. Net investment income was $310 million in the third quarter of 2016, an increase of 1.0% from $307 million in the third quarter of 2015, and $928 million in the first nine months of 2016, a decrease of 3.0% from $957 million in the first nine months of 2015.
- Net realized capital gains were $53 million in the third quarter of 2016 compared to net realized capital losses of $161 million in the third quarter of 2015, and net realized capital losses were $20 million in the first nine months of 2016 compared to $84 million in the first nine months of 2015.

PROPERTY-LIABILITY OPERATIONS

Overview Our Property-Liability operations consist of two reporting segments: Allstate Protection and Discontinued Lines and Coverages. Allstate Protection comprises three brands where we accept underwriting risk: Allstate, Esurance and Encompass. Allstate Protection is principally engaged in the sale of personal property and casualty insurance, primarily private passenger auto and homeowners insurance, to individuals in the United States and Canada. Discontinued Lines and Coverages includes results from property-liability insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. These segments are consistent with the groupings of financial information that management uses to evaluate performance and to determine the allocation of resources.

Underwriting income, a measure that is not based on GAAP and is reconciled to net income applicable to common shareholders below, is calculated as premiums earned, less claims and claims expense ("losses"), amortization of deferred policy acquisition costs ("DAC"), operating costs and expenses and restructuring and related charges, as determined using GAAP. We use this measure in our evaluation of results of operations to analyze the profitability of the Property-Liability insurance operations separately from investment results. It is also an integral component of incentive compensation. It is useful for investors to evaluate the components of income separately and in the aggregate when reviewing performance. Net income applicable to common shareholders is the GAAP measure most directly comparable to underwriting income. Underwriting income should not be considered as a substitute for net income applicable to common shareholders and does not reflect the overall profitability of the business.

The table below includes GAAP operating ratios we use to measure our profitability. We believe that they enhance an investor's understanding of our profitability. They are calculated as follows:

- Claims and claims expense ("loss") ratio - the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses.
- Expense ratio - the ratio of amortization of DAC, operating costs and expenses, and restructuring and related charges to premiums earned.
- Combined ratio - the ratio of claims and claims expense, amortization of DAC, operating costs and expenses, and restructuring and related charges to premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income as a percentage of premiums earned, or underwriting margin.

We have also calculated the following impacts of specific items on the GAAP operating ratios because of the volatility of these items between fiscal periods.

- Effect of catastrophe losses on combined ratio - the percentage of catastrophe losses included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.
- Effect of prior year reserve reestimates on combined ratio - the percentage of prior year reserve reestimates included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.
- Effect of amortization of purchased intangible assets on combined and expense ratio - the percentage of amortization of purchased intangible assets to premiums earned.
- Effect of restructuring and related charges on combined ratio - the percentage of restructuring and related charges to premiums earned.
- Effect of Discontinued Lines and Coverages on combined ratio - the ratio of claims and claims expense and operating costs and expenses in the Discontinued Lines and Coverages segment to Property-Liability premiums earned. The sum of the effect of Discontinued Lines and Coverages on the combined ratio and the Allstate Protection combined ratio is equal to the Property-Liability combined ratio.

Summarized financial data, a reconciliation of underwriting income to net income applicable to common shareholders, and GAAP operating ratios for our Property-Liability operations are presented in the following table.

($ in millions, except ratios)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Premiums written	$ 8,311	$ 8,137	$ 23,877	$ 23,320
Revenues				
Premiums earned	$ 7,869	$ 7,650	$ 23,406	$ 22,625
Net investment income	310	307	928	957
Realized capital gains and losses	53	(161)	(20)	(84)
Total revenues	8,232	7,796	24,314	23,498
Costs and expenses				
Claims and claims expense	(5,553)	(5,255)	(17,138)	(15,835)
Amortization of DAC	(1,068)	(1,029)	(3,181)	(3,050)
Operating costs and expenses	(888)	(867)	(2,653)	(2,763)
Restructuring and related charges	(5)	(8)	(20)	(29)
Total costs and expenses	(7,514)	(7,159)	(22,992)	(21,677)
Loss on disposition of operations	—	(1)	—	—
Income tax expense	(235)	(199)	(419)	(624)
Net income applicable to common shareholders	$ 483	$ 437	$ 903	$ 1,197
Underwriting income	$ 355	$ 491	$ 414	$ 948
Net investment income	310	307	928	957
Income tax expense on operations	(218)	(256)	(429)	(653)
Realized capital gains and losses, after-tax	36	(104)	(10)	(55)
Loss on disposition of operations, after-tax	—	(1)	—	—
Net income applicable to common shareholders	$ 483	$ 437	$ 903	$ 1,197
Catastrophe losses	$ 481	$ 270	$ 2,269	$ 1,361
GAAP operating ratios				
Claims and claims expense ratio	70.6	68.7	73.2	70.0
Expense ratio	24.9	24.9	25.0	25.8
Combined ratio	95.5	93.6	98.2	95.8
Effect of catastrophe losses on combined ratio	6.1	3.5	9.7	6.0
Effect of prior year reserve reestimates on combined ratio [1]	1.3	0.6	0.5	0.5
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio [2]	—	—	0.1	—
Effect of amortization of purchased intangible assets on combined ratio	0.1	0.2	0.1	0.2
Effect of restructuring and related charges on combined ratio	0.1	0.1	0.1	0.1
Effect of Discontinued Lines and Coverages on combined ratio	1.3	0.7	0.4	0.2

[1] Prior year reserve reestimates in the three and nine months ended September 30, 2016 and September 30, 2015 were primarily related to our annual review of reserves in Discontinued Lines and Coverages.

[2] Prior year reserve reestimates included in catastrophe losses totaled $3 million and $13 million unfavorable in the three and nine months ended September 30, 2016, respectively, compared to $2 million favorable and $1 million unfavorable in the three and nine months ended September 30, 2015, respectively.

Premiums written is the amount of premiums charged for policies issued during a fiscal period. Premiums are considered earned and are included in the financial results on a pro-rata basis over the policy period. The portion of premiums written applicable to the unexpired term of the policies is recorded as unearned premiums on our Condensed Consolidated Statements of Financial Position.

A reconciliation of premiums written to premiums earned is shown in the following table.

($ in millions)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Premiums written:				
Allstate Protection	$ 8,309	$ 8,137	$ 23,875	$ 23,320
Discontinued Lines and Coverages [1]	2	—	2	—
Property-Liability premiums written	8,311	8,137	23,877	23,320
Increase in unearned premiums	(472)	(485)	(570)	(689)
Other	30	(2)	99	(6)
Property-Liability premiums earned	$ 7,869	$ 7,650	$ 23,406	$ 22,625
Premiums earned:				
Allstate Protection	$ 7,869	$ 7,650	$ 23,406	$ 22,625
Discontinued Lines and Coverages	—	—	—	—
Property-Liability	$ 7,869	$ 7,650	$ 23,406	$ 22,625

[1] Represents retrospective reinsurance premium recognized when billed.

ALLSTATE PROTECTION SEGMENT

Premiums written by brand are shown in the following table.

($ in millions)	Three months ended September 30,							
	Allstate brand		Esurance brand		Encompass brand		Allstate Protection	
	2016	2015	2016	2015	2016	2015	2016	2015
Auto	$ 4,940	$ 4,746	$ 428	$ 411	$ 153	$ 169	$ 5,521	$ 5,326
Homeowners	1,869	1,879	16	9	121	134	2,006	2,022
Other personal lines [1]	447	429	2	3	25	28	474	460
Subtotal – Personal lines	7,256	7,054	446	423	299	331	8,001	7,808
Commercial lines	123	124	—	—	—	—	123	124
Other business lines [2]	185	205	—	—	—	—	185	205
Total	$ 7,564	$ 7,383	$ 446	$ 423	$ 299	$ 331	$ 8,309	$ 8,137

	Nine months ended September 30,							
	Allstate brand		Esurance brand		Encompass brand		Allstate Protection	
	2016	2015	2016	2015	2016	2015	2016	2015
Auto	$ 14,453	$ 13,869	$ 1,243	$ 1,208	$ 453	$ 489	$ 16,149	$ 15,566
Homeowners	5,092	5,077	41	21	351	381	5,484	5,479
Other personal lines [1]	1,228	1,210	6	6	73	81	1,307	1,297
Subtotal – Personal lines	20,773	20,156	1,290	1,235	877	951	22,940	22,342
Commercial lines	384	390	—	—	—	—	384	390
Other business lines [2]	551	588	—	—	—	—	551	588
Total	$ 21,708	$ 21,134	$ 1,290	$ 1,235	$ 877	$ 951	$ 23,875	$ 23,320

[1] Other personal lines include renter, condominium, landlord and other personal lines products.

[2] Other business lines include Allstate Roadside Services and Allstate Dealer Services.

Premiums earned by brand are shown in the following table.

($ in millions)	Three months ended September 30,							
	Allstate brand		Esurance brand		Encompass brand		Allstate Protection	
	2016	2015	2016	2015	2016	2015	2016	2015
Auto	$ 4,793	$ 4,597	$ 405	$ 392	$ 155	$ 165	$ 5,353	$ 5,154
Homeowners	1,683	1,663	11	5	119	127	1,813	1,795
Other personal lines	399	396	2	2	25	27	426	425
Subtotal – Personal lines	6,875	6,656	418	399	299	319	7,592	7,374
Commercial lines	127	128	—	—	—	—	127	128
Other business lines	150	148	—	—	—	—	150	148
Total	$ 7,152	$ 6,932	$ 418	$ 399	$ 299	$ 319	$ 7,869	$ 7,650

	Nine months ended September 30,							
	Allstate brand		Esurance brand		Encompass brand		Allstate Protection	
	2016	2015	2016	2015	2016	2015	2016	2015
Auto	$ 14,205	$ 13,553	$ 1,202	$ 1,171	$ 472	$ 495	$ 15,879	$ 15,219
Homeowners	5,045	4,939	29	12	364	380	5,438	5,331
Other personal lines	1,189	1,182	6	5	76	81	1,271	1,268
Subtotal – Personal lines	20,439	19,674	1,237	1,188	912	956	22,588	21,818
Commercial lines	383	381	—	—	—	—	383	381
Other business lines	435	426	—	—	—	—	435	426
Total	$ 21,257	$ 20,481	$ 1,237	$ 1,188	$ 912	$ 956	$ 23,406	$ 22,625

Premium measures and statistics that are used to analyze the business are calculated and described below.

- Policies in force (“PIF”): Policy counts are based on items rather than customers. A multi-car customer would generate multiple item (policy) counts, even if all cars were insured under one policy.
- New issued applications: Item counts of automobiles or homeowners insurance applications for insurance policies that were issued during the period, regardless of whether the customer was previously insured by another Allstate Protection brand. Allstate brand includes automobiles added by existing customers when they exceed the number allowed on a policy, which in 2015 was either four or ten depending on the state. Currently all states allow ten automobiles on a policy.
- Average premium-gross written (“average premium”): Gross premiums written divided by issued item count. Gross premiums written include the impacts from discounts, surcharges and ceded reinsurance premiums and exclude the impacts from mid-term premium adjustments and premium refund accruals. Average premiums represent the appropriate policy term for each line. Allstate and Esurance brands policy terms are 6 months for auto and 12 months for homeowners. Encompass brand policy terms are 12 months for auto and homeowners.
- Renewal ratio: Renewal policies issued during the period, based on contract effective dates, divided by the total policies issued 6 months prior for auto (12 months prior for Encompass brand) or 12 months prior for homeowners.

Auto premiums written totaled $5.52 billion in the third quarter of 2016, a 3.7% increase from $5.33 billion in the third quarter of 2015, and $16.15 billion in the first nine months of 2016, a 3.7% increase from $15.57 billion in the first nine months of 2015.

	Allstate brand		Esurance brand		Encompass brand	
	2016	2015	2016	2015	2016	2015
Three months ended September 30,						
PIF (thousands)	19,852	20,367	1,395	1,433	649	746
New issued applications (thousands)	584	790	151	145	13	20
Average premium [1]	$ 532	$ 494	$ 546	$ 513	$ 1,022	$ 963
Renewal ratio (%) [1]	87.5	88.6	78.9	78.7	73.1	76.7
Approved rate changes [2]:						
# of locations [3]	25	23	9	13	9	8
Total brand (%) [4]	1.0	1.6	0.4	1.3	1.6	1.3
Location specific (%) [5] [6]	7.1	5.1	2.3	5.1	8.8	7.6
Nine months ended September 30,						
PIF (thousands)	19,852	20,367	1,395	1,433	649	746
New issued applications (thousands)	1,750	2,400	460	488	43	66
Average premium [1]	$ 518	$ 489	$ 544	$ 514	$ 997	$ 934
Renewal ratio (%) [1]	87.9	88.8	79.5	79.6	74.9	77.7
Approved rate changes [2]:						
# of locations [3]	51	47	26	32	22	25
Total brand (%) [4]	5.9	3.4	2.0	4.1	7.3	7.4
Location specific (%) [5] [6]	7.0	5.1	4.4	5.7	10.1	9.0

(1) Policy term is six months for Allstate and Esurance brands and twelve months for Encompass brand.

(2) Rate changes that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued. Rate changes do not include rating plan enhancements, including the introduction of discounts and surcharges that result in no change in the overall rate level in a location. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a location.

(3) Allstate brand operates in 50 states, the District of Columbia, and 5 Canadian provinces. Esurance brand operates in 43 states and 1 Canadian province. Encompass brand operates in 40 states and the District of Columbia.

(4) Represents the impact in the states, the District of Columbia and Canadian provinces where rate changes were approved during the period as a percentage of total brand prior year-end premiums written.

(5) Represents the impact in the states, the District of Columbia and Canadian provinces where rate changes were approved during the period as a percentage of its respective total prior year-end premiums written in those same locations.

(6) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto for all three brands totaled $209 million and $1.17 billion in the three and nine months ended September 30, 2016, respectively, compared to $304 million and $710 million in the three and nine months ended September 30, 2015, respectively.

Allstate brand auto premiums written totaled $4.94 billion in the third quarter of 2016, a 4.1% increase from $4.75 billion in the third quarter of 2015, and $14.45 billion in the first nine months of 2016, a 4.2% increase from $13.87 billion in the first nine months of 2015. Factors impacting premiums written were the following:

- 2.5% or 515 thousand decrease in PIF as of September 30, 2016 compared to September 30, 2015. Allstate brand auto PIF increased in 8 states, including 1 out of our largest 10 states, as of September 30, 2016 compared to September 30, 2015.
- 26.1% and 27.1% decrease in new issued applications in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. All of our largest 10 states experienced decreases in new issued applications in both the third quarter and first nine months of 2016 compared to the same periods of 2015.
- 7.7% and 5.9% increase in average premium in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015, primarily due to rate increases. Based on historical premiums written, the annual impact of rate changes approved for auto totaled $192 million and $1.09 billion in the three and nine months ended September 30, 2016, respectively, compared to $277 million and $600 million in the three and nine months ended September 30, 2015, respectively. These amounts do not assume customer choices such as non-renewal or changes in policy terms which might reduce future premiums. Approximately 30% of the change in rates approved for auto in the third quarter of 2016 are driven by the increases approved in 5 out of our 10 largest states. Fluctuation in the Canadian exchange rate had no impact to premiums written and average premium growth rates in third quarter of 2016 and reduced premiums written and average premium growth rates by 0.2 points in the first nine months of 2016.

- 1.1 point and 0.9 point decrease in the renewal ratio in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. Of our largest 10 states, 9 experienced decreases in the renewal ratio in both the third quarter and first nine months of 2016 compared to the same periods of 2015.

We regularly monitor profitability trends and take appropriate pricing actions, underwriting actions, claims process improvements focused on managing loss costs and targeted expense spending reductions to achieve adequate returns. Given loss trends emerging in 2015, we responded with a multi-faceted approach to improve profitability, which has impacted our growth.

- We increased and accelerated rate filings broadly across the country. Approximately 34% of the Allstate brand rate increases approved in the first nine months of 2016 are expected to be earned in 2016, with the remainder expected to be earned in 2017 and 2018. We continue to aggressively pursue rate increases to respond to higher loss trends, subject to regulatory processes and review.
- We made underwriting guideline adjustments in state specific locations and customer segments experiencing less than acceptable returns which reduced the number of new issued applications and slowed growth. Underwriting guideline adjustments vary by state and include restrictions on business with no prior insurance as well as business with prior accidents and violations. Changes in down payment requirements and coverage plan adjustments have also been implemented. These changes are intended to increase underwriting margin and are continually monitored. In 2016, as targeted underwriting results in these segments are achieved, the guidelines are modified appropriately.

