

ALLSTATE CORP

Form 10-K

February 17, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange Chicago Stock Exchange
5.10% Fixed-to-Floating Rate Subordinated Debentures due 2053	New York Stock Exchange
Depository Shares each representing a 1/1,000 th interest in a share of Fixed Rate Noncumulative Perpetual Preferred Stock, Series A	New York Stock Exchange
Depository Shares each representing a 1/1,000 th interest in a share of Fixed Rate Noncumulative Perpetual Preferred Stock, Series C	New York Stock Exchange
Depository Shares each representing a 1/1,000 th interest in a share of Fixed Rate Noncumulative Perpetual Preferred Stock, Series D	New York Stock Exchange
Depository Shares each representing a 1/1,000 th interest in a share of Fixed Rate Noncumulative Perpetual Preferred Stock, Series E	New York Stock Exchange
Depository Shares each representing a 1/1,000 th interest in a share of Fixed Rate Noncumulative Perpetual Preferred Stock, Series F	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 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).

Edgar Filing: ALLSTATE CORP - Form 10-K

Yes No

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (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

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2016, was approximately \$25.63 billion.

As of January 31, 2017, the registrant had 365,129,091 shares of common stock outstanding.

Documents Incorporated By Reference

Portions of the following documents are incorporated herein by reference as follows:

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement for its annual stockholders meeting to be held on May 25, 2017 (the "Proxy Statement") to be filed not later than 120 days after the end of the fiscal year covered by this Form 10-K.

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1.</u> <u>Business</u>	<u>1</u>
<u>Priorities</u>	<u>1</u>
<u>Allstate Protection Segment</u>	<u>1</u>
<u>Allstate Financial Segment</u>	<u>4</u>
<u>Allstate Agencies</u>	<u>5</u>
<u>Other Business Segments</u>	<u>6</u>
<u>Regulation</u>	<u>7</u>
<u>Internet Website</u>	<u>11</u>
<u>Other Information about Allstate</u>	<u>12</u>
<u>Executive Officers of the Registrant</u>	<u>12</u>
<u>Forward-Looking Statements</u>	<u>12</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>13</u>
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	<u>24</u>
<u>Item 2.</u> <u>Properties</u>	<u>24</u>
<u>Item 3.</u> <u>Legal Proceedings</u>	<u>24</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>24</u>
<u>PART II</u>	
<u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholders Matters and Issuer Purchases of Equity Securities</u>	<u>25</u>
<u>Item 6.</u> <u>Selected Financial Data</u>	<u>27</u>
<u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>123</u>
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	<u>124</u>
<u>Item 9.</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>211</u>
<u>Item 9A.</u> <u>Controls and Procedures</u>	<u>211</u>
<u>Item 9B.</u> <u>Other Information</u>	<u>211</u>
<u>PART III</u>	
<u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u>	<u>212</u>
<u>Item 11.</u> <u>Executive Compensation</u>	<u>212</u>
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>212</u>
<u>Item 13.</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>212</u>
<u>Item 14.</u> <u>Principal Accounting Fees and Services</u>	<u>212</u>
<u>PART IV</u>	
<u>Item 15.</u> <u>Exhibits and Financial Statement Schedules</u>	<u>213</u>
<u>Item 16.</u> <u>Form 10-K Summary</u>	<u>216</u>
<u>Signatures</u>	<u>217</u>
<u>Financial Statement Schedules</u>	<u>S-1</u>

Part I

Item 1. Business

The Allstate Corporation was incorporated under the laws of the State of Delaware on November 5, 1992 to serve as the holding company for Allstate Insurance Company. Its business is conducted principally through Allstate Insurance Company, Allstate Life Insurance Company and other subsidiaries (collectively, including The Allstate Corporation, “Allstate”). Allstate is primarily engaged in the property-liability insurance business and the life insurance, retirement and investment products business. It offers its products in the United States and Canada.

The Allstate Corporation is the largest publicly held personal lines insurer in the United States. Allstate’s strategy is to serve distinct customer segments with differentiated offerings. The Allstate brand is widely known through the “You’re In Good Hands With Allstate®” slogan. Allstate is the 2^d largest personal property and casualty insurer in the United States on the basis of 2015 statutory direct premiums written according to A.M. Best. In addition, according to A.M. Best, it is the nation’s 18th largest issuer of life insurance business on the basis of 2015 ordinary life insurance in force and 31st largest on the basis of 2015 statutory admitted assets.

Allstate has four business segments:

- Allstate Protection
- Allstate Financial
- Discontinued Lines and Coverages
- Corporate and Other

To achieve its goals in 2017, Allstate is focused on the following priorities:

- better serve our customers;
- achieve target economic returns on capital;
- grow customer base;
- proactively manage investments; and
- build long-term growth platforms.

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

ALLSTATE PROTECTION SEGMENT

Products and Distribution

Total Allstate Protection premiums written were \$31.60 billion in 2016. Our Allstate Protection segment accounted for 93% of Allstate’s 2016 consolidated insurance premiums and contract charges. In this segment, we principally sell private passenger auto, homeowners, and other property-liability insurance products through agencies and directly through contact centers and the internet. These products are underwritten under the Allstate®, Esurance® and Encompass® brand names.

Our Unique Strategy Consumer Segments

Allstate serves four different consumer segments with distinct interaction preferences (local advice and assistance versus self-directed) and brand preferences (brand-neutral versus brand-sensitive).

Allstate brand auto and homeowners insurance products are sold primarily through Allstate exclusive agencies and serve customers who prefer local personalized advice and service and are brand-sensitive. Allstate agencies also sell specialty auto products including motorcycle, trailer, motor home and off-road vehicle insurance policies; other personal lines products including renter, condominium, landlord, boat, umbrella and manufactured home insurance policies; commercial lines products for small business owners; roadside assistance products; and service contracts and other products sold in conjunction with auto lending and vehicle sales transactions. Allstate brand sales and service are supported through contact centers and the internet. In 2016, the Allstate brand represented 91% of the Allstate Protection segment's written premium. In the U.S., we offer these Allstate brand products in approximately 10,200 locations through approximately 34,160 licensed producers including approximately 10,360 Allstate exclusive agencies and approximately 23,800 licensed sales professionals. We also offer these products through approximately 2,200 independent agencies that are primarily in rural areas in the U.S. In Canada, we offer Allstate brand products through approximately 870 employee producers working in five provinces across the country (Ontario, Quebec, Alberta, New Brunswick and Nova Scotia).

Esurance brand auto, homeowners, renter and motorcycle insurance products are sold to customers online, through contact centers or through select agents. Esurance serves self-directed, brand-sensitive customers. In 2016, the Esurance brand represented 5% of the Allstate Protection segment's written premium.

Encompass brand auto, homeowners, umbrella and other insurance products, sold predominantly in the form of a single annual household ("package") policy, are distributed through independent agencies that serve customers who prefer personal advice and assistance from an independent adviser and are brand neutral. In 2016, the Encompass brand represented 4% of the Allstate Protection segment's written premium. Encompass brand products are distributed through approximately 2,400 independent agencies. Encompass is among the top 20 largest providers of personal property and casualty insurance products through independent agencies in the United States, based on statutory written premium information provided by A.M. Best for 2015.

Answer Financial, a personal lines insurance agency, serves self-directed, brand-neutral consumers who want a choice between insurance carriers. It offers comparison quotes for auto and homeowners insurance from approximately 25 insurance companies through its website and over the phone and receives commissions for this service. Answer Financial had \$599 million of non-proprietary premiums written in 2016.

Through arrangements made with other companies, agencies, and brokers, the Allstate Protection segment may offer non-proprietary products to consumers when an Allstate product is not available. As of December 31, 2016, Allstate agencies had approximately \$1.3 billion of non-proprietary personal insurance premiums under management, primarily related to property business in hurricane exposed areas, and approximately \$200 million of non-proprietary commercial insurance premiums under management.

Competition

The markets for personal private passenger auto and homeowners insurance are highly competitive. The following charts provide the market shares of our principal competitors in the U.S. by direct written premium for the year ended December 31, 2015 according to A.M. Best.

Personal Lines Insurance		Private Passenger Auto Insurance		Homeowners Insurance	
Insurer	Market Share	Insurer	Market Share	Insurer	Market Share
State Farm	18.6%	State Farm	18.3%	State Farm	19.1%
Allstate	9.6	GEICO	11.4	Allstate	8.5
GEICO	7.8	Allstate	10.1	Liberty Mutual	6.5
Progressive	6.3	Progressive	8.8	Farmers	5.7
Liberty Mutual	5.5	USAA	5.3	USAA	5.4
USAA	5.3	Farmers	5.0	Nationwide	4.0
Farmers	5.2	Liberty Mutual	5.0	Travelers	3.7
Nationwide	3.8	Nationwide	3.7		

In the personal property and casualty insurance market, we compete principally using customer value propositions for each consumer segment. This includes different brands, the scope and type of distribution system, price and the breadth of product offerings, product features, customer service, claim handling, and use of technology. In addition, our proprietary database of underwriting and pricing experience enables Allstate to use sophisticated pricing algorithms to more accurately price risks while also seeking to attract and retain more customers. For auto insurance, risk evaluation factors can include but are not limited to vehicle make, model and year; driver age and marital status; territory; years licensed; loss history; years insured with prior carrier;

prior liability limits; prior lapse in coverage; and insurance scoring utilizing certain credit report information. For property insurance, risk evaluation factors can include but are not limited to the amount of insurance purchased; geographic location of the property; loss history; age, condition and construction characteristics of the property; and characteristics of the insured including insurance scoring utilizing certain credit report information.

Allstate differentiates itself from competitors by focusing on the needs of the entire household and offering a comprehensive range of innovative product options and features through distribution channels that best suit each market segment. Allstate's Your Choice Auto[®] insurance allows qualified customers to choose from a variety of options, such as Accident Forgiveness, Deductible Rewards[®], Safe Driving Bonus[®], and New Car Replacement. We believe that Your Choice Auto insurance promotes increased growth and increased retention. We also offer a Claim Satisfaction GuaranteeSM feature that promises a return of premium to Allstate brand standard auto insurance customers dissatisfied with their claims experience. Allstate House and Home[®] insurance is our homeowners product that provides options of coverage for roof damage including graduated coverage and pricing based on roof type and age. Good Hands Rescue[®] is a service that provides pay on demand access to roadside services.

Our Allstate branded Drivewise[®] and our Esurance branded DriveSense[®] offerings are telematic-based insurance programs that use a mobile application or an in-car device to capture driving behaviors and reward customers for driving safely. The Drivewise mobile application also provides customers with information and tools to encourage safer driving and incentivize them through driving challenges. Drivewise offers Allstate Rewards[®], a program that provides reward points for safe driving.

Our Allstate Milewise[®] and Esurance Pay Per Mile[®] usage-based insurance products give customers flexibility to customize their insurance and pay based on the number of miles they drive.

In 2016, we launched Arity, a non-insurance technology company that leverages software, data and analytics and our telematics-based insurance programs to help better manage risk. Allstate brand, Esurance and Answer Financial are currently using Arity's software, data and analytics. Arity is planning to market its services to non-affiliates in 2017. The Encompass[®] package policy offers broad coverage options specifically focused on customers who prefer an independent agency while simplifying the insurance experience by packaging a product into a single annual household policy with one premium, one bill, one policy deductible and one renewal date. Broad coverage options include features such as enhanced home replacement with a cash-out option should the insured decide not to rebuild, additional living expense coverage with no specific time or dollar limit, water-sewer back up coverage, an unlimited accident forgiveness feature and roadside assistance.

On November 28, 2016, we announced an agreement to acquire SquareTrade Holding Company, Inc. ("SquareTrade"), a consumer product protection plan provider that distributes through many of America's major retailers. Known for its exceptional service, SquareTrade provides protection plans for consumer appliances and electronics, such as TVs, smartphones and computers. This will broaden Allstate's product offerings to better meet consumers' needs. The transaction closed on January 3, 2017.

Geographic Markets

The Company's principal geographic markets for auto, homeowners, and other personal property and casualty products are in the United States. Through various subsidiaries, we are authorized to sell a variety of personal property and casualty insurance products in all 50 states, the District of Columbia and Puerto Rico. We also sell personal property and casualty insurance products in Canada.

The following table reflects, in percentages, the principal geographic distribution of premiums earned for the Allstate Protection segment for 2016, based on information contained in statements filed with state insurance departments. No other jurisdiction accounted for more than 5 percent of the premiums earned for the segment.

Texas	11.1%
California	9.4
New York	8.9
Florida	7.2

Additional Information

Information regarding the last three years' revenues and income from operations attributable to the Allstate Protection segment is contained in Note 19 of the consolidated financial statements. Note 19 also includes information regarding the last three years' identifiable assets attributable to our property-liability operations, which includes our Allstate

Protection and Discontinued Lines and Coverages segments. Note 19 is incorporated in this Part I, Item 1 by reference.

Information regarding the amount of premium earned for Allstate Protection segment products for the last three years is set forth in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, in the table regarding premiums earned by brand. That table is incorporated in this Part I, Item 1 by reference.