Esurance brand auto premiums written totaled $428 million in the third quarter of 2016, a 4.1% increase from $411 million in the third quarter of 2015; $1.24 billion in the first nine months of 2016, a 2.9% increase from $1.21 billion in the first nine months of 2015. Profit improvement actions impacting growth include rate increases, underwriting guideline adjustments, and decreased marketing in select geographies to manage risks. Factors impacting premiums written were the following:

- 2.7% or 38 thousand decrease in PIF as of September 30, 2016 compared to September 30, 2015.
- 4.1% increase in new issued applications in the third quarter of 2016 compared to the same period of 2015, due to reallocation of advertising spending from less effective to more productive channels; 5.7% decrease in the first nine months of 2016 compared to the same period of 2015, due to a decrease in marketing activities and the impact of rate increases. Quote volume increased in the third quarter of 2016 compared to the same period of 2015 consistent with the advertising spending reallocation and decreased in the first nine months of 2016 compared to the same period of 2015 due to marketing spending reductions. The conversion rate (the percentage of actual issued policies to completed quotes) decreased 0.1 points and increased 0.3 points in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015.
- 6.4% and 5.8% increase in average premium in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015.
- 0.2 point increase and 0.1 point decrease in the renewal ratio in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015.

Encompass brand auto premiums written totaled $153 million in the third quarter of 2016, a 9.5% decrease from $169 million in the third quarter of 2015, and $453 million in the first nine months of 2016, a 7.4% decrease from $489 million in the first nine months of 2015. Profit improvement actions are being implemented in states with inadequate returns, and have impacted growth. These actions are tailored based on geography and include higher rates, enhanced pricing and underwriting sophistication, and a focus on geographic presence and product distribution. Factors impacting premiums written were the following:

- 13.0% or 97 thousand decrease in PIF as of September 30, 2016 compared to September 30, 2015.
- 35.0% and 34.8% decrease in new issued applications in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015.
- 6.1% and 6.7% increase in average premium in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015.
- 3.6 point and 2.8 point decrease in the renewal ratio in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. Encompass sells a high percentage of package policies that include both auto and homeowners; therefore, declines in one coverage can contribute to declines in the other.

Homeowners premiums written totaled $2.01 billion in the third quarter of 2016, a 0.8% decrease from $2.02 billion in the third quarter of 2015, and $5.48 billion in both the first nine months of 2016 and 2015. Excluding the cost of catastrophe reinsurance, premiums written decreased 0.3% and 1.2% in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015.

	Allstate brand		Esurance brand		Encompass brand	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Three months ended September 30,						
PIF (thousands)	6,109	6,163	52	26	305	347
New issued applications (thousands)	188	218	10	8	9	12
Average premium [1]	$ 1,181	$ 1,158	$ 872	$ 838	$ 1,659	$ 1,583
Renewal ratio (%) [1] [2]	87.9	88.7	76.1	N/A	77.9	82.5
Approved rate changes [3]:						
# of locations [4]	10	6	N/A	N/A	5	8
Total brand (%)	0.2	0.4	N/A	N/A	1.4	1.2
Location specific (%) [5]	4.6	6.4	N/A	N/A	9.2	5.9
Nine months ended September 30,						
PIF (thousands)	6,109	6,163	52	26	305	347
New issued applications (thousands)	545	607	28	21	27	38
Average premium [1]	$ 1,176	$ 1,152	$ 877	$ 836	$ 1,636	$ 1,546
Renewal ratio (%) [1] [2]	87.9	88.5	76.1	N/A	79.7	82.9
Approved rate changes [3]:						
# of locations [4]	33	23	N/A	N/A	16	23
Total brand (%)	0.6 [6]	1.3	N/A	N/A	4.5	4.9
Location specific (%) [5]	1.6 [6]	4.2	N/A	N/A	9.4	8.5

(1) Policy term is twelve months.

(2) Esurance's retention ratios will appear lower due to its underwriting process. Customers can enter into a policy without a physical inspection. During the underwriting review period, a number of policies may be canceled if upon inspection the condition is unsatisfactory. Excluding the impact of risk related cancellations, Esurance's retention ratio was 81.8% and 82.5% for the three and nine months ended September 30, 2016, respectively.

(3) Includes rate changes approved based on our net cost of reinsurance.

(4) Allstate brand operates in 50 states, the District of Columbia, and 5 Canadian provinces. Esurance brand operates in 30 states and 2 Canadian provinces. Encompass brand operates in 40 states and the District of Columbia.

(5) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for homeowners for all three brands totaled $23 million and $66 million in the three and nine months ended September 30, 2016, respectively, compared to $31 million and $114 million in the three and nine months ended September 30, 2015, respectively.

(6) Includes the impact of a rate decrease in California in first quarter 2016. Excluding California, Allstate brand homeowners total brand and location specific rate changes were 1.6% and 5.2% for the nine months ended September 30, 2016, respectively.

N/A reflects not applicable.

Allstate brand homeowners premiums written totaled $1.87 billion in the third quarter of 2016, a 0.5% decrease from $1.88 billion in the third quarter of 2015, and $5.09 billion in the first nine months of 2016, a 0.3% increase from $5.08 billion in the first nine months of 2015. We continue to be disciplined in how we manage margins as we increase rates and implement other actions to maintain or improve returns where required. Factors impacting premiums written were the following:

- 0.9% or 54 thousand decrease in PIF as of September 30, 2016 compared to September 30, 2015. Allstate brand homeowners PIF increased in 18 states, including 3 out of our largest 10 states, as of September 30, 2016 compared to September 30, 2015.
- 13.8% and 10.2% decrease in new issued applications in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. Of our largest 10 states, 8 experienced decreases in new issued applications in both the third quarter and first nine months of 2016 compared to the same periods of 2015.
- 2.0% and 2.1% increase in average premium in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015, primarily due to rate changes and increasing insured home valuations due to inflationary costs. Fluctuation in the Canadian exchange rate had no impact to premiums written and average premium growth rates in third quarter 2016 and reduced premiums written and average premium growth rates by 0.1 points in the first nine months of 2016.

- 0.8 point and 0.6 point decrease in the renewal ratio in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. Of our largest 10 states, 8 experienced decreases in the renewal ratio in both the third quarter and first nine months of 2016 compared to the same periods of 2015.
- $9 million decrease in the cost of our catastrophe reinsurance program to $80 million in the third quarter of 2016 from $89 million in the third quarter of 2015, and $23 million decrease to $256 million in the first nine months of 2016 from $279 million in the first nine months of 2015. Catastrophe reinsurance premiums are recorded primarily in Allstate brand and are a reduction of premium.

Premiums written for Allstate's House and Home product, our redesigned homeowners new business offering currently available in 76% of total states, totaled $532 million in the third quarter of 2016 compared to $429 million in the third quarter of 2015, and $1.40 billion in the first nine months of 2016 compared to $1.08 billion in the first nine months of 2015. The House and Home product is available in 75% of the states where our catastrophe losses occurred in the first nine months of 2016.

Esurance brand homeowners premiums written totaled $16 million in the third quarter of 2016 compared to $9 million in the third quarter of 2015, and $41 million in the first nine months of 2016 compared to $21 million in the first nine months of 2015. Factors impacting premiums written were the following:

- 26 thousand increase in PIF as of September 30, 2016 compared to September 30, 2015.
- 2 thousand and 7 thousand increase in new issued applications in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015.

Encompass brand homeowners premiums written totaled $121 million in the third quarter of 2016, a 9.7% decrease from $134 million in the third quarter of 2015, and $351 million in the first nine months of 2016, a 7.9% decrease from $381 million in the first nine months of 2015. Profit improvement actions are being implemented in states with inadequate returns, and have impacted growth. These actions are tailored based on geography and include higher rates, enhanced pricing and underwriting sophistication, and a focus on geographic presence and product distribution. Factors impacting premiums written were the following:

- 12.1% or 42 thousand decrease in PIF as of September 30, 2016 compared to September 30, 2015.
- 25.0% and 28.9% decrease in new issued applications in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015.
- 4.8% and 5.8% increase in average premium in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015, primarily due to rate changes.
- 4.6 point and 3.2 point decrease in the renewal ratio in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. Encompass sells a high percentage of package policies that include both auto and homeowners; therefore, declines in one coverage can contribute to declines in the other.

Other personal lines Allstate brand other personal lines premiums written totaled $447 million in the third quarter of 2016, a 4.2% increase from $429 million in the third quarter of 2015, and $1.23 billion in the first nine months of 2016, a 1.5% increase from $1.21 billion in the first nine months of 2015. The increases in both periods were primarily due to increased average premium for condominium insurance.

Commercial lines premiums written totaled $123 million in the third quarter of 2016, a 0.8% decrease from $124 million in the third quarter of 2015, and $384 million in the first nine months of 2016, a 1.5% decrease from $390 million in the first nine months of 2015. The decreases in both periods were driven by decreased new business and lower renewals due to profit improvement actions, partially offset by higher average premiums.

Other business lines premiums written totaled $185 million in the third quarter of 2016, a 9.8% decrease from $205 million in the third quarter of 2015, and $551 million in the nine months of 2016, a 6.3% decrease from $588 million in the first nine months of 2015. The decreases in both periods were primarily due to declines in Allstate Roadside Services and Allstate Dealer Services premiums.

Underwriting results are shown in the following table.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Premiums written	$ 8,309	$ 8,137	$ 23,875	$ 23,320
Premiums earned	$ 7,869	$ 7,650	$ 23,406	$ 22,625
Claims and claims expense	(5,454)	(5,207)	(17,036)	(15,784)
Amortization of DAC	(1,068)	(1,029)	(3,181)	(3,050)
Other costs and expenses	(887)	(866)	(2,651)	(2,761)
Restructuring and related charges	(5)	(8)	(20)	(29)
Underwriting income	$ 455	$ 540	$ 518	$ 1,001
Catastrophe losses	$ 481	$ 270	$ 2,269	$ 1,361
Underwriting income (loss) by line of business				
Auto	$ 24	$ 22	$ (44)	$ (13)
Homeowners	395	465	528	922
Other personal lines	50	43	104	104
Commercial lines	(19)	(5)	(90)	(33)
Other business lines	7	16	25	27
Answer Financial	(2)	(1)	(5)	(6)
Underwriting income	$ 455	$ 540	$ 518	$ 1,001
Underwriting income (loss) by brand				
Allstate brand	$ 493	$ 571	$ 654	$ 1,183
Esurance brand	(41)	(26)	(103)	(136)
Encompass brand	5	(4)	(28)	(40)
Answer Financial	(2)	(1)	(5)	(6)
Underwriting income	$ 455	$ 540	$ 518	$ 1,001

The following tables summarize the changes in underwriting results from the prior year. The 2016 columns present changes in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. The 2015 columns present changes in the third quarter and first nine months of 2015, respectively, compared to the same periods of 2014. The components of the increase (decrease) in underwriting income (loss) by line of business are shown in the following tables.

($ in millions)	Three months ended September 30,									
	Auto		Homeowners		Other personal lines		Commercial lines		Allstate Protection (1)	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Underwriting income (loss) - prior period	$ 22	$ 226	$ 465	$ 287	$ 43	$ 55	$ (5)	$ 10	$ 540	$ 579
Changes in underwriting income (loss) from:										
Premiums earned	199	264	18	55	1	7	(1)	8	219	344
Incurred claims and claims expense (“losses”):										
Incurred losses, excluding catastrophe losses and reserve reestimates	(50)	(475)	(11)	(37)	3	(17)	14	(20)	(40)	(549)
Catastrophe losses, excluding reserve reestimates	(139)	71	(57)	166	(6)	2	(4)	—	(206)	239
Non-catastrophe reserve reestimates	24	(89)	(6)	(5)	13	—	(25)	(6)	4	(101)
Catastrophe reserve reestimates	—	(4)	(5)	11	—	—	—	1	(5)	8
Total reserve reestimates	24	(93)	(11)	6	13	—	(25)	(5)	(1)	(93)
Subtotal - losses	(165)	(497)	(79)	135	10	(15)	(15)	(25)	(247)	(403)
Expenses	(32)	29	(9)	(12)	(4)	(4)	2	2	(57)	20
Underwriting income (loss) - current period	$ 24	$ 22	$ 395	$ 465	$ 50	$ 43	$ (19)	$ (5)	$ 455	$ 540

	Nine months ended September 30,									
	Auto		Homeowners		Other personal lines		Commercial lines		Allstate Protection (1)	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Underwriting (loss) income - prior period	$ (13)	$ 539	$ 922	$ 472	$ 104	$ 103	$ (33)	$ 13	$ 1,001	$ 1,146
Changes in underwriting income (loss) from:										
Premiums earned	660	793	107	180	3	24	2	30	781	1,051
Incurred claims and claims expense (“losses”):										
Incurred losses, excluding catastrophe losses and reserve reestimates	(491)	(1,208)	55	(86)	28	(45)	(4)	(53)	(399)	(1,399)
Catastrophe losses, excluding reserve reestimates	(319)	127	(514)	335	(55)	27	(8)	5	(896)	494
Non-catastrophe reserve reestimates	90	(205)	(5)	5	25	(1)	(54)	(19)	55	(222)
Catastrophe reserve reestimates	—	(7)	(13)	55	1	(3)	—	(2)	(12)	43
Total reserve reestimates	90	(212)	(18)	60	26	(4)	(54)	(21)	43	(179)
Subtotal - losses	(720)	(1,293)	(477)	309	(1)	(22)	(66)	(69)	(1,252)	(1,084)
Expenses	29	(52)	(24)	(39)	(2)	(1)	7	(7)	(12)	(112)
Underwriting (loss) income - current period	$ (44)	$ (13)	$ 528	$ 922	$ 104	$ 104	$ (90)	$ (33)	$ 518	$ 1,001

(1) Includes other business lines underwriting income of $7 million and $16 million in the third quarter of 2016 and 2015, respectively, and $25 million and $27 million in the first nine months of 2016 and 2015, respectively. Includes Answer Financial underwriting loss of $2 million and $1 million in the third quarter of 2016 and 2015, respectively, and $5 million and $6 million in the first nine months of 2016 and 2015, respectively.

The components of the increase (decrease) in underwriting income (loss) by brand are shown in the following table.

($ in millions)	Three months ended September 30,					
	Allstate brand		Esurance brand		Encompass brand	
	2016	2015	2016	2015	2016	2015
Underwriting income (loss) - prior period	$ 571	$ 676	$ (26)	$ (62)	$ (4)	$ (31)
Changes in underwriting income (loss) from:						
Premiums earned	220	317	19	26	(20)	1
Incurred claims and claims expense (“losses”):						
Incurred losses, excluding catastrophe losses and reserve reestimates	(36)	(546)	(23)	(12)	19	9
Catastrophe losses, excluding reserve reestimates	(184)	199	(12)	5	(10)	35
Non-catastrophe reserve reestimates	(10)	(81)	(2)	3	16	(23)
Catastrophe reserve reestimates	(6)	9	1	(1)	—	—
Total reserve reestimates	(16)	(72)	(1)	2	16	(23)
Subtotal - losses	(236)	(419)	(36)	(5)	25	21
Expenses	(62)	(3)	2	15	4	5
Underwriting income (loss) - current period [(1)]	$ 493	$ 571	$ (41)	$ (26)	$ 5	$ (4)

	Nine months ended September 30,					
	Allstate brand		Esurance brand		Encompass brand	
	2016	2015	2016	2015	2016	2015
Underwriting income (loss) - prior period	$ 1,183	$ 1,453	$ (136)	$ (200)	$ (40)	$ (98)
Changes in underwriting income (loss) from:						
Premiums earned	776	919	49	106	(44)	26
Incurred claims and claims expense (“losses”):						
Incurred losses, excluding catastrophe losses and reserve reestimates	(423)	(1,304)	(25)	(81)	49	(14)
Catastrophe losses, excluding reserve reestimates	(870)	425	(21)	8	(5)	61
Non-catastrophe reserve reestimates	58	(204)	(1)	2	(2)	(20)
Catastrophe reserve reestimates	(12)	42	1	(1)	(1)	2
Total reserve reestimates	46	(162)	—	1	(3)	(18)
Subtotal - losses	(1,247)	(1,041)	(46)	(72)	41	29
Expenses	(58)	(148)	30	30	15	3
Underwriting income (loss) - current period [(1)]	$ 654	$ 1,183	$ (103)	$ (136)	$ (28)	$ (40)

[(1)] Allstate Protection also includes Answer Financial underwriting loss of $2 million and $1 million in the third quarter of 2016 and 2015, respectively, and $5 million and $6 million in the first nine months of 2016 and 2015, respectively.

For more information, see the previous discussions of premiums written and the combined, loss and expense ratio discussion below.

Combined ratios by brand are shown in the following table.