3

ALLSTATE FINANCIAL SEGMENT

Products and Distribution

Our Allstate Financial segment sells traditional, interest-sensitive and variable life insurance and voluntary accident and health insurance products. We previously offered and continue to have in force fixed annuities such as deferred and immediate annuities. We sell Allstate Financial products through Allstate exclusive agencies and approximately 1,000 exclusive financial specialists, and 6,000 workplace enrolling independent agents. The majority of life insurance business written involves exclusive financial specialists, including referrals from exclusive agencies and licensed sales professionals. The table below lists our current distribution channels with the associated products and target customers.

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

Allstate exclusive agencies and exclusive financial specialists also sell non-proprietary retirement and investment products, including mutual funds, fixed and variable annuities, disability insurance, and long-term care insurance to provide a broad suite of protection and retirement products. As of December 31, 2016, Allstate agencies had approximately \$14.1 billion of non-proprietary mutual funds and fixed and variable annuity account balances under management. New and additional deposits into these non-proprietary products were \$1.9 billion in 2016.

Competition

We compete on a wide variety of factors, including product offerings, brand recognition, financial strength and ratings, price, distribution and the level of customer service. The market for life insurance continues to be highly fragmented and competitive. As of December 31, 2015, there were approximately 380 groups of life insurance companies in the United States, most of which offered one or more similar products. According to A.M. Best, as of December 31, 2015, the Allstate Financial segment is the nation's 18th largest issuer of life insurance and related business on the basis of 2015 ordinary life insurance in force and 31st largest on the basis of 2015 statutory admitted assets.

The market for voluntary benefits is growing as employers seek to shift benefit costs to employees. Favorable industry and economic trends have increased competitive pressure and attracted new traditional and non-traditional entrants to the voluntary benefits market. Recent entrants, including large group medical and life insurance carriers, are leveraging core benefit capabilities by bundling and discounting to capture voluntary market share. Allstate will need to continue strengthening its value proposition and add new capabilities to maintain its strong leadership position in voluntary benefits.

Geographic Markets

We sell life insurance and voluntary accident and health insurance throughout the United States. Through subsidiaries, we are authorized to sell various types of these products in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. We also sell voluntary accident and health insurance in Canada.

The following table reflects, in percentages, the principal geographic distribution of direct statutory premiums and annuity considerations for the Allstate Financial segment for 2016, based on information contained in statements filed with state insurance departments. Direct statutory premiums and annuity considerations exclude reinsurance assumed. No other jurisdiction accounted for more than 5 percent of the direct statutory premiums and annuity considerations.

New York 10.8%

Texas 10.1

Florida 9.9

California 6.5

4

Additional Information

Information regarding revenues and income from operations attributable to the Allstate Financial segment for the last three years is contained in Note 19 of the consolidated financial statements. Note 19 also includes information regarding identifiable assets attributable to the Allstate Financial segment for the last three years. Note 19 is incorporated in this Part I, Item 1 by reference.

Information regarding premiums and contract charges for Allstate Financial segment products for the last three years is set forth in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, in the table that summarizes premiums and contract charges by product. That table is incorporated in this Part I, Item 1 by reference.

ALLSTATE AGENCIES

Allstate exclusive agencies offer products targeted to consumers that prefer local personalized advice and branded products from both the Allstate Protection and Allstate Financial segments. They offer Allstate brand auto and homeowners insurance policies; specialty auto products including motorcycle, trailer, motor home and off-road vehicle insurance policies; other personal lines products including renter, condominium, landlord, boat, umbrella and manufactured home insurance policies; commercial lines products for small business owners; and roadside assistance products. Allstate exclusive agencies and exclusive financial specialists offer various life insurance products, as well as voluntary accident and health insurance products. In addition, arrangements made with other companies, agencies, and brokers allow Allstate exclusive agencies the ability to make available non-proprietary products to consumers when an Allstate product is not available.

In the U.S., Allstate brand products are sold in approximately 10,200 locations through approximately 34,160 licensed producers including approximately 10,360 Allstate exclusive agencies employing approximately 23,800 licensed sales professionals, who are licensed to sell our products. We also offer these products through approximately 2,200 independent agencies in primarily rural areas in the U.S. All Allstate brand customers who purchase their policies directly through contact centers and the internet, currently less than 7% of new business, are provided an Allstate agency relationship at the time of purchase. In Canada, we offer Allstate brand products through approximately 870 producers working in five provinces across the country (Ontario, Quebec, Alberta, New Brunswick and Nova Scotia). Trusted Advisor In 2016, we continued to focus on a multi-year effort to position exclusive agents, licensed sales professionals and exclusive financial specialists to serve customers as trusted advisors. Being a trusted advisor means that our agencies:

- Have a local presence that instills confidence;
- Know their customers and understand the unique needs of their households;
- Help them assess the potential risks they face;

•Provide local expertise and personalized guidance on how to protect what matters most to them by offering customized solutions; and

- Support them when they have changes in their lives and during their times of need.

To ensure agencies have the resources, capacity, and support needed to serve customers at this level, we are deploying education and support focused on relationship initiation and insurance and retirement expertise and are continuing efforts to enhance agency capabilities with customer-centric technology while simplifying and automating service processes to enable agencies to focus more time in an advisory role.

Allstate exclusive agencies engage with exclusive financial specialists through a partnership agreement, which documents common business goals and commitments to deliver customer solutions for life and retirement products. Exclusive agencies utilize an exclusive financial specialist for their expertise with advanced life and retirement cases and other financial needs of customers. Successful partnerships will assist agencies with building stronger and deeper customer relationships and increased compensation.

We support our exclusive agencies in a variety of ways to facilitate customer service and Allstate's overall growth strategy. For example, we offer assistance with marketing, sales, service and business processes and provide education and other resources to help them acquire more business and retain more customers. Our programs support exclusive agencies and help them grow by offering financing to acquire other agencies and awarding additional resources to better performing agencies. We support our relationship with Allstate exclusive agencies through several national and regional working groups:

The Agency Executive Council engages exclusive agencies on our customer service and growth strategies.

Membership includes approximately 14 Allstate exclusive agency owners selected on the basis of performance, thought leadership and credibility among their peer group.

The National Advisory Board brings together Allstate's senior leadership and a cross section of Allstate exclusive agents and exclusive financial specialists from around the country to address national business issues and develop solutions.

Regional Advisory Boards support Allstate exclusive agency owner engagement within each of Allstate's 15 regional offices in the U.S. and within Canada.

The compensation structure for Allstate exclusive agencies rewards agencies for delivering high value to our customers and achieving certain business outcomes such as product profitability, net growth and household penetration. Allstate exclusive agent remuneration comprises a base commission (Property-Liability and Allstate Financial products), variable compensation and a bonus. Variable compensation consists of three components: agency success factors (Allstate Financial insurance policies sold and licensed staff), which must be achieved in order to qualify for the second and third components, customer satisfaction and Allstate Financial insurance policies sold relative to the size of the agency. A bonus, based on a percentage of premiums can be earned by agents who achieve a targeted loss ratio and a defined amount of Allstate Financial sales. The bonus is earned by achieving a targeted percentage of multi-category households (customers with policies purchased through an Allstate agent in at least two of the following product categories: vehicle, personal property, or life and retirement) and increases in Allstate Protection (Allstate brand) and Allstate Financial policies in force. In addition, through arrangements made with other companies, agencies, and brokers, Allstate exclusive agencies have the ability to earn commissions on non-proprietary products provided to consumers when an Allstate product is not available.

We pursue opportunities for growing Allstate brand exclusive agency distribution based on market opportunities with a focus on penetrating under-served markets. Similar to prior years, Allstate will continue to offer newly appointed agents, new locations or newly purchased locations with a low premium base an opportunity to earn enhanced compensation. The enhanced compensation program is designed to incent and reward agencies for investing their time, talent, and capital to generate premium growth trajectory sufficient to establish a sustainable business over a defined timeframe. While the intent and reward will remain largely consistent, the program will be modified for agents who open an agency on or after April 1, 2017 to more efficiently incentivize agents to support trusted advisor principles, including an enhanced on-boarding process and contemporized standards for capital and licensed support staff. Other elements of exclusive agency compensation and support include start-up agency bonuses, marketing support payments, technology and data allowances, regional promotions and recognition trips based on achievement. These compensation components combine to provide these locally owned small businesses opportunities and incentives to earn incremental working capital throughout the year to support the cash flow needed for sustainable investment in agency staff, marketing, and business development. Allstate exclusive financial specialists receive commissions for proprietary and non-proprietary sales and earn a bonus based on the volume of business produced in partnership with their Allstate exclusive agent. In 2017, a new bonus was introduced for sales of Allstate Financial products along with adjustments to the Allstate Financial commission structure.

Allstate independent agent remuneration comprises a base commission (Property-Liability products) and a bonus which can be earned by agents who achieve a target loss ratio. The bonus, which is a percentage of premiums, is earned by achieving a targeted percentage of multi-category households (customers with Allstate policies in at least two of the following product categories: vehicle, personal property or life and retirement) and increased Allstate Protection (Allstate brand) net written premium above a minimum threshold. Other elements of independent agency compensation and support include marketing support payments, national and regional promotions and recognition trips based on achievement. There are no significant changes to the compensation framework planned for 2017. Allstate employs field sales leaders who are responsible for recruiting and retaining Allstate agents and helping them grow their business and profitability. The field sales leaders' compensation is aligned with agency success and includes a bonus based on the level of agent remuneration described above and agency geographic footprint.

OTHER BUSINESS SEGMENTS

Our Corporate and Other segment is comprised of holding company activities and certain non-insurance operations. Note 19 of the consolidated financial statements contains information regarding the revenues, income from operations, and identifiable assets attributable to our Corporate and Other segment over the last three years.

Our 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 presented in this segment. Note 19 of the consolidated financial statements contains information for the last three years regarding revenues, income from operations, and identifiable assets attributable to our property-liability operations, which includes both our Allstate Protection and our Discontinued Lines and Coverages segments. Note 19 is incorporated in this Part I, Item 1 by reference.

REGULATION

Allstate is subject to extensive regulation, primarily at the state level. The method, extent, and substance of such regulation varies by state but generally has its source in statutes that establish standards and requirements for conducting the business of insurance and that delegate regulatory authority to a state agency. These rules have a substantial effect on our business and relate to a wide variety of matters, including insurer solvency and statutory surplus sufficiency, reserve adequacy, insurance company licensing and examination, agent and adjuster licensing, policy forms, rate setting, the nature and amount of investments, claims practices, participation in shared markets and guaranty funds, transactions with affiliates, the payment of dividends, underwriting standards, statutory accounting methods, trade practices, corporate governance and risk management. Some of these matters are discussed in more detail below. In addition, state legislators and insurance regulators continue to examine the appropriate nature and scope of state insurance regulation. For a discussion of statutory financial information, see Note 16 of the consolidated financial statements. For a discussion of regulatory contingencies, see Note 14 of the consolidated financial statements. Notes 14 and 16 are incorporated in this Part I, Item 1 by reference.

As part of an effort to strengthen the regulation of the financial services market, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) was enacted in 2010. Dodd-Frank created the Federal Insurance Office (“FIO”) within the U.S. Department of the Treasury (“Treasury”). The FIO monitors the insurance industry, provides advice to the Financial Stability Oversight Council (“FSOC”), represents the U.S. on international insurance matters, and studies the current regulatory system.

Additional regulations or new requirements may emerge from activities of various regulatory entities, including the Federal Reserve Board, FIO, FSOC, the National Association of Insurance Commissioners (“NAIC”), and the International Association of Insurance Supervisors (“IAIS”), that are evaluating solvency and capital standards for insurance company groups. In addition, the NAIC has adopted amendments to its model holding company law, which have been adopted by some jurisdictions. The outcome of these actions is uncertain; however, these actions may result in an increase in the level of capital and liquidity required by insurance holding companies. Additional discussion of Dodd-Frank appears later in this section.

We cannot predict whether any specific state or federal measures will be adopted to change the nature or scope of the regulation of insurance or what effect any such measures would have on Allstate. We are working for changes in the regulatory environment to make insurance more available and affordable for customers, encourage market innovation, improve driving safety, strengthen cybersecurity, and promote better catastrophe preparedness and loss mitigation.

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

Limitations on Dividends By Insurance Subsidiaries. As a holding company with no significant business operations of its own, The Allstate Corporation relies on dividends from Allstate Insurance Company as one of the principal sources of cash to pay dividends and to meet its obligations, including the payment of principal and interest on debt or to fund non-insurance related businesses. Allstate Insurance Company is regulated as an insurance company in Illinois and its ability to pay dividends is restricted by Illinois law. For additional information regarding those restrictions, see Part II, Item 5 of this report. The laws of the other jurisdictions that generally govern our other insurance subsidiaries contain similar limitations on the payment of dividends and in some jurisdictions the laws may be more restrictive.