	Three months ended September 30,							
	Allstate brand		Esurance brand		Encompass brand		Allstate Protection	
	2016	2015	2016	2015	2016	2015	2016	2015
Loss ratio	68.8	67.6	78.0	72.7	69.6	73.1	69.3	68.0
Expense ratio	24.3	24.2	31.8	33.8	28.7	28.2	24.9	24.9
Combined ratio	93.1	91.8	109.8	106.5	98.3	101.3	94.2	92.9

	Nine months ended September 30,							
	Allstate brand		Esurance brand		Encompass brand		Allstate Protection	
	2016	2015	2016	2015	2016	2015	2016	2015
Loss ratio	72.5	69.2	75.9	75.1	74.4	75.2	72.8	69.8
Expense ratio	24.4	25.0	32.4	36.3	28.7	29.0	25.0	25.8
Combined ratio	96.9	94.2	108.3	111.4	103.1	104.2	97.8	95.6

Loss ratios by brand and line of business are analyzed in the following table.

	Three months ended September 30,									
	Auto		Homeowners		Other personal lines		Commercial lines		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Allstate brand										
Loss ratio (1)	75.3	75.2	53.1	49.3	59.2	60.9	88.2	75.8	68.8	67.6
Effect of catastrophe losses on combined ratio	3.1	0.5	15.4	12.4	6.0	4.5	5.5	2.3	6.2	3.6
Effect of prior year reserve reestimates on combined ratio	(0.1)	0.1	(0.3)	(0.9)	(0.8)	1.8	10.3	(9.3)	—	(0.2)
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	(0.1)	(0.1)	0.3	(0.1)	(0.3)	—	—	—	—	(0.1)
Esurance brand										
Loss ratio (1)	77.3	72.7	100.0	80.0	100.0	50.0	—	—	78.0	72.7
Effect of catastrophe losses on combined ratio	2.2	0.5	45.5	20.0	—	—	—	—	3.3	0.8
Effect of prior year reserve reestimates on combined ratio	(1.0)	(1.3)	—	—	—	—	—	—	(1.0)	(1.3)
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	—	0.2	—	—	—	—	—	—	—	0.3
Encompass brand										
Loss ratio (1)	75.5	81.8	62.2	59.1	68.0	85.2	—	—	69.6	73.1
Effect of catastrophe losses on combined ratio	3.3	0.6	17.6	11.8	4.0	3.7	—	—	9.0	5.3
Effect of prior year reserve reestimates on combined ratio	(1.3)	7.9	1.7	—	4.0	14.8	—	—	0.3	5.4
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	—	—	0.8	1.6	—	(3.7)	—	—	0.3	0.3
Allstate Protection										
Loss ratio (1)	75.5	75.2	53.9	50.1	59.9	62.4	88.2	75.8	69.3	68.0
Effect of catastrophe losses on combined ratio	3.1	0.5	15.7	12.4	5.9	4.5	5.5	2.3	6.1	3.5
Effect of prior year reserve reestimates on combined ratio	(0.2)	0.3	(0.2)	(0.8)	(0.5)	2.6	10.3	(9.3)	—	—
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	(0.1)	—	0.3	0.1	(0.3)	(0.2)	—	—	—	—

	Nine months ended September 30,									
	Auto		Homeowners		Other personal lines		Commercial lines		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Allstate brand										
Loss ratio [1]	75.8	74.2	66.2	57.9	63.3	62.9	95.6	78.8	72.5	69.2
Effect of catastrophe losses on combined ratio	3.4	1.3	29.3	19.5	12.5	8.0	7.3	5.3	10.0	6.1
Effect of prior year reserve reestimates on combined ratio	(0.2)	0.4	0.1	(0.2)	(1.3)	0.8	14.6	0.5	0.1	0.3
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	—	(0.1)	0.4	0.2	(0.1)	—	1.0	1.0	0.1	—
Esurance brand										
Loss ratio [1]	75.7	75.3	86.2	66.7	66.7	60.0	—	—	75.9	75.1
Effect of catastrophe losses on combined ratio	1.7	0.8	37.9	16.6	—	—	—	—	2.5	0.9
Effect of prior year reserve reestimates on combined ratio	(1.0)	(1.0)	—	—	—	—	—	—	(1.0)	(1.0)
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	—	0.1	—	—	—	—	—	—	—	0.1
Encompass brand										
Loss ratio [1]	78.4	76.8	67.1	70.0	84.2	90.1	—	—	74.4	75.2
Effect of catastrophe losses on combined ratio	2.1	1.2	24.2	22.4	5.3	6.2	—	—	11.2	10.0
Effect of prior year reserve reestimates on combined ratio	1.1	0.6	0.8	0.2	10.5	11.1	—	—	1.8	1.4
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	(0.2)	(0.3)	0.5	—	(1.3)	—	—	—	—	(0.1)
Allstate Protection										
Loss ratio [1]	75.9	74.4	66.4	58.8	64.6	64.7	95.6	78.8	72.8	69.8
Effect of catastrophe losses on combined ratio	3.2	1.3	29.0	19.7	12.0	7.8	7.3	5.3	9.7	6.0
Effect of prior year reserve reestimates on combined ratio	(0.3)	0.3	0.1	(0.2)	(0.6)	1.4	14.6	0.5	0.1	0.3
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	(0.1)	—	0.3	0.1	(0.1)	(0.1)	1.0	1.0	0.1	—

[1] Ratios are calculated using the premiums earned for the respective brand and line of business.

Auto loss ratio for the Allstate brand increased 0.1 points in the third quarter of 2016 compared to the same period of 2015, due to increased catastrophe losses, which were higher than historical averages, and rising loss costs, partially offset by increased premiums earned. Auto loss ratio for the Allstate brand increased 1.6 points in the first nine months of 2016 compared to the same period of 2015, due to increased catastrophe losses and rising loss costs, partially offset by increased premiums earned and favorable prior year reserve reestimates.

Frequency and severity statistics are provided to describe the trends in loss costs of the business. Our reserving process incorporates changes in loss patterns, operational statistics and changes in claims reporting processes to determine our best estimate of recorded reserves.

The paid claim frequency is calculated as annualized notice counts closed with payment in the period divided by the average of policies in force with the applicable coverage during the period. The gross claim frequency is calculated as annualized notice counts received in the period divided by the average of policies in force with the applicable coverage during the period. Gross claim frequency includes all actual notice counts, regardless of their current status (open or closed) or their ultimate disposition (closed with a payment or closed without payment). Frequency statistics exclude counts associated with catastrophe events. The percent change in paid or gross claim frequency is calculated as the amount of increase or decrease in the paid or gross claim frequency in the current period compared to the same period in the prior year; divided by the prior year paid or gross claim frequency. Paid claim frequency trends emerge more slowly than gross claim frequency because of the difference between the timing of when notices are received and when claims are settled. Paid claim frequency trends emerge more quickly for property damage claims which are settled in a much shorter period of time than bodily injury claims. Quarterly fluctuations in bodily injury paid claim frequency can be volatile.

Paid claim severity is calculated by dividing the sum of paid losses and loss expenses by claims closed with a payment during the period. The rate of change in paid severity is the year over year percent increase or decrease in paid claim severity for the period.

Claim practices remain focused on process excellence through tactical actions such as improved cycle time, enhanced processes at first notice of loss, enhanced loss estimation and repair estimation oversight. Claim process changes can impact operational loss statistics, including paid or gross frequency and paid severity, depending on the specific change.

Bodily injury paid claim frequency decreased 19.6% and 4.0% while bodily injury paid claim severity increased 12.4% and 0.7% in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. These changes are related and reflect payment mix and claim closure patterns that were impacted by changes in bodily injury claim processes to require enhanced documentation of injuries and related medical treatments. As a result, fewer claims were opened and paid in third quarter 2016, but those that were paid had higher average payments. Normalizing for the process enhancements made to bodily injury claims in the quarter, bodily injury paid claim frequency and severity, consistently measured, would have been generally consistent with those observed during the first half of 2016. Bodily injury paid claim severity, after adjusting for timing and mix, increased in 2016 consistent with inflationary indices.

Bodily injury gross claim frequency increased 0.3% and 1.4% in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015.

Property damage paid claim frequency increased 0.1% and 0.8% in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. Approximately 44% of individual states experienced a year over year increase while 56% of individual states experienced a year over year decrease in property damage paid claim frequency in third quarter 2016 when compared to third quarter 2015. Property damage paid claim severities increased 1.9% and 4.8% in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. Property damage paid claim severity increased year to date in 2016 relative to inflationary indices, which were also elevated from prior year. Contributing factors include the impact of higher frequency on the auto repair industry, higher costs to repair more sophisticated newer model vehicles and increased volume of total losses.

With the increase in auto frequency experienced in recent quarters, claim handling processes were modified to more completely identify instances of liability at first notice of loss. Changes in property damage claim opening practices can impact gross claim frequency comparisons to prior year. This resulted in an increase in the number of counted claims as well as an increase in claims closed without payment, as in many instances, we were ultimately not required to provide indemnification. Including the changes in claim opening practices, property damage gross claim frequency increased 3.9% and 3.8% in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. Auto underwriting results for 2016 were not impacted as our reserve processes incorporated these changes.

Esurance brand auto loss ratio increased 4.6 points and 0.4 points in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015, primarily due to higher claim frequency and catastrophe losses, partially offset by increases in average premiums earned.

Encompass brand auto loss ratio decreased 6.3 points in the third quarter of 2016 compared to the same period of 2015, primarily due to favorable prior year reserve reestimates, partially offset by higher catastrophe losses. Encompass brand auto loss ratio increased 1.6 points in the first nine months of 2016 compared to the same period of 2015, primarily due to higher catastrophe losses and higher unfavorable prior year reserve reestimates.

Homeowners loss ratio for the Allstate brand increased 3.8 points and 8.3 points in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015, primarily due to higher catastrophe losses and higher unfavorable prior year reserve reestimates. Paid claim frequency excluding catastrophe losses increased 0.7% and decreased 5.4% in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. Paid claim severity excluding catastrophe losses decreased 0.5% and increased 0.6% in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. Homeowner paid claim severity can be impacted by both the mix of perils and the magnitude of specific losses paid during the quarter.

Encompass brand homeowners loss ratio increased 3.1 points in the third quarter of 2016 compared to the same period of 2015, primarily due to higher catastrophe losses and higher unfavorable prior year reserve reestimates. Encompass brand homeowners loss ratio decreased 2.9 points in the first nine months of 2016 compared to the same period of 2015, primarily due to lower claim frequency.

Commercial lines loss ratio increased 12.4 points and 16.8 points in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015, primarily due to higher unfavorable prior year reserve reestimates, higher catastrophe losses and higher claim severity.

Catastrophe losses were $481 million and $2.27 billion in the third quarter and first nine months of 2016, respectively, compared to $270 million and $1.36 billion in the third quarter and first nine months of 2015, respectively.

We define a "catastrophe" as an event that produces pre-tax losses before reinsurance in excess of $1 million and involves multiple first party policyholders, or a winter weather event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms and freezes, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes and volcanoes. We are also exposed to man-made catastrophic events, such as certain types of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be reliably predicted.

Catastrophe losses by the size of event are shown in the following table.

($ in millions)	Three months ended September 30, 2016					
	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
Greater than $250 million	—	—%	$ —	— %	—	$ —
$101 million to $250 million	1	2.9	105	21.8	1.4	105
$50 million to $100 million	1	2.9	97	20.2	1.2	97
Less than $50 million	33	94.2	290	60.3	3.7	9
Total	35	100.0%	492	102.3	6.3	14
Prior year reserve reestimates			3	0.6	—	
Prior quarter reserve reestimates			(14)	(2.9)	(0.2)	
Total catastrophe losses			$ 481	100.0 %	6.1	

	Nine months ended September 30, 2016					
	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
Greater than $250 million	2	2.7%	$ 626	27.6 %	2.7	$ 313
$101 million to $250 million	2	2.7	291	12.8	1.2	146
$50 million to $100 million	5	6.6	362	15.9	1.5	72
Less than $50 million	66	88.0	977	43.1	4.2	15
Total	75	100.0%	2,256	99.4	9.6	30
Prior year reserve reestimates			13	0.6	0.1	
Total catastrophe losses			$ 2,269	100.0 %	9.7	

Catastrophe losses by the type of event are shown in the following table.

($ in millions)	Three months ended September 30,				Nine months ended September 30,			
	Number of events	2016	Number of events	2015	Number of events	2016	Number of events	2015
Hurricanes/Tropical storms	1	$ 17	—	$ —	1	$ 17	1	$ 19
Tornadoes	2	9	—	—	2	9	1	32
Wind/Hail	28	434	19	208	64	2,120	54	1,023
Wildfires	4	32	3	44	6	53	6	50
Other events	—	—	—	—	2	57	4	236
Prior year reserve reestimates		3		(2)		13		1
Prior quarter reserve reestimates		(14)		20		—		—
Total catastrophe losses	35	$ 481	22	$ 270	75	$ 2,269	66	$ 1,361

Expense ratio for Allstate Protection remained flat in the third quarter of 2016 and decreased 0.8 points in the first nine months of 2016, respectively, compared to the same periods of 2015. The impact of specific costs and expenses on the expense ratio are shown in the following table.

	Three months ended September 30,							
	Allstate brand		Esurance brand		Encompass brand		Allstate Protection	
	2016	2015	2016	2015	2016	2015	2016	2015
Amortization of DAC	14.0	13.9	2.4	2.8	18.4	18.5	13.5	13.5
Advertising expense	2.2	2.0	11.7	11.0	—	0.3	2.6	2.4
Amortization of purchased intangible assets	—	—	1.5	2.0	—	—	0.1	0.2
Other costs and expenses	8.0	8.2	16.2	18.0	10.3	9.4	8.6	8.7
Restructuring and related charges	0.1	0.1	—	—	—	—	0.1	0.1
Total expense ratio	24.3	24.2	31.8	33.8	28.7	28.2	24.9	24.9

	Nine months ended September 30,							
	Allstate brand		Esurance brand		Encompass brand		Allstate Protection	
	2016	2015	2016	2015	2016	2015	2016	2015
Amortization of DAC	14.0	13.9	2.4	2.6	18.5	18.5	13.6	13.5
Advertising expenses	2.0	2.2	11.9	13.6	0.1	0.5	2.4	2.7
Amortization of purchased intangible assets	—	—	1.5	2.2	—	—	0.1	0.2
Other costs and expenses	8.3	8.8	16.6	17.9	10.0	9.9	8.8	9.3
Restructuring and related charges	0.1	0.1	—	—	0.1	0.1	0.1	0.1
Total expense ratio	24.4	25.0	32.4	36.3	28.7	29.0	25.0	25.8

Allstate brand expense ratio increased 0.1 points in the third quarter of 2016 compared to the third quarter of 2015. Allstate brand expense ratio decreased 0.6 points in the first nine months of 2016 compared to the same period of 2015, primarily due to expense spending reductions in professional services and advertising costs, and lower accruals for compensation incentives, partially offset by an increase in the amortization of acquisition costs. Expense spending reductions were primarily related to actions that could be modified as margins return to targeted underwriting results or that fluctuate based on growth and profitability. For areas where we are trending towards acceptable levels of return, spending on growth is being reinstated. Amortization of DAC primarily includes agent remuneration and premium taxes. Allstate agency total incurred base commissions, variable compensation and bonuses in the third quarter and first nine months of 2016 were higher than the same periods of 2015.

Esurance brand expense ratio decreased 2.0 points and 3.9 points in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. Esurance advertising expense ratio increased 0.7 points in the third quarter of 2016 compared to the same period of 2015, due to increased homeowners advertising spending. Esurance advertising expense ratio decreased 1.7 points in the first nine months of 2016 compared to the same period of 2015 in conjunction with our profitability actions. We determine advertising levels based on the prospects of achieving targeted returns and growth objectives. The Esurance brand expense ratio also includes purchased intangible assets from original acquisition in 2011 that are amortized on an accelerated basis with over 80% of the amortization taking place by 2016. Other costs and expenses, including salaries of telephone sales personnel and other underwriting costs related to customer acquisition, were lower in the third quarter and first nine months of 2016 compared to the same periods of 2015.

Esurance continued to invest in expansion initiatives, including costs incurred to expand beyond our initial 30 states at acquisition, adding new products such as homeowners, motorcycle, and usage based insurance and expanding into the Canadian market. The related expenses contributed approximately 5.4 points in the third quarter of 2016 compared to 3.8 points to the total expense ratio in the third quarter of 2015, and 5.1 points in the first nine months of 2016 compared to 4.2 points in the first nine months of 2015. Advertising expenses included 3.5 points and 3.1 points in the third quarter and first nine months of 2016, respectively, related to expansion initiatives, compared to 1.1 points in both the third quarter and first nine months of 2015. Other costs and expenses included 1.9 points and 2.0 points in the third quarter and first nine months of 2016, respectively, related to expansion initiatives, compared to 2.7 points and 3.1 points in the third quarter and first nine months of 2015, respectively.

Encompass brand expense ratio increased 0.5 points in the third quarter of 2016, primarily due to increased spending in professional services, partially offset by less advertising spending. Encompass brand expense ratio decreased 0.3 points in the first nine months of 2016 compared to the same period of 2015, primarily due to expense spending reductions in advertising and marketing costs.

Income tax expense in first quarter 2015 included $28 million related to our adoption of new accounting guidance for investments in qualified affordable housing projects.

Reserve reestimates The tables below show reserves, net of reinsurance, representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2016 and 2015 and the effect of reestimates in each year.

($ in millions)	**January 1 reserves**	
	2016	**2015**
Auto	$ 12,459	$ 11,698
Homeowners	1,937	1,849
Other personal lines	1,490	1,502
Commercial lines	554	549
Other business lines	21	19
Total Allstate Protection	$ 16,461	$ 15,617

($ in millions, except ratios)	**Three months ended September 30,**				**Nine months ended September 30,**			
	Reserve reestimate [1]		**Effect on combined ratio** [2]		**Reserve reestimate** [1]		**Effect on combined ratio** [2]	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Auto	$ (10)	$ 14	(0.1)	0.2	$ (41)	$ 49	(0.2)	0.2
Homeowners	(4)	(15)	(0.1)	(0.2)	8	(10)	—	—
Other personal lines	(2)	11	—	0.1	(8)	18	—	0.1
Commercial lines	13	(12)	0.2	(0.1)	56	2	0.3	—
Other business lines	3	1	—	—	3	2	—	—
Total Allstate Protection [3]	$ —	$ (1)	—	—	$ 18	$ 61	0.1	0.3
Allstate brand	$ 3	$ (13)	—	(0.2)	$ 14	$ 60	0.1	0.3
Esurance brand	(4)	(5)	—	—	(12)	(12)	(0.1)	(0.1)
Encompass brand	1	17	—	0.2	16	13	0.1	0.1
Total Allstate Protection	$ —	$ (1)	—	—	$ 18	$ 61	0.1	0.3

(1) Favorable reserve reestimates are shown in parentheses.

(2) Ratios are calculated using Property-Liability premiums earned.

(3) Prior year reserve reestimates included in catastrophe losses totaled $3 million and $13 million unfavorable in the three and nine months ended September 30, 2016, respectively, compared to $2 million favorable and $1 million unfavorable in the three and nine months ended September 30, 2015, respectively.

DISCONTINUED LINES AND COVERAGES SEGMENT

Overview The Discontinued Lines and Coverages segment includes results from property-liability insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. Our exposure to asbestos, environmental and other discontinued lines claims is reported in this segment. We have assigned management of this segment to a designated group of professionals with expertise in claims handling, policy coverage interpretation, exposure identification and reinsurance collection. As part of its responsibilities, this group may at times be engaged in policy buybacks, settlements and reinsurance assumed and ceded commutations.

Summarized underwriting results are presented in the following table.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Premiums written	$ 2	$ —	$ 2	$ —
Premiums earned	$ —	$ —	$ —	$ —
Claims and claims expense	(99)	(48)	(102)	(51)
Operating costs and expenses	(1)	(1)	(2)	(2)
Underwriting loss	$ (100)	$ (49)	$ (104)	$ (53)

Underwriting losses of $100 million and $104 million in the third quarter and first nine months of 2016, respectively, were primarily related to our annual review using established industry and actuarial best practices resulting in unfavorable reestimates of $96 million, including a $67 million unfavorable reestimate of asbestos reserves, a $23 million unfavorable reestimate of environmental reserves and a $6 million increase in the allowance for future uncollectible reinsurance with other exposure reserves essentially unchanged. Underwriting losses of $49 million and $53 million in the third quarter and first nine months of 2015, respectively, were primarily related to our annual review resulting in unfavorable reestimates of $44 million, including a $39 million unfavorable reestimate of asbestos reserves, a $1 million unfavorable reestimate of environmental reserves and a $9 million unfavorable reestimate of other exposure reserves, partially offset by a $5 million decrease in the allowance for future uncollectible reinsurance.

For asbestos exposures, our 2016 annual review resulted in an increase in estimated reserves of $67 million primarily related to insured business and claim development, new reported information on insured’s claims, expanded expected exposure periods and other legal settlements including insured’s bankruptcy proceedings. Reserves for asbestos claims were $936 million and $960 million, net of reinsurance recoverables of $463 million and $458 million, as of September 30, 2016 and December 31, 2015, respectively. Incurred but not reported (“IBNR”) represents 60% of total net asbestos reserves as of September 30, 2016, 3 points higher than as of December 31, 2015. IBNR provides for estimated probable future unfavorable reserve development of known claims and future reporting of additional unknown claims from current and new policyholders and ceding companies. In the third quarter of 2015, our review resulted in an increase in estimated reserves of $39 million.

For environmental exposures, our 2016 annual review resulted in an increase in estimated reserves of $23 million. Reserves for environmental claims were $190 million and $179 million, net of reinsurance recoverables of $43 million and $43 million, as of September 30, 2016 and December 31, 2015, respectively. IBNR represents 56% of total net environmental reserves, 1 point lower than as of December 31, 2015. In the third quarter of 2015, our review resulted in an increase in estimated reserves of $1 million.

For other exposures, excluding the allowance for future uncollectible reinsurance, our 2016 annual review resulted in essentially no change. Reserves for other exposure claims were $364 million and $377 million as of September 30, 2016 and December 31, 2015, respectively. In the third quarter of 2015, our review resulted in an increase in estimated reserves of $9 million.

The allowance for uncollectible reinsurance primarily relates to Discontinued Lines and Coverages reinsurance recoverables and was $84 million and $80 million as of September 30, 2016 and December 31, 2015, respectively. The allowance for Discontinued Lines and Coverages represents 12.9% and 11.9% of the related reinsurance recoverable balances as of September 30, 2016 and December 31, 2015, respectively.

We believe that our reserves are appropriately established based on available facts, technology, laws, regulations, and assessments of other pertinent factors and characteristics of exposure (i.e. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, assuming no change in the legal, legislative or economic environment. However, as we progress with the resolution of disputed claims in the courts and arbitrations and with negotiations and settlements, our reported losses may be more variable.

PROPERTY-LIABILITY INVESTMENT RESULTS

Net investment income The following table presents net investment income.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Fixed income securities	$ 215	$ 221	$ 659	$ 657
Equity securities	21	16	71	57
Mortgage loans	3	4	9	11
Limited partnership interests	69	62	187	233
Short-term investments	3	3	6	5
Other	22	20	65	57
Investment income, before expense	333	326	997	1,020
Investment expense	(23)	(19)	(69)	(63)
Net investment income	$ 310	$ 307	$ 928	$ 957

The average pre-tax investment yields are presented in the following table. Quarterly pre-tax yield is calculated as annualized quarterly investment income, generally before investment expense (including dividend income in the case of equity securities) divided by the average of the current and prior quarter investment balances. Year-to-date pre-tax yield is calculated as annualized year-to-date investment income, generally before investment expense (including dividend income in the case of equity securities) divided by the average of investment balances at the beginning of the year and the end of each quarter during the year. For the purposes of the pre-tax yield calculation, income for directly held real estate, timber and other consolidated investments is net of asset level operating expenses (direct expenses of the assets reported in investment expense). For investments carried at fair value, investment balances exclude unrealized capital gains and losses.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Fixed income securities: tax-exempt	2.0%	2.3%	2.1%	2.4%
Fixed income securities: tax-exempt equivalent	2.9	3.4	3.1	3.5
Fixed income securities: taxable	3.0	3.2	3.1	3.1
Equity securities	2.6	2.5	2.9	2.8
Mortgage loans	3.7	4.0	3.9	4.2
Limited partnership interests	9.6	10.1	9.0	12.3
Total portfolio	3.3	3.5	3.4	3.6

Net investment income increased 1.0% or $3 million to $310 million in the third quarter of 2016 from $307 million in the third quarter of 2015, primarily due to higher limited partnership income and higher equity dividends, partially offset by lower fixed income yields. Net investment income decreased 3.0% or $29 million to $928 million in the first nine months of 2016 from $957 million in the first nine months of 2015, primarily due to lower limited partnership income, partially offset by higher equity dividends.

Realized capital gains and losses are presented in the following table.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Impairment write-downs	$ (26)	$ (30)	$ (103)	$ (48)
Change in intent write-downs	(8)	(77)	(39)	(132)
Net other-than-temporary impairment losses recognized in earnings	(34)	(107)	(142)	(180)
Sales and other	101	(63)	142	113
Valuation and settlements of derivative instruments	(14)	9	(20)	(17)
Realized capital gains and losses, pre-tax	53	(161)	(20)	(84)
Income tax expense	(17)	57	10	29
Realized capital gains and losses, after-tax	$ 36	$ (104)	$ (10)	$ (55)

Net realized capital gains in the third quarter of 2016 primarily related to net gains on sales in connection with ongoing portfolio management, partially offset by impairment write-downs. Net realized capital losses in the first nine months of 2016 primarily related to impairment and change in intent write-downs, partially offset by net gains on sales.

ALLSTATE FINANCIAL HIGHLIGHTS

- Net income applicable to common shareholders was $80 million and $264 million in the third quarter and first nine months of 2016, respectively, compared to $262 million and $624 million in the third quarter and first nine months of 2015, respectively.
- Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled $567 million in the third quarter of 2016, an increase of 6.2% from $534 million in the third quarter of 2015, and $1.69 billion in the first nine months of 2016, an increase of 5.6% from $1.60 billion in the first nine months of 2015.
- Investments totaled $37.52 billion as of September 30, 2016, reflecting an increase of $724 million from $36.79 billion as of December 31, 2015. Net investment income decreased 13.0% to $427 million in the third quarter of 2016 and 12.5% to $1.28 billion in the first nine months of 2016 from $491 million and $1.46 billion in the third quarter and first nine months of 2015, respectively.
- Net realized capital losses totaled $21 million and $70 million in the third quarter and first nine months of 2016, respectively, compared to net realized capital gains of $194 million and $364 million in the third quarter and first nine months of 2015, respectively.
- During third quarter 2016, a $7 million pre-tax charge to income was recorded related to our annual comprehensive review of the deferred policy acquisition costs ("DAC"), deferred sales inducement costs and secondary guarantee liability balances. This compares to a $6 million pre-tax charge to income in the third quarter of 2015.
- Contractholder funds totaled $20.58 billion as of September 30, 2016, reflecting a decrease of $712 million from $21.30 billion as of December 31, 2015.

ALLSTATE FINANCIAL SEGMENT

Summary analysis Summarized financial data is presented in the following table.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenues				
Life and annuity premiums and contract charges	$ 571	$ 538	$ 1,701	$ 1,611
Net investment income	427	491	1,281	1,464
Realized capital gains and losses	(21)	194	(70)	364
Total revenues	977	1,223	2,912	3,439
Costs and expenses				
Life and annuity contract benefits	(484)	(460)	(1,393)	(1,347)
Interest credited to contractholder funds	(183)	(194)	(558)	(578)
Amortization of DAC	(70)	(63)	(212)	(198)
Operating costs and expenses	(126)	(112)	(370)	(353)
Restructuring and related charges	—	(1)	(1)	(3)
Total costs and expenses	(863)	(830)	(2,534)	(2,479)
Gain on disposition of operations	1	3	4	2
Income tax expense	(35)	(134)	(118)	(338)
Net income applicable to common shareholders	$ 80	$ 262	$ 264	$ 624
Life insurance	$ 44	$ 64	$ 170	$ 187
Accident and health insurance	24	23	65	71
Annuities and institutional products	12	175	29	366
Net income applicable to common shareholders	$ 80	$ 262	$ 264	$ 624
Allstate Life	$ 43	$ 58	$ 161	$ 174
Allstate Benefits	25	29	74	84
Allstate Annuities	12	175	29	366
Net income applicable to common shareholders	$ 80	$ 262	$ 264	$ 624
Investments as of September 30			$ 37,516	$ 37,269

Net income applicable to common shareholders was $80 million in the third quarter of 2016 compared to $262 million in the third quarter of 2015 and $264 million in the first nine months of 2016 compared to $624 million in the first nine months of 2015. The decreases in both periods were primarily due to net realized capital losses in the current year compared to net realized capital gains in the prior year and lower net investment income, partially offset by higher premiums and contract charges. The decreases in net income in both periods were primarily concentrated in Allstate Annuities.

Analysis of revenues Total revenues decreased 20.1% or $246 million in the third quarter of 2016 and 15.3% or $527 million in the first nine months of 2016 compared to the same periods of 2015, primarily due to net realized capital losses in the current year compared to net realized capital gains in the prior year and lower net investment income, partially offset by higher premiums and contract charges.

Life and annuity premiums and contract charges Premiums represent revenues generated from traditional life insurance, accident and health insurance, and immediate annuities with life contingencies 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 life and annuity premiums and contract charges by product.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Underwritten products				
Traditional life insurance premiums	$ 133	$ 124	$ 393	$ 372
Accident and health insurance premiums	1	1	2	2
Interest-sensitive life insurance contract charges	176	178	537	538
Subtotal – Allstate Life	310	303	932	912
Traditional life insurance premiums	12	11	29	26
Accident and health insurance premiums	215	193	644	583
Interest-sensitive life insurance contract charges	30	27	86	80
Subtotal – Allstate Benefits	257	231	759	689
Total underwritten products	567	534	1,691	1,601
Annuities				
Immediate annuities with life contingencies premiums	—	—	—	—
Other fixed annuity contract charges	4	4	10	10
Total – Allstate Annuities	4	4	10	10
Life and annuity premiums and contract charges (1)	$ 571	$ 538	$ 1,701	$ 1,611

(1) Contract charges related to the cost of insurance totaled $136 million and $137 million for the third quarter of 2016 and 2015, respectively, and $417 million and $413 million in the first nine months of 2016 and 2015, respectively.

Total premiums and contract charges increased 6.1% or $33 million and 5.6% or $90 million in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. The increase for Allstate Life primarily relates to increased traditional life insurance renewal premiums as well as lower levels of reinsurance premiums ceded. Over 85% of Allstate Life's traditional life insurance premium relates to term life insurance products. The 11.3% increase in the third quarter of 2016 and the 10.2% increase in the first nine months of 2016 for Allstate Benefits primarily relates to growth in critical illness, accident and hospital indemnity products.

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.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Contractholder funds, beginning balance	$ 20,845	$ 21,968	$ 21,295	$ 22,529
Deposits				
Interest-sensitive life insurance	251	251	754	753
Fixed annuities	40	56	124	160
Total deposits	291	307	878	913
Interest credited	181	193	554	577
Benefits, withdrawals, maturities and other adjustments				
Benefits	(258)	(272)	(735)	(830)
Surrenders and partial withdrawals	(271)	(375)	(816)	(983)
Maturities of and interest payments on institutional products	—	—	—	(1)
Contract charges	(208)	(205)	(620)	(611)
Net transfers from separate accounts	2	2	4	5
Other adjustments [(1)]	1	(59)	23	(40)
Total benefits, withdrawals, maturities and other adjustments	(734)	(909)	(2,144)	(2,460)
Contractholder funds, ending balance	$ 20,583	$ 21,559	$ 20,583	$ 21,559

(1) The table above illustrates the changes in contractholder funds, which are presented gross of reinsurance recoverables on the Condensed 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 Condensed Consolidated Statements of Operations. As a result, the net change in contractholder funds associated with products reinsured is reflected as a component of the other adjustments line.

Contractholder funds decreased 1.3% and 3.3% in the third quarter and first nine months of 2016, respectively, primarily due to the continued runoff of our deferred fixed annuity business. We stopped offering new deferred fixed annuities beginning January 1, 2014, but still accept additional deposits on existing contracts.

Contractholder deposits decreased 5.2% and 3.8% in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015, primarily due to lower additional deposits on deferred fixed annuities.

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 27.7% to $271 million in the third quarter of 2016 and 17.0% to $816 million in the first nine months of 2016 from $375 million and $983 million in the third quarter and first nine months of 2015, respectively, due to decreases in deferred fixed annuities. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 6.4% in the first nine months of 2016 compared to 7.3% in the first nine months of 2015. The contractholder funds balances by product are disclosed later in this section.