Insurance Holding Company Regulation – Change of Control. The Allstate Corporation and Allstate Insurance Company are insurance holding companies subject to regulation in the jurisdictions in which their insurance subsidiaries do business. In the U.S., these subsidiaries are organized under the insurance codes of Florida, Illinois, Massachusetts, New York, Texas, and Wisconsin, and some of these subsidiaries are considered commercially domiciled in California and Florida. Generally, the insurance codes in these states provide that the acquisition or change of “control” of a domestic or commercially domiciled insurer or of any person that controls such an insurer cannot be consummated without the prior approval of the relevant insurance regulator. In general, a presumption of “control” arises from the ownership, control, possession with the power to vote, or possession of proxies with respect to, ten percent or more of the voting securities of an insurer or of a person that controls an insurer. In addition, certain state insurance laws require pre-acquisition notification to state agencies of a change in control with respect to a

non-domestic insurance company licensed to do business in that state. While such pre-acquisition notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease and desist order with respect to the non-domestic insurer if certain conditions exist, such as undue market concentration. Thus, any transaction involving the acquisition of ten percent or more of The Allstate Corporation's common stock would generally require prior approval by the state insurance departments in California, Florida, Illinois, Massachusetts, New York, Texas, and Wisconsin. Moreover, notification would be required in those other states that have adopted pre-acquisition notification provisions and where the insurance subsidiaries are admitted to transact business. Such approval requirements may deter, delay, or prevent certain transactions affecting the ownership of The Allstate Corporation's common stock.

Rate Regulation. Nearly all states have insurance laws requiring personal property and casualty insurers to file rating plans, policy or coverage forms, and other information with the state's regulatory authority. In many cases, such rating plans, policy forms, or both must be approved prior to use.

The speed with which an insurer can change rates in response to competition or in response to increasing costs depends, in part, on whether the rating laws are (i) prior approval, (ii) file-and-use, or (iii) use-and-file laws. In states having prior approval laws, the regulator must approve a rate before the insurer may use it. In states having file-and-use laws, the insurer does not have to wait for the regulator's approval to use a rate, but the rate must be filed with the regulatory authority prior to being used. A use-and-file law requires an insurer to file rates within a certain period of time after the insurer begins using them. Eighteen states, including California and New York, have prior approval laws. Under all three types of rating laws, the regulator has the authority to disapprove a rate filing. An insurer's ability to adjust its rates in response to competition or to changing costs is dependent on an insurer's ability to demonstrate to the regulator that its rates or proposed rating plan meets the requirements of the rating laws. In those states that significantly restrict an insurer's discretion in selecting the business that it wants to underwrite, an insurer can manage its risk of loss by charging a rate that reflects the cost and expense of providing the insurance. In those states that significantly restrict an insurer's ability to charge a rate that reflects the cost and expense of providing the insurance, the insurer can manage its risk of loss by being more selective in the type of business it underwrites. When a state significantly restricts both underwriting and pricing, it becomes more difficult for an insurer to maintain its profitability.

From time to time, the personal lines insurance industry comes under pressure from state regulators, legislators, and special interest groups to reduce, freeze, or set rates at levels that do not correspond with our analysis of underlying costs, catastrophe loss exposure, and expenses. We expect this kind of pressure to persist. Allstate and other insurers are using increasingly sophisticated pricing models and rating plans that are reviewed by regulators and special interest groups. State regulators may interpret existing law or rely on future legislation or regulations to impose new restrictions that adversely affect profitability or growth. We cannot predict the impact on our business of possible future legislative and regulatory measures regarding rating.

Involuntary Markets. As a condition of maintaining our licenses to write personal property and casualty insurance in various states, we are required to participate in assigned risk plans, reinsurance facilities, and joint underwriting associations that provide various types of 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 our results of operations.

Michigan Catastrophic Claims Association. The Michigan Catastrophic Claims Association ("MCCA") is a mandatory insurance coverage and reinsurance indemnification mechanism for personal injury protection losses that provides indemnification for losses over a retention level that increases every other MCCA fiscal year by the lesser of 6% or the increase in the Consumer Price Index. It operates similar to a reinsurance program and is funded by participating member companies (companies actively writing motor vehicle coverage in Michigan) through a per vehicle annual assessment that is currently \$160 for automobiles. This assessment is incurred by the Company as policies are written and recovered as a component of premiums from our customers. The participating company retention level will be \$555 thousand per claim for the fiscal two-years ending June 30, 2019 compared to \$545 thousand per claim for the fiscal two-years ending June 30, 2017.

The MCCA provides unlimited lifetime medical benefits for qualifying injuries from automobile, motorcycle and commercial vehicle accidents. Many of these injuries are catastrophic in nature, resulting in serious permanent disabilities that require attendant and residential care for periods that may span decades. As required for a member company (companies actively writing motor vehicle coverage in Michigan and those with runoff policies), we report covered paid and unpaid claims to the MCCA when estimates of loss for a reported claim are expected to exceed the retention level. The MCCA reimburses members as qualifying claims are paid and billed by members to the MCCA. Because of the nature of the coverage, losses (the most significant of which are for residential and attendant care) may be paid over the lifetime of a claimant, and accordingly, significant levels of ultimate incurred claim reserves are recorded by member companies as well as offsetting reinsurance recoverables. A significant portion of the ultimate incurred claim reserves and the recoverable can be attributed to a small number of catastrophic claims. Disputes for coverage on certain reported claims can result in additional losses, which may be recoverable from the MCCA,

however, the litigation expenses are not reimbursable. The MCCA is not currently funded on an ultimate claims basis although it has an obligation to indemnify its members for their actuarially expected losses. Legislative proposals to change the MCCA operation in the future are put forth periodically, however, no changes have been enacted. We do not anticipate any material adverse financial impact from this association on Allstate.

New Jersey Property-Liability Insurance Guaranty Association. The New Jersey Property-Liability Insurance Guaranty Association (“PLIGA”) provides reimbursement to insurers for the medical benefits portion of personal injury protection coverage paid in excess of \$75,000 with no limits for policies issued or renewed prior to January 1, 1991, and paid in excess of \$75,000 and capped at \$250,000 for policies issued or renewed from January 1, 1991 to December 31, 2004. As the statutory administrator of the New Jersey Unsatisfied Claim and Judgment Fund (“UCJF”), PLIGA also provides compensation to qualified claimants for

personal injury protection, bodily injury, or death caused by private passenger automobiles operated by uninsured or “hit and run” drivers. The UCJF also provides private passenger stranger pedestrian personal injury protection benefits when no other coverage is available. A significant portion of the incurred claim reserves and the recoverable can be attributed to a small number of catastrophic claims. PLIGA annually assesses all admitted property and casualty insurers writing motor vehicle liability insurance in New Jersey for direct PLIGA expenses and UCJF reimbursements and expenses. No insurer may be assessed in any year an amount greater than 2% of that insurer’s net direct written premiums. It has been the practice of the New Jersey Department of Banking and Insurance to issue a recoupment order allowing insurance companies to recover the assessment from the Company’s customers over a reasonable period of time. As of December 31, 2015, PLIGA had a surplus of \$279 million. We do not anticipate any material adverse financial impact from PLIGA or the UCJF on Allstate.