Net investment income is presented in the following table.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Fixed income securities	$ 282	$ 314	$ 854	$ 996
Equity securities	10	7	32	20
Mortgage loans	53	49	153	154
Limited partnership interests	67	105	196	250
Short-term investments	1	1	4	2
Other	32	29	95	84
Investment income, before expense	445	505	1,334	1,506
Investment expense	(18)	(14)	(53)	(42)
Net investment income	$ 427	$ 491	$ 1,281	$ 1,464
Allstate Life	$ 120	$ 121	$ 358	$ 362
Allstate Benefits	18	17	54	53
Allstate Annuities	289	353	869	1,049
Net investment income	$ 427	$ 491	$ 1,281	$ 1,464

Net investment income decreased 13.0% or $64 million to $427 million in the third quarter of 2016 and 12.5% or $183 million to $1.28 billion in the first nine months of 2016 from $491 million and $1.46 billion in the third quarter and first nine months of 2015, respectively, primarily due to lower fixed income portfolio yields and lower limited partnership income. The average annualized pre-tax investment yields were 4.9% in both the third quarter and first nine months of 2016, compared to 5.6% in both the third quarter and first nine months of 2015. During the third quarter of 2015, approximately $2 billion of longer duration fixed income securities were sold. Proceeds from these sales were initially reinvested in shorter duration fixed income and public equity securities. We expect to increase the portfolio allocation to performance-based investments over time. These investments primarily support our immediate annuity liabilities and are intended to improve our long-term economic results. Since June 30, 2015, the carrying value of performance-based investments and market-based equity securities have increased by $1.38 billion to $4.37 billion. The increase is expected to reach $2 billion by the end of 2018. The carrying value will vary from period to period and reflect amounts invested, cash distributions received from investments and changes in valuation of the underlying investments.

Realized capital gains and losses are presented in the following table.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Impairment write-downs	$ (37)	$ (17)	$ (79)	$ (29)
Change in intent write-downs	(2)	(50)	(9)	(57)
Net other-than-temporary impairment losses recognized in earnings	(39)	(67)	(88)	(86)
Sales and other	19	246	23	432
Valuation and settlements of derivative instruments	(1)	15	(5)	18
Realized capital gains and losses, pre-tax	(21)	194	(70)	364
Income tax benefit (expense)	7	(69)	24	(129)
Realized capital gains and losses, after-tax	$ (14)	$ 125	$ (46)	$ 235
Allstate Life	$ (7)	$ 1	$ (17)	$ 13
Allstate Benefits	—	3	(3)	3
Allstate Annuities	(7)	121	(26)	219
Realized capital gains and losses, after-tax	$ (14)	$ 125	$ (46)	$ 235

Net realized capital losses in the third quarter and the first nine months of 2016 primarily related to impairment write-downs, partially offset by net gains on sales in connection with ongoing portfolio management.

Analysis of costs and expenses Total costs and expenses increased 4.0% or $33 million in the third quarter of 2016 and 2.2% or $55 million in the first nine months of 2016 compared to the same periods of 2015, primarily due to higher contract benefits, higher operating costs and expenses, and higher amortization of DAC, partially offset by lower interest credited to contractholder funds.

Life and annuity contract benefits increased 5.2% or $24 million in the third quarter of 2016 compared to the third quarter of 2015, primarily due to growth and higher claim experience at Allstate Benefits, an increase in reserves for secondary guarantees on interest-sensitive life insurance and unfavorable immediate annuity mortality experience. Life and annuity contract benefits increased 3.4% or $46 million in the first nine months of 2016 compared to the first nine months of 2015, primarily due to growth and higher claim experience at Allstate Benefits, and unfavorable immediate annuity mortality experience, partially offset by favorable life insurance mortality experience.

Our annual review of assumptions in third quarter 2016 resulted in a $10 million increase in reserves primarily for secondary guarantees on interest-sensitive life insurance due to higher than anticipated retention of guaranteed interest-sensitive life business. In the third quarter of 2015, the review resulted in a $4 million increase in reserves which were also primarily for secondary guarantees on interest-sensitive life insurance due to higher than anticipated retention of guaranteed interest-sensitive life business.

In 2015, we initiated a mortality study for our structured settlement annuities with life contingencies (a type of immediate fixed annuities), which is estimated to be completed in the fourth quarter of 2016. The study thus far indicates that annuitants may be living longer and receiving benefits for a longer period than originally estimated. A substantial portion of the structured settlement annuity business includes annuitants with severe injuries or other health impairments which significantly reduced their life expectancy at the time the annuity was issued. Medical advances and access to medical care may be favorably impacting mortality rates. The preliminary results of the study were considered in the premium deficiency and profits followed by losses evaluations as of September 30, 2016 and December 31, 2015, and no adjustments were recognized. We aggregate traditional life insurance products and immediate annuities with life contingencies in these evaluations. We anticipate that mortality and investment and reinvestment yields are the factors that would be most likely to require premium deficiency or profits followed by losses adjustments.

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 $126 million and $383 million in the third quarter and first nine months of 2016, respectively, compared to $127 million and $383 million in the third quarter and first nine months of 2015, respectively.

The benefit spread by product group is disclosed in the following table.

($ in millions)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Life insurance	$ 59	$ 59	$ 212	$ 181
Accident and health insurance	(2)	(2)	(4)	(6)
Subtotal – Allstate Life	57	57	208	175
Life insurance	5	7	17	18
Accident and health insurance	105	92	320	300
Subtotal – Allstate Benefits	110	99	337	318
Allstate Annuities	(28)	(23)	(70)	(61)
Total benefit spread	$ 139	$ 133	$ 475	$ 432

Benefit spread increased 4.5% or $6 million in the third quarter of 2016 and 10.0% or $43 million in the first nine months of 2016 compared to the same periods of 2015. The Allstate Life benefit spread in the third quarter of 2016 was comparable to the third quarter of 2015, primarily due to higher life insurance premiums offset by an increase in reserves for secondary guarantees on interest-sensitive life insurance. The Allstate Life benefit spread increased in the first nine months of 2016 compared to the first nine months of 2015, primarily due to higher life insurance premiums and favorable life insurance mortality experience. The Allstate Benefits benefit spread increased in both periods, primarily due to growth in business in force, partially offset by higher claim experience. The Allstate Annuities benefit spread decreased in both periods, primarily due to unfavorable immediate annuity mortality experience.

Interest credited to contractholder funds decreased 5.7% or $11 million in the third quarter of 2016 and 3.5% or $20 million in the first nine months of 2016 compared to the same periods of 2015, primarily due to lower average contractholder funds. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged had no impact on interest credited to contractholder funds in third quarter 2016 compared to an increase of $3 million in third quarter 2015, and increased interest credited to contractholder funds by $12 million in the first nine months of 2016 compared to an increase of $4 million in the first nine months of 2015.

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 life and annuity contract benefits on the Condensed Consolidated Statements of Operations (“investment spread”).

The investment spread by product group is shown in the following table.

($ in millions)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Life insurance	$ 27	$ 32	$ 85	$ 93
Accident and health insurance	1	1	4	4
Net investment income on investments supporting capital	20	18	56	57
Subtotal – Allstate Life	48	51	145	154
Life insurance	3	1	8	6
Accident and health insurance	3	3	8	8
Net investment income on investments supporting capital	3	4	10	12
Subtotal – Allstate Benefits	9	8	26	26
Annuities and institutional products	25	82	77	228
Net investment income on investments supporting capital	36	32	104	99
Subtotal – Allstate Annuities	61	114	181	327
Investment spread before valuation changes on embedded derivatives that are not hedged	118	173	352	507
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	—	(3)	(12)	(4)
Total investment spread	$ 118	$ 170	$ 340	$ 503

Investment spread before valuation changes on embedded derivatives that are not hedged decreased 31.8% or $55 million in the third quarter of 2016 and 30.6% or $155 million in the first nine months of 2016 compared to the same periods of 2015, primarily due to lower net investment income at Allstate Annuities.

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. Investment spreads may vary significantly between periods due to the variability in investment income, particularly for immediate fixed annuities where the investment portfolio includes limited partnerships.

	Three months ended September 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2016	2015	2016	2015	2016	2015
Interest-sensitive life insurance	4.8%	5.1%	3.9%	3.9%	0.9%	1.2%
Deferred fixed annuities and institutional products	4.2	4.2	2.8	2.9	1.4	1.3
Immediate fixed annuities with and without life contingencies	6.2	8.0	6.0	5.9	0.2	2.1
Investments supporting capital, traditional life and other products	4.0	3.8	n/a	n/a	n/a	n/a

	Nine months ended September 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2016	2015	2016	2015	2016	2015
Interest-sensitive life insurance	4.9%	5.1%	3.9%	3.9%	1.0%	1.2%
Deferred fixed annuities and institutional products	4.1	4.3	2.8	2.8	1.3	1.5
Immediate fixed annuities with and without life contingencies	6.2	7.6	5.9	5.9	0.3	1.7
Investments supporting capital, traditional life and other products	3.9	4.1	n/a	n/a	n/a	n/a

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

($ in millions)	September 30, 2016	September 30, 2015
Immediate fixed annuities with life contingencies	$ 8,646	$ 8,727
Other life contingent contracts and other	3,582	3,502
Reserve for life-contingent contract benefits	$ 12,228	$ 12,229
Interest-sensitive life insurance	$ 8,041	$ 7,949
Deferred fixed annuities	9,115	9,991
Immediate fixed annuities without life contingencies	3,071	3,281
Institutional products	85	85
Other	271	253
Contractholder funds	$ 20,583	$ 21,559

The following table summarizes reserves and contractholder funds for Allstate Life, Allstate Benefits and Allstate Annuities.

($ in millions)	September 30, 2016	September 30, 2015
Allstate Life	$ 2,550	$ 2,514
Allstate Benefits	928	895
Allstate Annuities	8,750	8,820
Reserve for life-contingent contract benefits	$ 12,228	$ 12,229
Allstate Life	$ 7,302	$ 7,200
Allstate Benefits	950	940
Allstate Annuities	12,331	13,419
Contractholder funds	$ 20,583	$ 21,559

Amortization of DAC The components of amortization of DAC are summarized in the following table.

($ in millions)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
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	$ 70	$ 60	$ 209	$ 191
Amortization relating to realized capital gains and losses [1] and valuation changes on embedded derivatives that are not hedged	2	2	5	6
Amortization (deceleration) acceleration for changes in assumptions (“DAC unlocking”)	(2)	1	(2)	1
Total amortization of DAC	$ 70	$ 63	$ 212	$ 198
Allstate Life	$ 31	$ 35	$ 98	$ 102
Allstate Benefits	37	27	109	93
Allstate Annuities	2	1	5	3
Total amortization of DAC	$ 70	$ 63	$ 212	$ 198

(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 increased 11.1% or $7 million in the third quarter of 2016 and 7.1% or $14 million in the first nine months of 2016 compared to the same periods of 2015. The increase in both periods primarily related to growth at Allstate Benefits.

Our annual comprehensive review of assumptions underlying estimated future gross profits for our interest-sensitive life and fixed annuity contracts covers assumptions for mortality, persistency, expenses, investment returns, including capital gains and losses, interest crediting rates to policyholders, and the effect of any hedges in all product lines. In the third quarter of 2016, the review resulted in a deceleration of DAC amortization (credit to income) of $2 million related to interest-sensitive life insurance.

In the third quarter of 2015, the review resulted in an acceleration of DAC amortization (charge to income) of $1 million related to interest-sensitive life insurance.

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 for the nine months ended September 30.

($ in millions)	2016	2015
Investment margin	$ (1)	$ 2
Benefit margin	1	1
Expense margin	(2)	(2)
Net (deceleration) acceleration	$ (2)	$ 1

In 2016, DAC amortization deceleration for changes in the investment margin component of estimated gross profits related to interest-sensitive life insurance and was due to increased projected investment margins from a favorable asset portfolio mix. The acceleration related to benefit margin primarily related to interest-sensitive life insurance and was due to lower than expected persistency on non-guaranteed products. The expense margin deceleration related primarily to variable life insurance and was due to a decrease in projected expenses.

Operating costs and expenses increased 12.5% or $14 million in the third quarter of 2016 and 4.8% or $17 million in the first nine months of 2016 compared to the same periods of 2015. The following table summarizes operating costs and expenses.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Non-deferrable commissions	$ 29	$ 21	$ 83	$ 72
General and administrative expenses	85	78	249	242
Taxes and licenses	12	13	38	39
Total operating costs and expenses	$ 126	$ 112	$ 370	$ 353
Restructuring and related charges	$ —	$ 1	$ 1	$ 3
Allstate Life	$ 59	$ 48	$ 169	$ 159
Allstate Benefits	59	55	178	165
Allstate Annuities	8	9	23	29
Total operating costs and expenses	$ 126	$ 112	$ 370	$ 353

General and administrative expenses increased 9.0% or $7 million in the third quarter of 2016 compared to the third quarter of 2015, primarily due to increased employee related and regulatory compliance costs at Allstate Life and increased employee and technology costs related to growth at Allstate Benefits. General and administrative expenses increased 2.9% or $7 million in the first nine months of 2016 compared to the same period of 2015, primarily due to increased employee and technology costs related to growth at Allstate Benefits.

Income tax expense in first quarter 2015 included $17 million related to our adoption of new accounting guidance for investments in qualified affordable housing projects.

INVESTMENTS HIGHLIGHTS

- Investments totaled $81.10 billion as of September 30, 2016, increasing from $77.76 billion as of December 31, 2015.
- Unrealized net capital gains totaled $3.02 billion as of September 30, 2016, increasing from $1.03 billion as of December 31, 2015.
- Net investment income was $748 million in the third quarter of 2016, a decrease of 7.3% from $807 million in the third quarter of 2015, and $2.24 billion in the first nine months of 2016, a decrease of 8.4% from $2.45 billion in the first nine months of 2015.
- Net realized capital gains were $33 million in both the third quarter of 2016 and the third quarter of 2015. Net realized capital losses were $92 million in the first nine months of 2016 compared to net realized capital gains of $280 million in the first nine months of 2015.

INVESTMENTS

Portfolio composition by reporting segment The composition of the investment portfolios by reporting segment as of September 30, 2016 is presented in the following table.

($ in millions)	Property-Liability [5]		Allstate Financial [5]		Corporate and Other [5]		Total	
		Percent to total		Percent to total		Percent to total		Percent to total
Fixed income securities [1]	$ 31,766	77.4%	$ 26,226	69.9%	$ 2,314	91.5%	$ 60,306	74.4%
Equity securities [2]	3,604	8.8	1,681	4.5	3	0.1	5,288	6.5
Mortgage loans	270	0.6	4,126	11.0	—	—	4,396	5.4
Limited partnership interests [3]	2,913	7.1	2,674	7.1	1	—	5,588	6.9
Short-term investments [4]	917	2.2	733	2.0	213	8.4	1,863	2.3
Other	1,587	3.9	2,076	5.5	—	—	3,663	4.5
Total	$ 41,057	100.0%	$ 37,516	100.0%	$ 2,531	100.0%	$ 81,104	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $31.17 billion, $24.33 billion, $2.27 billion and $57.78 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

(2) Equity securities are carried at fair value. Cost basis for these securities was $3.21 billion, $1.59 billion, $3 million and $4.80 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

(3) We have commitments to invest in additional limited partnership interests totaling $1.48 billion, $1.29 billion and $2.77 billion for Property-Liability, Allstate Financial, and in Total, respectively.

(4) Short-term investments are carried at fair value. Amortized cost basis for these investments was $917 million, $733 million, $213 million and $1.86 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

(5) Balances reflect the elimination of related party investments between segments.

Investments totaled $81.10 billion as of September 30, 2016, increasing from $77.76 billion as of December 31, 2015, primarily due to higher fixed income valuations resulting from a decrease in risk-free interest rates and tighter credit spreads and positive operating cash flows, partially offset by common share repurchases, net reductions in contractholder funds and dividends paid to shareholders.

The Property-Liability investment portfolio totaled $41.06 billion as of September 30, 2016, increasing from $38.48 billion as of December 31, 2015, primarily due to higher fixed income valuations and positive operating cash flows, partially offset by dividends paid by Allstate Insurance Company (“AIC”) to The Allstate Corporation (the “Corporation”).

The Allstate Financial investment portfolio totaled $37.52 billion as of September 30, 2016, increasing from $36.79 billion as of December 31, 2015, primarily due to higher fixed income valuations, partially offset by net reductions in contractholder funds.

The Corporate and Other investment portfolio totaled $2.53 billion as of September 30, 2016, increasing from $2.49 billion as of December 31, 2015, primarily due to dividends paid by AIC to the Corporation, partially offset by common share repurchases and dividends paid to shareholders.

Portfolio composition by investment strategy

We utilize four high level strategies to manage risks and returns and to position our portfolio to take advantage of market opportunities while attempting to mitigate adverse effects. As strategies and market conditions evolve, the asset allocation may change or assets may move between strategies.

Market-Based Core strategy seeks to deliver predictive earnings aligned to business needs through investments primarily in public fixed income and equity securities. Private fixed income assets, such as commercial mortgages, bank loans and privately placed debt are also included in this category. As of September 30, 2016, 82% of the total portfolio follows this strategy with 86% in fixed income securities and mortgage loans and 6% in equity securities.

Market-Based Active strategy seeks to outperform within the public markets through tactical positioning and by taking advantage of short-term opportunities. This strategy may generate results that meaningfully deviate from those achieved by market indices, both favorably and unfavorably. The portfolio primarily includes public fixed income and equity securities. As of September 30, 2016, 11% of the total portfolio follows this strategy with 85% in fixed income securities and 10% in equity securities.