Guaranty Funds. Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, in order to cover certain obligations of insolvent insurance companies. We do not anticipate any material adverse financial impact on Allstate from these assessments.

National Flood Insurance Program. We voluntarily participate as a Write Your Own carrier in the National Flood Insurance Program (“NFIP”). The NFIP is administered and regulated by the Federal Emergency Management Agency (“FEMA”). We operate in a fiduciary capacity as a fiscal agent of the federal government in the issuing and administering of the Standard Flood Insurance Policy. This involves the collection of premiums belonging to the federal government, the adjustment of claims, and the paying of covered claims and certain allocated loss adjustment expenses entirely drawn from federal funds. We receive expense allowances from the NFIP for underwriting administration, claims management, commissions, and adjusting expenses. The federal government is obligated to pay all claims and certain allocated loss adjustment expenses in accordance with the arrangement. In 2015, FEMA intervened and took direct responsibility for settling claims in litigation related to named storm Sandy, which occurred in 2012. FEMA also implemented a review process for non-litigated claims and offered to review claims that had previously been closed. These claims have been paid by directly drawing on federal funds to settle litigation and to pay additional amounts on claims reviewed by FEMA and submitted for processing. Due to this review process, approximately 2,300 Allstate claims were re-opened by FEMA. As of December 31, 2016, Allstate had received 1,556 directives from FEMA regarding payments. It is not known if FEMA may take similar actions on other past or future flood related claims. Allstate has not had any involvement in determining the additional payment amounts or settling these claims. Allstate did not accept any additional loss adjustment fees for the additional payments directed by FEMA. FEMA’s actions may have created potential exposure that Allstate is confident it has sufficiently addressed for all Sandy claims. Congressional authorization for the NFIP expires September 30, 2017. Congress is considering reforms to the program that would be incorporated in legislation to reauthorize the NFIP.

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

Exiting Geographic Markets; Canceling and Non-Renewing Policies. Most states regulate an insurer’s ability to exit a market. For example, states may limit, to varying degrees, an insurer’s ability to cancel and non-renew policies. Some states restrict or prohibit an insurer from withdrawing one or more types of insurance business from the state, except pursuant to a plan that is approved by the state insurance department. Regulations that limit cancellation and non-renewal and that subject withdrawal plans to prior approval requirements may restrict an insurer’s ability to exit unprofitable markets.

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

Broker-Dealers, Investment Advisors, and Investment Companies. The Allstate entities that operate as broker-dealers, registered investment advisors, and investment companies are subject to regulation and supervision by the SEC, FINRA and/or, in some cases, state securities administrators. In April 2016, the U.S. Department of Labor (“DOL”) issued a rule that expands the range of activities that would be considered to be “investment advice” and

establishes a new framework for determining whether a person is a fiduciary when selling mutual funds, variable and indexed annuities, or variable life products in connection with an Individual Retirement Account (“IRA”) or employee benefit plan covered under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). The rule, in its current form, would 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 products in connection with IRAs or employee benefit plans covered under ERISA. Allstate Benefits offers universal life products which, when sold in an employee welfare benefit plan, may be considered subject to the fiduciary rule as an insurance product with an “investment component.” Products that we previously offered and continue to have in force, such as indexed annuities, could also be impacted by the rule. These more onerous requirements may increase regulatory 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. On February 3, 2017, the President of the United States executed a memorandum directing the DOL to examine the fiduciary duty rule to determine whether it might adversely affect the ability of Americans to gain access to retirement information and financial advice. The outcome of the DOL's examination of the rule is yet to be determined but could result in a delay in the compliance dates or changes to the rule's requirements.

Dodd-Frank. The Secretary of the Treasury (operating through FIO) and the Office of the U.S. Trade Representative ("USTR") are jointly authorized, pursuant to 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 becomes effective 90 days after the Secretary of the Treasury and USTR jointly submit a 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 (i.e., displace) 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 European Union ("EU") (the "Covered Agreement") 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. On January 13, 2017, the Secretary of the Treasury and USTR jointly submitted a Covered Agreement consistent with their November 2015 notification to Congress. Once effective, the Covered Agreement is designed to secure equivalence treatment of the U.S. regulatory system by the EU, addresses the confidential sharing of information by regulators across jurisdictions, and eliminate reinsurance collateral requirements for EU-based foreign reinsurers in all States that meet certain conditions. In accordance with authorities provided in Dodd-Frank, the Covered Agreement may preempt (i.e., displace) state laws after 60 months from its effective date if then existing State insurance measures affected by the Covered Agreement result in less favorable treatment of an EU insurer or reinsurer subject to the Covered Agreement than a U.S. insurer domiciled, licensed, or otherwise admitted in a U.S. State.

Prior to the Secretary of the Treasury and the USTR submitting the Covered Agreement to Congress, the NAIC had amended its Credit for Reinsurance Model Law and Regulation in 2011 ("Revised Reinsurance Model Law"), and statutory enactments implementing the amendments have been passed in 35 states. The amendments establish a new category of "certified reinsurers," allowing domestic insurers to receive statutory capital credit for reinsurance ceded to certified reinsurers absent the reinsurers fully collateralizing their assumed reinsurance obligations. Under the NAIC's regulatory scheme preceding the Revised Reinsurance Model Law, which remains in effect in Illinois, domestic ceding companies are not allowed to take statutory capital credit for reserves ceded to unauthorized reinsurers unless the insurer withholds funds due to the reinsurer in an amount equal to the reserves, obtains a letter of credit on behalf of the unauthorized reinsurer equal to the amount of the reserves, or is the beneficiary of a credit for reinsurance trust with assets equal to the amount of the reserves.

The terms of the Covered Agreement provide states with 60 months from the effective date of the Covered Agreement to modify their state-based regulatory requirements to comply with the terms of the Covered Agreement. In accordance with the terms of the Covered Agreement, and consistent with the authorities set forth in Dodd-Frank, after 42 months from the effective date of the Covered Agreement, the U.S. is to begin a process of notifying states of potential preemption for any state insurance measure that is inconsistent with the terms of the Covered Agreement. After 60 months from the effective date of the Covered Agreement, the U.S. is to complete any preemption determinations with respect to any U.S. State insurance measures subject to evaluation.