Performance-Based Long-Term ("PBLT") strategy seeks to deliver attractive risk-adjusted returns over a longer horizon. The achieved return is a function of both general market conditions and the performance of the underlying assets or businesses. The portfolio, which primarily includes private equity, real estate, infrastructure, timber and agriculture-related assets, is diversified across a number of characteristics, including managers or partners, vintage years, strategies, geographies (including international) and industry sectors or property types. These investments are generally illiquid in nature, often require specialized expertise, typically involve a third party manager, and may offer the potential to add value through transformation at the company or property level. As of September 30, 2016, 7% of the total portfolio follows this strategy with 88% in limited partnership interests.

Performance-Based Opportunistic strategy seeks to earn attractive returns by making investments that involve asset dislocations or special situations, often in private markets.

The following table presents the investment portfolio by strategy as of September 30, 2016.

($ in millions)	**Total**	**Market-Based Core**	**Market-Based Active**	**Performance-Based Long-Term**	**Performance-Based Opportunistic**
Fixed income securities	$ 60,306	$ 52,452	$ 7,769	$ 69	$ 16
Equity securities	5,288	4,297	897	94	—
Mortgage loans	4,396	4,396	—	—	—
Limited partnership interests	5,588	448	—	5,137	3
Short-term investments	1,863	1,575	288	—	—
Other	3,663	2,980	152	520	11
Total	$ 81,104	$ 66,148	$ 9,106	$ 5,820	$ 30
% of total		82%	11%	7%	—%
Property-Liability	$ 41,057	$ 30,015	$ 7,929	$ 3,093	$ 20
% of Property-Liability		73%	19%	8%	—%
Allstate Financial	$ 37,516	$ 33,602	$ 1,177	$ 2,727	$ 10
% of Allstate Financial		90%	3%	7%	—%
Corporate & Other	$ 2,531	$ 2,531	$ —	$ —	$ —
% of Corporate & Other		100%	—%	—%	—%
Unrealized net capital gains and losses					
Fixed income securities	$ 2,531	$ 2,407	$ 121	$ 1	$ 2
Equity securities	488	439	44	5	—
Limited partnership interests	(5)	—	—	(5)	—
Other	1	1	—	—	—
Total	$ 3,015	$ 2,847	$ 165	$ 1	$ 2

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

($ in millions)	Fair value as of September 30, 2016	Percent to total investments	Fair value as of December 31, 2015	Percent to total investments
U.S. government and agencies	$ 4,304	5.3%	$ 3,922	5.0%
Municipal	7,902	9.8	7,401	9.5
Corporate	44,474	54.8	41,827	53.8
Foreign government	1,119	1.4	1,033	1.4
Asset-backed securities (“ABS”)	1,390	1.7	2,327	3.0
Residential mortgage-backed securities (“RMBS”)	778	1.0	947	1.2
Commercial mortgage-backed securities (“CMBS”)	315	0.4	466	0.6
Redeemable preferred stock	24	—	25	—
Total fixed income securities	$ 60,306	74.4%	$ 57,948	74.5%

Fixed income securities are rated by third party credit rating agencies and/or are internally rated. As of September 30, 2016, 85.2% of the consolidated 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 Standard & Poor’s (“S&P”), a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Credit ratings below these designations are considered low credit quality or below investment grade, which includes high yield bonds. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third party rating. 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 investment grade and below investment grade classifications as of September 30, 2016.

($ 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	$ 4,304	$ 105	$ —	$ —	$ 4,304	$ 105
Municipal						
Tax exempt	5,355	95	44	(3)	5,399	92
Taxable	2,445	375	58	3	2,503	378
Corporate						
Public	27,055	1,169	4,832	126	31,887	1,295
Privately placed	9,413	443	3,174	66	12,587	509
Foreign government	1,114	59	5	—	1,119	59
ABS						
Collateralized debt obligations (“CDO”)	657	(6)	53	(3)	710	(9)
Consumer and other asset-backed securities (“Consumer and other ABS”)	674	5	6	1	680	6
RMBS						
U.S. government sponsored entities (“U.S. Agency”)	158	7	—	—	158	7
Non-agency	40	—	580	75	620	75
CMBS	119	2	196	9	315	11
Redeemable preferred stock	24	3	—	—	24	3
Total fixed income securities	$ 51,358	$ 2,257	$ 8,948	$ 274	$ 60,306	$ 2,531
Property-Liability	$ 26,338	$ 448	$ 5,428	$ 145	$ 31,766	$ 593
Allstate Financial	22,789	1,769	3,437	126	26,226	1,895
Corporate & Other	2,231	40	83	3	2,314	43
Total fixed income securities	$ 51,358	$ 2,257	$ 8,948	$ 274	$ 60,306	$ 2,531

Municipal bonds, including tax exempt and taxable securities, totaled $7.90 billion as of September 30, 2016 with an unrealized net capital gain of $470 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).

Corporate bonds, including publicly traded and privately placed, totaled $44.47 billion as of September 30, 2016, with an unrealized net capital gain of $1.80 billion. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

ABS, including CDO and Consumer and other ABS, totaled $1.39 billion as of September 30, 2016, with 95.8% rated investment grade and an unrealized net capital loss of $3 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 $710 million as of September 30, 2016, with 92.5% rated investment grade and an unrealized net capital loss of $9 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 $680 million as of September 30, 2016, with 99.1% rated investment grade. Consumer and other ABS consists of $277 million of consumer auto, $230 million of credit card and $173 million of other ABS with unrealized net capital gains of $1 million, $1 million and $4 million, respectively.

RMBS totaled $778 million as of September 30, 2016, with 25.4% rated investment grade and an unrealized net capital gain of $82 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 $620 million as of September 30, 2016, with 6.5% rated investment grade and an unrealized net capital gain of $75 million.

CMBS totaled $315 million as of September 30, 2016, with 37.8% rated investment grade and an unrealized net capital gain of $11 million. The CMBS portfolio is subject to credit risk and has a sequential paydown structure. Of the CMBS investments, 92.9% are traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area. The remainder consists of non-traditional CMBS such as privately placed, small balance transactions.

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 $5.29 billion as of September 30, 2016, with an unrealized net capital gain of $488 million.

Mortgage loans, which are primarily held in the Allstate Financial portfolio, totaled $4.40 billion as of September 30, 2016 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 4 of the condensed consolidated financial statements.

Limited partnership interests include interests in private equity funds and co-investments, real estate funds and joint ventures, and other funds. The following table presents carrying value and other information about our limited partnership interests as of September 30, 2016.

($ in millions)	Private equity	Real estate	Other	Total
Cost method of accounting ("Cost")	$ 1,186	$ 144	$ 45	$ 1,375
Equity method of accounting ("EMA")	2,824	986	403	4,213
Total	$ 4,010	$ 1,130	$ 448	$ 5,588
Number of managers	118	37	13	168
Number of individual investments	213	81	18	312
Largest exposure to single investment	$ 170	$ 78	$ 222	$ 222

Unrealized net capital gains totaled $3.02 billion as of September 30, 2016 compared to $1.03 billion as of December 31, 2015. The increase for fixed income securities was primarily due to a decrease in risk-free interest rates and tighter credit spreads. The increase for equity securities was primarily due to the realization of unrealized net capital losses through write-downs, as well as favorable equity market performance, partially offset by the realization of unrealized net capital gains through sales.

The following table presents unrealized net capital gains and losses.

($ in millions)	September 30, 2016	December 31, 2015
U.S. government and agencies	$ 105	$ 86
Municipal	470	369
Corporate	1,804	153
Foreign government	59	50
ABS	(3)	(32)
RMBS	82	90
CMBS	11	28
Redeemable preferred stock	3	3
Fixed income securities	2,531	747
Equity securities	488	276
Derivatives	1	6
EMA limited partnerships	(5)	(4)
Unrealized net capital gains and losses, pre-tax	$ 3,015	$ 1,025

The unrealized net capital gain for the fixed income portfolio totaled $2.53 billion, comprised of $2.70 billion of gross unrealized gains and $168 million of gross unrealized losses as of September 30, 2016. This is compared to an unrealized net capital gain for the fixed income portfolio totaling $747 million, comprised of $1.71 billion of gross unrealized gains and $960 million of gross unrealized losses as of December 31, 2015.

Gross unrealized gains and losses on fixed income securities by type and sector as of September 30, 2016 are provided in the following table.

($ in millions)	Amortized cost	Gross unrealized		Fair value
		Gains	Losses	
Corporate:				
Banking	$ 3,291	$ 69	$ (32)	$ 3,328
Consumer goods (cyclical and non-cyclical)	14,478	532	(21)	14,989
Utilities	5,044	460	(18)	5,486
Energy	2,039	101	(15)	2,125
Communications	3,727	146	(11)	3,862
Transportation	1,609	117	(10)	1,716
Financial services	2,677	116	(5)	2,788
Technology	3,458	99	(3)	3,554
Capital goods	3,981	172	(3)	4,150
Basic industry	2,016	97	(3)	2,110
Other	350	16	—	366
Total corporate fixed income portfolio	42,670	1,925	(121)	44,474
U.S. government and agencies	4,199	107	(2)	4,304
Municipal	7,432	483	(13)	7,902
Foreign government	1,060	59	—	1,119
ABS	1,393	12	(15)	1,390
RMBS	696	90	(8)	778
CMBS	304	20	(9)	315
Redeemable preferred stock	21	3	—	24
Total fixed income securities	$ 57,775	$ 2,699	$ (168)	$ 60,306

The consumer goods, utilities and capital goods sectors comprise 34%, 12%, and 9%, respectively, of the carrying value of our corporate fixed income securities portfolio as of September 30, 2016. The banking, consumer goods, utilities and energy sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of September 30, 2016. In general, the gross unrealized losses are related to an increase in market yields which may include increased risk-free interest rates and/or wider credit spreads since the time of initial purchase. Similarly, gross unrealized gains reflect a decrease in market yields since the time of initial purchase.

Global oil prices and natural gas values have declined significantly from 2014 through the first quarter of 2016. Although values increased during the second and third quarters of 2016 compared to the first quarter, they remain volatile. In the fixed income and equity securities tables above and below, oil and natural gas exposure is reflected within the energy sector. Within this sector, we continue to monitor the impact to our investment portfolio for those companies that may be adversely affected, both directly and indirectly. If oil and natural gas prices return to depressed levels for an extended period, certain issuers and investments may come under duress and result in increased other-than-temporary impairments and unrealized losses in these parts of our investment portfolio.

In the nine months ended September 30, 2016, we reduced our corporate fixed income and equity securities that have direct exposure to the energy sector by $2.12 billion of fair value to $2.37 billion. Securities that have direct exposure to the energy sector are presented in the following table.

($ in millions)	September 30, 2016		December 31, 2015	
	Fair value [1]	Amortized cost or Cost	Fair value	Amortized cost or Cost
Fixed income securities	$ 2,125	$ 2,039	$ 4,256	$ 4,549
Equity securities	248	226	235	255
Total [2]	$ 2,373	$ 2,265	$ 4,491	$ 4,804

(1) 68% of the corporate fixed income securities with direct exposure to the energy sector were investment grade as of September 30, 2016, compared to 83% as of December 31, 2015.

(2) In addition, private equity limited partnership interests with exposure to energy totaled approximately $390 million as of September 30, 2016.

Securities with gross unrealized losses that have direct exposure to the energy sector are presented in the following table.

($ in millions)	September 30, 2016		December 31, 2015	
	Fair value	Gross unrealized losses [1]	Fair value	Gross unrealized losses
Fixed income securities	$ 390	$ (15)	$ 2,996	$ (345)
Equity securities	69	(7)	154	(32)
Total	$ 459	$ (22)	$ 3,150	$ (377)

(1) Gross unrealized losses on below investment grade corporate fixed income securities with direct exposure to the energy sector totaled $11 million of which $8 million relate to securities that had been in an unrealized loss position for a period of twelve or more consecutive months as of September 30, 2016.

The following table summarizes the fair value and gross unrealized losses of fixed income securities in a loss position by type and investment grade classification as of September 30, 2016.

($ in millions)	Investment grade		Below investment grade		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Corporate:						
Banking	$ 329	$ (28)	$ 15	$ (4)	$ 344	$ (32)
Consumer goods (cyclical and non-cyclical)	1,117	(5)	481	(16)	1,598	(21)
Utilities	286	(6)	193	(12)	479	(18)
Energy	188	(4)	202	(11)	390	(15)
Communications	391	(2)	213	(9)	604	(11)
Transportation	49	(10)	—	—	49	(10)
Financial services	175	(3)	87	(2)	262	(5)
Technology	172	(1)	178	(2)	350	(3)
Capital goods	328	(2)	39	(1)	367	(3)
Basic industry	123	(2)	49	(1)	172	(3)
Total corporate fixed income portfolio	3,158	(63)	1,457	(58)	4,615	(121)
U.S. government and agencies	1,530	(2)	—	—	1,530	(2)
Municipal	786	(2)	27	(11)	813	(13)
ABS	391	(9)	19	(6)	410	(15)
RMBS	31	(1)	96	(7)	127	(8)
CMBS	7	(1)	94	(8)	101	(9)
Total fixed income securities	$ 5,903	$ (78)	$ 1,693	$ (90)	$ 7,596	$ (168)
Property-Liability	$ 4,119	$ (14)	$ 1,013	$ (42)	$ 5,132	$ (56)
Allstate Financial	1,531	(63)	666	(48)	2,197	(111)
Corporate & Other	253	(1)	14	—	267	(1)
Total fixed income securities	$ 5,903	$ (78)	$ 1,693	$ (90)	$ 7,596	$ (168)

The following table summarizes the fair value and gross unrealized losses for below investment grade corporate fixed income securities in a loss position by sector and credit rating as of September 30, 2016.

($ in millions)	Less than 12 months							
	Ba		B		Caa or lower		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Corporate:								
Banking	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer goods (cyclical and non-cyclical)	111	(1)	201	(5)	54	(3)	366	(9)
Utilities	45	(5)	107	(4)	—	—	152	(9)
Energy	66	(1)	20	(2)	3	—	89	(3)
Communications	120	(1)	41	(1)	—	—	161	(2)
Financial services	80	(2)	—	—	—	—	80	(2)
Technology	126	(1)	—	—	20	—	146	(1)
Capital goods	3	—	28	—	—	—	31	—
Basic industry	45	—	—	—	—	—	45	—
Subtotal	$ 596	$ (11)	$ 397	$ (12)	$ 77	$ (3)	$ 1,070	$ (26)

	12 months or more							
	Ba		B		Caa or lower		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Corporate:								
Banking	$ 15	$ (4)	$ —	$ —	$ —	$ —	$ 15	$ (4)
Consumer goods (cyclical and non-cyclical)	10	—	105	(7)	—	—	115	(7)
Utilities	—	—	21	(2)	20	(1)	41	(3)
Energy	67	(4)	33	(1)	13	(3)	113	(8)
Communications	14	(1)	30	(2)	8	(4)	52	(7)
Financial services	7	—	—	—	—	—	7	—
Technology	29	(1)	—	—	3	—	32	(1)
Capital goods	—	—	8	(1)	—	—	8	(1)
Basic industry	—	—	—	—	4	(1)	4	(1)
Subtotal	$ 142	$ (10)	$ 197	$ (13)	$ 48	$ (9)	$ 387	$ (32)
Total	$ 738	$ (21)	$ 594	$ (25)	$ 125	$ (12)	$ 1,457	$ (58)

Of the unrealized losses on below investment grade corporate fixed income securities, 55.2% or $32 million relate to securities that had been in an unrealized loss position for a period of twelve or more consecutive months as of September 30, 2016. Unrealized losses were concentrated in the consumer goods, utilities, energy and communications sectors.

The unrealized net capital gain for the equity portfolio totaled $488 million, comprised of $592 million of gross unrealized gains and $104 million of gross unrealized losses as of September 30, 2016. This is compared to an unrealized net capital gain for the equity portfolio totaling $276 million, comprised of $415 million of gross unrealized gains and $139 million of gross unrealized losses as of December 31, 2015.

Gross unrealized gains and losses on equity securities by sector as of September 30, 2016 are provided in the table below.

($ in millions)		Gross unrealized		
	Cost	Gains	Losses	Fair value
Consumer goods (cyclical and non-cyclical)	$ 1,156	$ 134	$ (38)	$ 1,252
Banking	354	53	(21)	386
Financial services	263	28	(14)	277
Communications	225	24	(10)	239
Energy	226	29	(7)	248
Technology	411	88	(4)	495
Real estate	108	9	(4)	113
Capital goods	363	42	(2)	403
Basic industry	143	21	(2)	162
Transportation	68	13	(1)	80
Utilities	116	12	(1)	127
Funds	1,367	139	—	1,506
Total equity securities	$ 4,800	$ 592	$ (104)	$ 5,288

Within the equity portfolio, the unrealized losses were primarily concentrated in the consumer goods, banking and financial services sectors. The unrealized losses were company and sector specific.

On June 23, 2016, the United Kingdom ("U.K.") held a referendum in which they voted to leave the European Union. The vote is expected to be followed by the formal process of withdrawal under Article 50 of the Lisbon Treaty that, once invoked, would take place over a period of up to two years. Prior to the vote, we reduced our direct and counterparty exposure to the European banking and financial services sectors and repositioned global equity exposure in our market-based strategies. The majority of our investments with U.K. and European credit exposure are in multinational public companies with global revenue sources that are diversified across region and sector. As of September 30, 2016, the fair value of our fixed income and equity securities with direct exposure to the U.K. and other countries in the European Union was approximately $1.60 billion and $3.10 billion, respectively, with net unrealized capital gains of $42 million and $76 million, respectively. In addition, we have limited partnerships with exposure to the U.K. and other countries in Europe of approximately $239 million and $668 million, respectively, that are typically more sensitive to local economic conditions. Significant uncertainty exists as the U.K.'s exit from the European Union will be a multi-year process and impacts on the global economy are difficult to predict. We expect the impact on the Company to be immaterial.

Net investment income The following table presents net investment income.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Fixed income securities	$ 508	$ 546	$ 1,546	$ 1,681
Equity securities	31	23	103	77
Mortgage loans	56	53	162	165
Limited partnership interests	136	167	383	483
Short-term investments	4	4	11	8
Other	55	49	163	143
Investment income, before expense	790	842	2,368	2,557
Investment expense	(42)	(35)	(127)	(111)
Net investment income	$ 748	$ 807	$ 2,241	$ 2,446
Market-Based Core	$ 577	$ 612	$ 1,753	$ 1,881
Market-Based Active	66	52	194	154
Performance-Based Long-Term	147	176	416	515
Performance-Based Opportunistic	—	2	5	7
Investment income, before expense	$ 790	$ 842	$ 2,368	$ 2,557

Net investment income decreased 7.3% or $59 million in the third quarter of 2016 and 8.4% or $205 million in the first nine months of 2016 compared to the same periods of 2015, primarily due to lower fixed income yields resulting from lower market yields and portfolio positioning, and lower limited partnership income. Net investment income in the third quarter and first nine months of 2016 includes $12 million and $33 million, respectively, related to prepayment fee income compared to $9 million and $43 million in the third quarter and first nine months of 2015, respectively. Prepayment fee income may vary significantly from period to period.

Realized capital gains and losses The following table presents the components of realized capital gains and losses and the related tax effect.

($ in millions)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Impairment write-downs	$ (63)	$ (47)	$ (185)	$ (77)
Change in intent write-downs	(10)	(127)	(48)	(189)
Net other-than-temporary impairment losses recognized in earnings	(73)	(174)	(233)	(266)
Sales and other	121	183	166	545
Valuation and settlements of derivative instruments	(15)	24	(25)	1
Realized capital gains and losses, pre-tax	33	33	(92)	280
Income tax (expense) benefit	(11)	(12)	35	(100)
Realized capital gains and losses, after-tax	$ 22	$ 21	$ (57)	$ 180
Market-Based Core	$ 23	$ 102	$ (55)	$ 223
Market-Based Active	33	(63)	25	58
Performance-Based Long-Term	(28)	—	(66)	3
Performance-Based Opportunistic	5	(6)	4	(4)
Realized capital gains and losses, pre-tax	$ 33	$ 33	$ (92)	$ 280

Impairment write-downs are presented in the following table.

($ in millions)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Fixed income securities	$ (17)	$ (15)	$ (36)	$ (24)
Equity securities	(17)	(24)	(107)	(37)
Limited partnership interests	(22)	(2)	(33)	(7)
Other investments	(7)	(6)	(9)	(9)
Impairment write-downs	$ (63)	$ (47)	$ (185)	$ (77)

Impairment write-downs on fixed income securities for the three and nine months ended September 30, 2016 were primarily driven by corporate fixed income securities impacted by issuer specific circumstances. Equity securities were written down primarily due to the length of time and extent to which fair value was below cost, considering our assessment of the financial condition and near-term and long-term prospects of the issuer, including relevant industry conditions and trends. Limited partnership write-downs primarily related to investments with exposure to the energy sector. The nine month period ended September 30, 2016 also included the recovery in value of a limited partnership that was previously written-down. Impairment write-downs in the above table include $23 million and $98 million related to investments with exposure to the energy sector in the three and nine months ended September 30, 2016, respectively.

Change in intent write-downs totaled $10 million and $48 million in the three and nine months ended September 30, 2016, respectively, and primarily relate to $1.4 billion of equity securities as of September 30, 2016 that we may not hold for a period of time sufficient to recover unrealized losses given our preference to maintain flexibility to reposition the portfolio. For certain equity securities managed by third parties, we do not retain decision making authority as it pertains to selling securities that are in an unrealized loss position and therefore we recognize any unrealized loss at the end of the period through a charge to earnings. As of September 30, 2016, these holdings totaled $49 million and we recognized change in intent write-downs of zero for both the three and nine months ended September 30, 2016.

Sales and other generated $121 million and $166 million of net realized capital gains in the three and nine months ended September 30, 2016. Sales and other in second and third quarter 2016 primarily included sales of equity and fixed income securities in connection with ongoing portfolio management, as well as gains from valuation changes in public securities held in certain limited partnerships. Sales in first quarter 2016 included $105 million of losses on $1.90 billion of sales to reduce our exposure to the energy, metals and mining sectors.

Valuation and settlements of derivative instruments generated net realized capital losses of $15 million for the three months ended September 30, 2016, primarily comprised of losses on equity futures used for risk management due to increases in equity indices and losses on foreign currency contracts due to the weakening of the U.S. Dollar. Valuation and settlements of derivative instruments generated net realized capital losses of $25 million for the nine months ended September 30, 2016, primarily comprised of losses on equity futures used for risk management due to increases in equity indices, losses on credit default swaps due to the tightening of credits spreads on the underlying credit names, and losses on foreign currency contracts due to the weakening of the U.S. Dollar.

Performance-based long-term investments primarily include private equity, real estate, infrastructure, timber and agriculture-related assets and are materially reflected through our limited partnership investments.

The following table presents investment income for PBLT investments.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Limited partnerships				
Private equity [1]	$ 112	$ 162	$ 310	$ 355
Real estate	23	5	68	138
Timber and agriculture-related	—	—	4	—
PBLT - limited partnerships [2]	135	167	382	493
Other				
Private equity	2	1	3	1
Real estate	8	7	24	16
Timber and agriculture-related	2	1	7	5
PBLT - other	12	9	34	22
Total				
Private equity	114	163	313	356
Real estate	31	12	92	154
Timber and agriculture-related	2	1	11	5
Total PBLT	$ 147	$ 176	$ 416	$ 515
Property-Liability	$ 76	$ 69	$ 208	$ 259
Allstate Financial	71	107	208	256
Total PBLT	$ 147	$ 176	$ 416	$ 515
Asset level operating expenses [3]	$ (8)	$ (4)	$ (24)	$ (15)

(1) Includes infrastructure.

(2) Other limited partnership interests are located in the market-based core and performance-based opportunistic investing strategies and are not included in the performance-based long-term table above. Investment income was $1 million and zero in the third quarter of 2016 and 2015, respectively, and $1 million and $(10) million in the first nine months of 2016 and 2015, respectively, for these limited partnership interests.

(3) When calculating the pre-tax yields, asset level operating expenses are netted against income for directly held real estate, timber and other consolidated investments.

PBLT investments produced investment income of $147 million and $416 million in the third quarter and first nine months of 2016, respectively, compared to $176 million and $515 million in the third quarter and first nine months of 2015, respectively. The decrease in both periods was primarily due to lower distributions from cost method private equity and real estate funds due to a decrease in asset dispositions in the current year. Investment appreciation was consistent between years.

The following table presents realized capital gains and losses for PBLT investments.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Limited partnerships				
Private equity	$ (23)	$ (3)	$ (31)	$ 3
Real estate	2	(2)	3	(4)
Timber and agriculture-related	—	—	—	—
PBLT - limited partnerships [1]	(21)	(5)	(28)	(1)
Other				
Private equity	(7)	6	(39)	5
Real estate	—	(1)	1	(2)
Timber and agriculture-related	—	—	—	1
PBLT - other	(7)	5	(38)	4
Total				
Private equity	(30)	3	(70)	8
Real estate	2	(3)	4	(6)
Timber and agriculture-related	—	—	—	1
Total PBLT	$ (28)	$ —	$ (66)	$ 3
Property-Liability	$ (12)	$ (4)	$ (39)	$ (3)
Allstate Financial	(16)	4	(27)	6
Total PBLT	$ (28)	$ —	$ (66)	$ 3

[1] Other limited partnership interests are located in the market-based core and performance-based opportunistic investing strategies and are not included in the performance-based long-term table above. Realized capital gains and losses were $33 million and $(50) million in the third quarter of 2016 and 2015, respectively, and $53 million and $(51) million in the first nine months of 2016 and 2015, respectively, for these limited partnership interests.

Realized capital losses on PBLT investments were $28 million and $66 million in the third quarter and first nine months of 2016, respectively, compared to realized capital gains of zero and $3 million in the third quarter and first nine months of 2015, respectively. Third quarter 2016 included impairment write-downs on certain investments with exposure to the energy sector. The first nine months of 2016 included impairment write-downs on certain investments with exposure to the energy sector, partially offset by the recovery in value of a limited partnership that was previously written-down.

Economic conditions and equity market performance are reflected in PBLT investment results, and we continue to expect this income to vary significantly between periods.

CAPITAL RESOURCES AND LIQUIDITY HIGHLIGHTS

- Shareholders’ equity as of September 30, 2016 was $20.93 billion, an increase of 4.5% from $20.03 billion as of December 31, 2015.
- On January 4, 2016, April 1, 2016 and July 1, 2016, we paid common shareholder dividends of $0.30, $0.33 and $0.33, respectively. On July 14, 2016, we declared a common shareholder dividend of $0.33 payable on October 3, 2016.
- As of September 30, 2016, there was $938 million remaining on the $1.5 billion common share repurchase program.
- On September 23, 2016, we entered into an accelerated share repurchase agreement (“ASR Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo”), to purchase $250 million of our outstanding common stock.

CAPITAL RESOURCES AND LIQUIDITY

Capital resources consist of shareholders’ equity and debt, representing funds deployed or available to be deployed to support business operations or for general corporate purposes. The following table summarizes our capital resources.

($ in millions)	September 30, 2016	December 31, 2015
Preferred stock, common stock, treasury stock, retained income and other shareholders’ equity items	$ 20,432	$ 20,780
Accumulated other comprehensive income (loss)	502	(755)
Total shareholders’ equity	20,934	20,025
Debt	5,110	5,124
Total capital resources	$ 26,044	$ 25,149
Ratio of debt to shareholders’ equity	24.4%	25.6%
Ratio of debt to capital resources	19.6%	20.4%

Shareholders’ equity increased in the first nine months of 2016, primarily due to increased unrealized net capital gains on investments and net income, partially offset by common share repurchases and dividends paid to shareholders. In the nine months ended September 30, 2016, we paid dividends of $364 million and $87 million related to our common and preferred shares, respectively.

Capital resources comprise shareholders’ equity, including preferred stock, and debt, including subordinated debt. As of September 30, 2016, capital resources include 6.7% or $1.75 billion of preferred stock and 7.8% or $2.02 billion of subordinated debt.

Common share repurchases As of September 30, 2016, there was $938 million remaining on the common share repurchase program.

In April 2016, we completed the $3 billion common share repurchase program that commenced in March 2015. In May 2016, the Board authorized a new $1.5 billion common share repurchase program that is expected to be completed by November 2017.

On June 1, 2016, we entered into an ASR Agreement with Barclays Bank PLC (“Barclays”) and Barclays Capital Inc., as Barclays’ agent, to purchase $350 million of our outstanding common stock. This ASR agreement with Barclays settled on September 16, 2016.

On September 23, 2016, we entered into a new ASR Agreement with Wells Fargo to purchase $250 million of our outstanding common stock.

During the first nine months of 2016, we repurchased 13.6 million common shares for $882 million in the market and under the Barclays ASR Agreement. Under the ASR agreement with Wells Fargo, we paid $250 million upfront and initially acquired 3.1 million shares. The actual number of shares we repurchase under this ASR Agreement, and the average price paid per share, will be determined at the completion of the ASR Agreement based on the volume weighted average price of Allstate’s common stock during the period of Wells Fargo’s purchases, which will end on or before November 23, 2016.

Financial ratings and strength 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 such as catastrophes and the current level of operating leverage. The preferred stock and subordinated debentures are viewed as having a common equity component by certain rating agencies and are given equity credit up to a pre-determined limit in our capital structure as determined by their respective methodologies. These respective methodologies consider the existence of certain terms and features in the instruments such as the noncumulative dividend feature in the preferred stock. In April 2016, A.M. Best affirmed The Allstate Corporation’s debt and short-term issuer ratings of a- and AMB-1, respectively, and the insurance financial strength ratings of A+ for AIC and Allstate Life Insurance Company (“ALIC”). The outlook for the ratings remained stable. The insurance financial strength rating of Allstate Assurance Company (“AAC”) was upgraded to A+ from A. The outlook for the rating was revised to stable from positive. In July 2016, S&P affirmed The Allstate Corporation's debt and short-term issuer ratings of A- and A-1, respectively, and the insurance financial strength ratings of AA- for AIC and A+ for ALIC. The outlook for the ratings remained stable. There have been no changes to our ratings from Moody's since December 31, 2015.

Liquidity sources and uses 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.

ALIC, AIC, AAC and The Allstate 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. ALIC and AIC each serve as a lender and borrower, AAC serves only as a borrower, and the Corporation serves only as a lender. AIC also has a capital support agreement with ALIC. Under the capital support agreement, AIC is committed to provide capital to ALIC 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 Corporation also has an intercompany loan agreement with certain of its subsidiaries, which include, but are not limited to, AIC and ALIC. The amount of intercompany loans available to the Corporation's subsidiaries 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.

Parent company capital capacity At the parent holding company level, we have deployable assets totaling $2.66 billion as of September 30, 2016 comprising cash and investments that are generally saleable within one quarter. The substantial earnings capacity of the operating subsidiaries is the primary source of capital generation for the Corporation. This provides funds for the parent company's fixed charges and other corporate purposes.

In the first nine months of 2016, AIC paid dividends totaling $1.50 billion to its parent, Allstate Insurance Holdings, LLC ("AIH"), which then paid $1.50 billion of dividends to the Corporation.

Dividends may not be paid or declared on our common stock and shares of common stock may not be repurchased unless the full dividends for the latest completed dividend period on our preferred stock have been declared and paid or provided for. We are prohibited from declaring or paying dividends on our preferred stock if we fail to meet specified capital adequacy, net income or shareholders' equity levels, except out of the net proceeds of common stock issued during the 90 days prior to the date of declaration. As of September 30, 2016, we satisfied all of the tests with no current restrictions on the payment of preferred stock dividends.

The terms of our outstanding subordinated debentures also prohibit us from declaring or paying any dividends or distributions on our common or preferred stock or redeeming, purchasing, acquiring, or making liquidation payments on our common stock or preferred stock if we have elected to defer interest payments on the subordinated debentures, subject to certain limited exceptions. In the first nine months of 2016, we did not defer interest payments on the subordinated debentures.

Additional borrowings to support liquidity are as follows:

- The Corporation has access to a commercial paper facility with a borrowing limit of $1.00 billion to cover short-term cash needs. In July 2016, we issued $200 million of commercial paper which was outstanding for 16 days with a weighted average interest rate of 0.78% and was used for general corporate purposes. As of September 30, 2016, there were no balances outstanding and therefore the remaining borrowing capacity was $1.00 billion; however, the outstanding balance can fluctuate daily.
- The Corporation, AIC and ALIC have access to a $1.00 billion unsecured revolving credit facility that is available for short-term liquidity requirements. In April 2016, we extended the maturity date of this facility to April 2021. The facility is fully subscribed among 11 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 we not exceed a 37.5% debt to capitalization ratio as defined in the agreement. This ratio was 12.1% as of September 30, 2016. 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 our senior unsecured, unguaranteed long-term debt. There were no borrowings under the credit facility during the third quarter or the first nine months of 2016.
- The Corporation has access to a universal shelf registration statement that was filed with the Securities and Exchange Commission on April 30, 2015. We can use this shelf registration to issue an unspecified amount of debt securities,

common stock (including 532 million shares of treasury stock as of September 30, 2016), preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of trust subsidiaries. The specific terms of any securities we issue under this registration statement will be provided in the applicable prospectus supplements.