On June 23, 2016, the U.K. held a referendum in which they voted to leave the EU. Following the vote, the U.K. is developing a formal plan for withdrawal under Article 50 of the Lisbon Treaty that is expected to commence as early as March of 2017. If the British Parliament authorizes the initiation of Brexit discussions in March 2017 pursuant to Article 50, withdrawal is expected to be completed during 2019. Article 50 provides only for the negotiation of a withdrawal arrangement but does not address future relationships between the U.K. and EU. Upon exiting the EU, the U.K. insurance market will no longer be in the scope of the Covered Agreement.

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”). As of December 31, 2016, we are not designated as a SIFI and do not own an IDI. 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.

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

Asbestos. Congress has considered legislation to address asbestos claims and litigation in the past, and during the last Congress, the House of Representatives passed the Furthering Asbestos Claims Transparency Act. The Act is designed to enable asbestos trust funds to pay only those who are entitled by law to compensation from the funds. The Act failed to move in the Senate. The Act must now be re-introduced in the new Congress to be considered by either the House or Senate. We cannot predict the impact on our business of possible future legislative measures regarding asbestos.

Environmental. Environmental pollution and clean-up of polluted waste sites is the subject of both federal and state regulation. The Comprehensive Environmental Response Compensation and Liability Act of 1980 (“Superfund”) and comparable state statutes (“mini-Superfund”) govern the clean-up and restoration of waste sites by Potentially Responsible Parties (“PRPs”). Superfund and the mini-Superfunds (Environmental Clean-up Laws or “ECLs”) establish a mechanism to assign liability to PRPs or to fund the clean-up of waste sites if PRPs fail to do so. The extent of liability to be allocated to a PRP is dependent on a variety of factors. By some estimates, there are thousands of potential waste sites subject to clean-up, but the exact number is unknown. The extent of clean-up necessary and the process of assigning liability remain in dispute. The insurance industry is involved in extensive litigation regarding coverage issues arising out of the clean-up of waste sites by insured PRPs and the insured parties’ alleged liability to third parties responsible for the clean-up. The insurance industry, including Allstate, has disputed and is disputing many such claims. Key coverage issues include whether Superfund response, investigation, and clean-up costs are considered damages under the policies; trigger of coverage; the applicability of several types of pollution exclusions; proper notice of claims; whether administrative liability triggers the duty to defend; appropriate allocation of liability among triggered insurers; and whether the liability in question falls within the definition of an “occurrence.” Identical coverage issues exist for clean-up and waste sites not covered under Superfund. To date, courts have been inconsistent in their rulings on these issues. Allstate’s exposure to liability with regard to its insureds that have been, or may be, named as PRPs is uncertain. While comprehensive Superfund reform proposals have been introduced in Congress, only modest reform measures have been enacted.

INTERNET WEBSITE

Our Internet website address is allstate.com. The Allstate Corporation’s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports that we file or furnish pursuant to

Edgar Filing: ALLSTATE CORP - Form 10-K

Section 13(a) of the Securities Exchange Act of 1934 are available on the Investor Relations section of our website (www.allstateinvestors.com), free of charge, as soon as reasonably practicable after they are electronically filed or furnished to the SEC. In addition, our corporate governance guidelines, our code of ethics, and the charters of our Audit Committee, Compensation and Succession Committee, Executive Committee, Nominating and Governance Committee, and Risk and Return Committee are available on the Investor Relations section of our website and in print to any stockholder who requests copies by contacting Investor Relations, The Allstate Corporation, 2775 Sanders Road, Northbrook, Illinois 60062-6127, 1-847-402-2800. The information found on our website is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document filed with the SEC.

OTHER INFORMATION ABOUT ALLSTATE

As of December 31, 2016, Allstate had approximately 43,050 full-time employees and 450 part-time employees. Allstate continues to explore and invest in innovative solutions for the consumer and to expand its use of global resources, including business process and information technology operations in India and Northern Ireland. Information regarding revenues generated outside of the United States is incorporated in this Part I, Item 1 by reference to Note 19 of the consolidated financial statements.

Allstate's four business segments use shared services, including human resources, investment, finance, information technology and legal services, provided by Allstate Insurance Company and other affiliates.

Although the insurance business generally is not seasonal, claims and claims expense for the Allstate Protection segment tend to be higher for periods of severe or inclement weather.

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

Executive Officers of the Registrant

The following table sets forth the names of our executive officers, their ages as of February 1, 2017, their positions, and the years of their first election as officers. "AIC" refers to Allstate Insurance Company.

Name	Age	Position/Offices	Year First Elected Officer
Thomas J. Wilson	59	Chairman of the Board and Chief Executive Officer of The Allstate Corporation and of AIC.	1995
Don Civgin	55	President, Emerging Businesses of AIC.	2008
Mary Jane Fortin	52	President, Allstate Financial of AIC.	2015
Sanjay Gupta	48	Executive Vice President, Marketing, Innovation and Corporate Relations of AIC.	2012
Suren Gupta	55	Executive Vice President, Enterprise Technology and Strategic Ventures of AIC.	2011
Harriet K. Harty	50	Executive Vice President, Human Resources of AIC.	2012
Susan L. Lees	59	Executive Vice President, General Counsel, and Secretary of The Allstate Corporation and of AIC (Chief Legal Officer).	2008
Samuel H. Pilch	70	Senior Group Vice President and Controller of The Allstate Corporation and of AIC.	1996
Steven E. Shebik	60	Executive Vice President and Chief Financial Officer of The Allstate Corporation and of AIC.	1999
Matthew E. Winter	60	President of The Allstate Corporation and of AIC.	2009

Each of the officers named above may be removed from office at any time, with or without cause, by the board of directors of the relevant company.

Messrs. Wilson, Civgin, Suren Gupta, Pilch, Shebik and Winter, and Meses. Harty and Lees have held the listed positions for at least the last five years or have served Allstate in various executive or administrative capacities for at least five years.

Prior to joining Allstate in 2015, Ms. Fortin served as Chief Financial Officer of AIG's Consumer Insurance business from 2012 to 2015 and President and CEO of American General Life Insurance Company from 2009 to 2012.

Prior to joining Allstate in 2012, Mr. Sanjay Gupta served as Chief Marketing Officer of Ally Financial from 2008 to 2012 and Senior Vice President of Global Consumer and Small Business Marketing at Bank of America from 2001 to 2008.