Liquidity exposure Contractholder funds were $20.58 billion as of September 30, 2016. The following table summarizes contractholder funds by their contractual withdrawal provisions as of September 30, 2016.

($ in millions)		Percent to total
Not subject to discretionary withdrawal	$ 3,272	15.9%
Subject to discretionary withdrawal with adjustments:		
Specified surrender charges [1]	5,265	25.6
Market value adjustments [2]	1,667	8.1
Subject to discretionary withdrawal without adjustments [3]	10,379	50.4
Total contractholder funds [4]	$ 20,583	100.0%

(1) Includes $1.73 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2) $1.08 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) 89% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.

(4) Includes $793 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 annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 6.4% and 7.3% in the first nine months of 2016 and 2015, respectively. Allstate Financial strives 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.

The following table summarizes consolidated cash flow activities by segment for the nine months ended September 30.

($ in millions)	Property-Liability [1]		Allstate Financial [1]		Corporate and Other [1]		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015
Net cash provided by (used in):								
Operating activities	$ 2,399	$ 2,212	$ 299	$ 373	$ 44	$ 101	$ 2,742	$ 2,686
Investing activities	(1,324)	(20)	459	750	207	365	(658)	1,095
Financing activities	47	43	(739)	(1,008)	(1,498)	(2,568)	(2,190)	(3,533)
Net (decrease) increase in consolidated cash							$ (106)	$ 248

(1) Business unit cash flows reflect the elimination of intersegment dividends, contributions and borrowings.

Property-Liability Higher cash provided by operating activities in the first nine months of 2016 compared to the first nine months of 2015 was primarily due to increased premiums and lower tax payments, partially offset by higher claims payments.

Higher cash used in investing activities in the first nine months of 2016 compared to the first nine months of 2015 was primarily the result of decreased sales of fixed income securities and increased purchases of equity securities, partially offset by increased sales of equity securities and the net change in short-term investments.

Allstate Financial Lower cash provided by operating activities in the first nine months of 2016 compared to the first nine months of 2015 was primarily due to lower net investment income, partially offset by lower tax payments.

Lower cash provided by investing activities in the first nine months of 2016 compared to the first nine months of 2015 was the result of less cash used in financing activities due to decreased payments for contractholder fund disbursements.

Lower cash used in financing activities in the first nine months of 2016 compared to the first nine months of 2015 was primarily due to decreased payments for contractholder benefits and withdrawals on fixed annuities.

Corporate and Other Fluctuations in the Corporate and Other operating cash flows were primarily due to the timing of intercompany settlements. Investing activities primarily relate to investments in the parent company portfolio. Financing cash flows of the Corporate and Other segment reflect actions such as fluctuations in dividends to shareholders of The Allstate Corporation, common share repurchases, short-term debt, repayment of debt and proceeds from the issuance of debt and preferred stock; therefore, financing cash flows are affected when we increase or decrease the level of these activities.

RECENT DEVELOPMENTS

U.S. Department of Labor Fiduciary Standard Rule. In April 2016, the U.S. Department of Labor issued a regulation that will expand the range of activities that would be considered to be "investment advice" and establish a new framework for determining whether a person is a fiduciary when mutual funds, variable and indexed annuities, or variable life are sold in connection with an Individual Retirement Account or an employee benefit plan covered under the Employee Retirement Income Security Act of 1974, as amended. The regulation could have an impact on the non-proprietary products provided by Allstate agencies and Allstate's broker-dealer, Allstate Financial Services, LLC, their sales processes and volumes, and producer compensation arrangements. Allstate does not currently sell proprietary annuities or proprietary variable life sold in connection with Individual Retirement Accounts or covered under the Employee Retirement Income Security Act of 1974. Products that we previously offered and continue to have in force, such as indexed annuities, could also be impacted by the regulation. The regulation will add costs and litigation exposure. The financial impact to Allstate is expected to be immaterial. Compliance of certain components of the rule is required by April 10, 2017 and full compliance is required by January 1, 2018.

Dodd-Frank - Covered Agreement. The Secretary of the Treasury (operating through Federal Insurance Office ("FIO")) and the Office of the U.S. Trade Representative ("USTR") are jointly authorized, pursuant to Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), to negotiate a covered agreement with one or more foreign governments, authorities, or regulatory entities. A covered agreement is a written bilateral or multilateral agreement that "relates to the recognition of prudential measures with respect to the business of insurance or reinsurance that achieves a level of protection for insurance or reinsurance consumers that is substantially equivalent to the level of protection achieved under State insurance or reinsurance regulation." A covered agreement would become effective 90 days after FIO and USTR jointly submit the final agreement to the House Financial Services, House Ways and Means, Senate Banking, and Senate Finance committees. The House and Senate committees are not required to vote on the covered agreement for it to become effective. As provided in Dodd-Frank, a covered agreement cannot preempt state insurance measures that govern an insurer's rates, premiums, underwriting or sales practices; any state insurance coverage requirements; the application of antitrust laws of any state to the business of insurance; or any state insurance measure governing insurer capital or solvency, except where a state insurance measure results in less favorable treatment of a non-U.S. insurer than a U.S. insurer.

In November 2015, pursuant to Dodd-Frank, Treasury and USTR notified Congress that they were formally initiating negotiations on a covered agreement with the EU addressing: permanent equivalence treatment of the U.S. regulatory system by the EU; confidential sharing of information across jurisdictions; and uniform treatment of EU-based reinsurers operating in the U.S., including with respect to reinsurance collateral. Allstate is a major purchaser of reinsurance coverage from foreign reinsurers, and any retroactive change to foreign reinsurer collateral requirements reached under a covered agreement may impact Allstate's reinsurance recoveries on previously ceded claims. In the absence of an equivalence determination by the EU, U.S. based insurers with subsidiaries in the EU may be required to comply with European group capital and group supervision requirements for their U.S. operations. Once effective, such a covered agreement would pre-empt state laws relating to reinsurance collateral if state laws "result in less favorable treatment of a non-United States insurer domiciled in a foreign jurisdiction that is subject to a covered agreement than a United States insurer domiciled, licensed, or otherwise admitted in that State."

U.S. and EU representatives have met several times to discuss a future bilateral covered agreement relating to prudential insurance and reinsurance measures. Both sides agreed to continue in good faith to pursue a covered agreement on matters relating to group supervision, exchange of confidential information between supervisory authorities on both sides, and reinsurance supervision, including collateral. The EU is represented in the discussions by the European Commission, which represents all 28 members of the EU, including the U.K., the fourth largest insurance market in the world. If the U.K. withdraws from the EU it would not be subject to a potential U.S.-EU covered agreement and would need to be addressed through a separate bilateral agreement, if desired.

On June 23, 2016, the U.K. held a referendum in which they voted to leave the EU. The vote is expected to be followed by the formal process of withdrawal under Article 50 of the Lisbon Treaty, that, once invoked, would take place over a period of up to two years. Article 50 provides only for the negotiation of a withdrawal arrangement but does not address future relationships between the U.K. and EU. The significance of the U.K. insurance market as a component of the EU insurance market may affect the timing, content, and resolution of current covered agreement negotiations.

Transparent Insurance Standards Act of 2016. In April 2016, the Transparent Insurance Standards Act of 2016 ("Act") was introduced in the U.S. House of Representatives. The Act identifies objectives for international insurance standards, requirements to adopt international insurance standards, and associated reporting requirements. If adopted, the Act would enhance Congressional oversight of insurance-related international deliberations to which the U.S. is a party by establishing a series of review and reporting requirements before the Federal Reserve and the Secretary of the Treasury, or its designee, which may include the FIO, may agree to any final international insurance standard. The Act also clarifies that a covered agreement shall not be considered an international insurance standard for purposes of the Act and shall not be subject to the Act. The Act addresses covered agreements by including a requirement for the Secretary of the Treasury and USTR to consult with state regulators during covered agreement negotiations and to make any covered agreement available for comment for 30 days during the 90 day waiting period for effectiveness. The Act also clarifies that no covered agreement could be used to establish or provide the FIO or Treasury with any general regulatory authority over the business of insurance or with the authority to participate in a supervisory college or similar process.

In June 2016, the House Financial Services Committee voted to report the Act out of committee by issuing a report recommending that the bill be given consideration by the full chamber.

Federal Reserve Board. In June 2016, the Federal Reserve Board ("FRB") issued an Advanced Notice of Proposed Rulemaking soliciting comments on two separate capital framework proposals developed for insurance groups designated as systemically important financial institutions ("SIFI") and insurance companies that own insured depository institutions ("IDIs"). The proposals at a very high level describe how capital and financial risk could be measured. The capital proposal applicable to insurance IDIs uses a Building Block Approach ("BBA"). The BBA uses, as a starting point, available and required capital obtained from existing regulatory frameworks, such as the National Association of Insurance Commissioners Risk-Based Capital, developed from financial statements constructed using Statutory Accounting Principles ("SAP") and applies a Basel-like approach to remaining assets not covered by a specific regulatory framework. The proposed capital framework applicable to SIFI's would be a Consolidated Approach, which would rely on a new risk-based framework to be applied to consolidated U.S. GAAP based financial measures.

While the proposed application of the SIFI proposal is limited, the potential implication of its wider application could be significant. Most insurance groups, including those that currently prepare financial statements in accordance with U.S. GAAP, typically do not develop audited U.S. GAAP financial statements for all domestic and international insurance and non-insurance subsidiaries. The current Consolidated Approach proposal as communicated does not require insurance companies, subject to the framework, to prepare U.S. GAAP financial statements for their underlying subsidiaries. However, any change to the final rule, which requires application of risk-based capital requirements to audited U.S. GAAP financial statements at the subsidiary level would require the preparation of U.S. GAAP financial statements. This could create significant incremental costs to maintain audited financial statements and maintenance of regulatory capital computations for subsidiaries on both a U.S. GAAP and SAP basis. The FRB proposals remain in the development stage and their final form, content, and applicability of the framework(s) may be significantly different from the current proposals.

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. These 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. We believe these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. Factors that could cause actual results to differ materially from those expressed in, or implied by, the forward-looking statements include risks related to: (1) adverse changes in the nature and level of catastrophes and severe weather events; (2) impacts of catastrophe management strategy on premium growth; (3) unexpected increases in the frequency or severity of claims; (4) regulatory changes, including limitations on rate increases and requirements to underwrite business and participate in loss sharing arrangements; (5) market convergence and regulatory changes on our risk segmentation and pricing; (6) the cyclical nature of the property and casualty business; (7) reestimates of reserves for claims; (8) adverse legal determinations regarding discontinued product lines and other legal and regulatory actions; (9) changes in underwriting and actual experience; (10) changes in reserve estimates for life-contingent contract benefits payable; (11) the influence of changes in market interest rates on spread-based products; (12) changes in estimates of profitability on interest-sensitive life products; (13) reducing our concentration in spread-based business and exiting certain distribution channels; (14) changes in tax laws; (15) our ability to mitigate the capital impact associated with life insurance statutory reserving requirements; (16) operational issues relating to a decline in Lincoln Benefit Life Company's financial strength ratings; (17) market risk and declines in credit quality relating to our investment portfolio; (18) our subjective determination of the fair value of our fixed income and equity securities and the amount of realized capital losses recorded for impairments of our investments; (19) competition in the insurance industry; (20) conditions in the global economy and capital markets; (21) losses from legal and regulatory actions; (22) restrictive regulation and regulatory reforms; (23) the availability of reinsurance at current levels and prices; (24) credit risk of our reinsurers; (25) a downgrade in our financial strength ratings; (26) the effect of adverse capital and credit market conditions; (27) failure in cyber or other information security; (28) the impact of a large scale pandemic, the threat or incurrence of terrorism or military action; (29) possible impairments in the value of goodwill; (30) changes in accounting standards; (31) the realization of deferred tax assets; (32) restrictions on our subsidiaries' ability to pay dividends; (33) restrictions under the terms of certain of our securities on our ability to pay dividends or repurchase our stock; (34) changing climate and weather conditions; (35) loss of key vendor relationships or failure of a vendor to protect confidential and proprietary information; and (36) failure to protect intellectual property. Additional information concerning these and other factors may be found in our filings with the Securities and Exchange Commission, including the "Risk Factors" section in our most recent Annual Report on Form 10-K. Forward-looking statements speak only as of the date on which they are made, and we assume no obligation to update or revise any forward-looking statement.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures as defined in Rules 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 made known to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. During the fiscal quarter ended September 30, 2016, 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information required for Part II, Item 1 is incorporated by reference to the discussion under the heading "Regulation and Compliance" and under the heading "Legal and regulatory proceedings and inquiries" in Note 10 of the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total number of shares (or units) purchased [1]	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs [4]
July 1, 2016 - July 31, 2016				
Open Market Purchases	514	$68.2124	—	
August 1, 2016 - August 31, 2016				
Open Market Purchases	28,460	$68.6578	—	
September 1, 2016 - September 30, 2016				
Barclays ASR [2]	780,776	$67.4695	780,776	
Wells Fargo ASR [3]	3,102,643	$68.4900	3,102,643	
Open Market Purchases	2,377	$68.9214	—	
Total	3,914,770	$68.2879	3,883,419	$938 million

(1) In accordance with the terms of its equity compensation plans, Allstate acquired the following shares in connection with the vesting of restricted stock units and performance stock awards and the exercise of stock options held by employees and/or directors. The shares were acquired in satisfaction of withholding taxes due upon exercise or vesting and in payment of the exercise price of the options.
July: 417
August: 3,879
September: 2,377

(2) On June 1, 2016, Allstate entered into an accelerated share repurchase agreement ("ASR Agreement") with Barclays Bank PLC ("Barclays") and Barclays Capital Inc., as Barclays' agent, to purchase $350 million of our outstanding shares of common stock, which settled on September 16, 2016. Under this ASR agreement, we repurchased a total of 5.2 million shares at an average repurchase price of $67.4695.

(3) On September 23, 2016, Allstate entered into a new ASR Agreement with Wells Fargo Bank, National Association ("Wells Fargo"), to purchase $250 million of our outstanding common stock. In exchange, for an upfront payment of $250 million, Wells Fargo initially delivered 3,102,643 shares to Allstate. The actual number of shares we repurchase under this ASR Agreement, and the average price paid per share, will be determined at the completion of the ASR Agreement based on the volume weighted average price of Allstate's common stock during the period of Wells Fargo's purchases, which will end on or before November 23, 2016.

(4) On February 4, 2015, we announced the approval of a common share repurchase program for $3 billion, which was completed in April 2016. On May 4, 2016, we announced the approval of a new common share repurchase program for $1.5 billion, to be completed by November 2017.

Item 6. Exhibits

(a) Exhibits

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

		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	File Number	Exhibit	Filing Date	Filed or Furnished Herewith
4	The Allstate Corporation hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of holders of each issue of long-term debt of it and its consolidated subsidiaries					
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated November 2, 2016, concerning unaudited interim financial information					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
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

SIGNATURE

Pursuant to the requirements 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.

The Allstate Corporation
(Registrant)

November 2, 2016

By /s/ Samuel H. Pilch
Samuel H. Pilch
(chief accounting officer and duly
authorized officer of Registrant)

EXHIBIT 15

The Allstate Corporation
2775 Sanders Road
Northbrook, IL 60062

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of The Allstate Corporation and subsidiaries for the periods ended September 30, 2016 and 2015, as indicated in our report dated November 2, 2016; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, is incorporated by reference in the following Registration Statements:

Form S-3 Registration Statement Nos.	Form S-8 Registration Statement Nos.
333-34583	333-04919
333-203757	333-16129
	333-40283
	333-134242
	333-134243
	333-144691
	333-159343
	333-175526
	333-175528
	333-188821
	333-200390

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
November 2, 2016

CERTIFICATIONS **EXHIBIT 31 (i)**

I, Thomas J. Wilson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Allstate Corporation;

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: November 2, 2016

/s/ Thomas J. Wilson
Thomas J. Wilson
Chairman of the Board and Chief Executive Officer

CERTIFICATIONS **EXHIBIT 31 (i)**

I, Steven E. Shebik, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Allstate Corporation;

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: November 2, 2016

/s/ Steven E. Shebik

Steven E. Shebik

Executive Vice President and Chief Financial Officer

EXHIBIT 32

SECTION 1350 CERTIFICATIONS

Each of the undersigned hereby certifies that to his knowledge the quarterly report on Form 10-Q for the fiscal period ended September 30, 2016 of The Allstate Corporation 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 The Allstate Corporation.

Date: November 2, 2016

/s/ Thomas J. Wilson
Thomas J. Wilson
Chairman of the Board and Chief Executive Officer

/s/ Steven E. Shebik
Steven E. Shebik
Executive Vice President and Chief Financial Officer