Forward-Looking Statements

This report contains “forward-looking statements” that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like “plans,” “seeks,” “expects,” “will,” “should,” “anticipates,” “estimates,” “intends,” “believes,” “likely,” “targets” and other words with similar meanings. These statements may address, among other things, our strategy for growth, catastrophe exposure management, product development, investment results, regulatory approvals, market position, expenses, financial results,

litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. Forward-looking statements speak only as of the date on which they are made, and we assume no obligation to update any forward-looking statements as a result of new information or future events or developments. In addition, forward-looking statements are subject to certain risks or uncertainties that could cause actual results to differ materially from those communicated in these forward-looking statements. These risks and uncertainties include, but are not limited to, those described in Part 1, “Item 1A. Risk Factors” and elsewhere in this report and those described from time to time in our other reports filed with the Securities and Exchange Commission.

Item 1A. Risk Factors

In addition to the normal risks of business, we are subject to significant risks and uncertainties, including those listed below, which apply to us as an insurer, investor and a provider of other products and financial services. These risks include insurance, investment, financial, operational and strategic risks. These cautionary statements should be considered carefully together with other factors discussed elsewhere in this document, in our filings with the Securities and Exchange Commission (“SEC”) or in materials incorporated therein by reference.

Risks Relating to the Property-Liability business

As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events. Because of the exposure of our property and casualty business to catastrophic events, Allstate Protection’s operating results and financial condition may vary significantly from one period to the next. Catastrophes can be caused by various natural and man-made events, including earthquakes, volcanic eruptions, wildfires, tornadoes, tsunamis, hurricanes, tropical storms, terrorism or industrial accidents. We may incur catastrophe losses in our auto and property business in excess of: (1) those experienced in prior years, (2) the average expected level used in pricing, (3) our current reinsurance coverage limits, or (4) loss estimates from external hurricane and earthquake models at various levels of probability. Despite our catastrophe management programs, we are exposed to catastrophes that could have a material effect on our operating results and financial condition. For example, our historical catastrophe experience includes losses relating to Hurricane Katrina in 2005 totaling \$3.6 billion, the Northridge earthquake of 1994 totaling \$2.1 billion and Hurricane Andrew in 1992 totaling \$2.3 billion. We are also exposed to assessments from the California Earthquake Authority and various state-created insurance facilities, and to losses that could surpass the capitalization of these facilities. Although we have historically financed the settlement of catastrophes from operating cash flows, including very large catastrophes that had complicated issues resulting in settlement delays, our liquidity could be constrained by a catastrophe, or multiple catastrophes, which result in extraordinary losses or a downgrade of our debt or financial strength ratings.

In addition, we are subject to claims arising from weather events such as winter storms, rain, hail and high winds. The incidence and severity of weather conditions are largely unpredictable. There is generally an increase in the frequency and severity of auto and property claims when severe weather conditions occur.

The nature and level of catastrophes in any period cannot be predicted and could be material to our operating results and financial condition

Along with others in the insurance industry, Allstate Protection uses models developed by third party vendors as well as our own historic data in assessing our property insurance exposure to catastrophe losses. These models assume various conditions and probability scenarios. Such models do not necessarily accurately predict future losses or accurately measure losses currently incurred. Catastrophe models, which have been evolving since the early 1990s, use historical information and scientific research about hurricanes and earthquakes and also utilize detailed information about our in-force business. While we use this information in connection with our pricing and risk management activities, there are limitations with respect to its usefulness in predicting losses in any reporting period as actual catastrophic events vary considerably. Other limitations are evident in significant variations in estimates between models, material increases and decreases in results due to model changes and refinements of the underlying data elements and actual conditions that are not yet well understood or may not be properly incorporated into the models.

Our catastrophe management strategy may adversely affect premium growth

Due to Allstate Protection’s catastrophe risk management efforts, the size of our homeowners business has been negatively impacted in the past and may be negatively impacted if we take further actions. Homeowners premium growth rates and retention could be adversely impacted by adjustments to our business structure, size and

underwriting practices in markets with significant severe weather and catastrophe risk exposure.

Unexpected increases in the frequency or severity of claims may adversely affect our operating results and financial condition

Unexpected changes in the frequency or severity of claims will affect the profitability of our Allstate Protection segment. Our Allstate Protection segment may experience volatility in claim frequency from time to time, and short-term trends may not continue over the longer term. Changes in auto claim frequency may result from changes in mix of business, miles driven or other

macroeconomic factors. A significant increase in claim frequency could have an adverse effect on our operating results and financial condition.

Changes in bodily injury claim severity are impacted by inflation in medical costs, litigation trends and precedents, regulation and the overall safety of automobile travel. Changes in auto property damage claim severity are driven primarily by inflation in the cost to repair vehicles, including parts and labor rates, the mix of vehicles that are declared total losses, model year mix as well as used car values. Changes in homeowners claim severity are driven by inflation in the construction industry, building materials and home furnishings, changes in the mix of loss type, and by other economic and environmental factors, including short-term supply imbalances for services and supplies in areas affected by catastrophes. Increases in claim severity can arise from unexpected events that are inherently difficult to predict. Although we pursue various loss management initiatives in the Allstate Protection segment in order to mitigate future increases in claim severity, there can be no assurances that these initiatives will successfully identify or reduce the effect of future increases in claim severity.

A regulatory environment that requires rate increases to be approved and that can dictate underwriting practices and mandate participation in loss sharing arrangements may adversely affect our operating results and financial condition. From time to time, political events and positions affect the insurance market, including efforts to suppress rates to a level that may not allow us to reach targeted levels of profitability. For example, if Allstate Protection's loss ratio compares favorably to that of the industry, state or provincial regulatory authorities may impose rate rollbacks, require us to pay premium refunds to policyholders, or challenge or delay our efforts to raise rates even if the property and casualty industry generally is not experiencing regulatory challenges to rate increases. Such challenges affect our ability to obtain approval for rate changes that may be required to achieve targeted levels of profitability and returns on equity. We are pursuing auto insurance rate increases in 2017. Our ability to purchase reinsurance required to reduce our catastrophe risk in designated areas may be dependent upon the ability to adjust rates for its cost. If we are unsuccessful, our operating results could be negatively impacted.

In addition to regulating rates, certain states have enacted laws that require a property-liability insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities and joint underwriting associations or require the insurer to offer coverage to all consumers, often restricting an insurer's ability to charge the price it might otherwise charge. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired rates, possibly leading to an unacceptable return on equity, or as the facilities recognize a financial deficit, they may in turn have the ability to assess participating insurers, adversely affecting our results of operations and financial condition. Laws and regulations of many states also limit an insurer's ability to withdraw from one or more lines of insurance in the state, except pursuant to a plan that is approved by the state insurance department.

Additionally, certain states require insurers to participate in guaranty funds for impaired or insolvent insurance companies. These funds periodically assess losses against all insurance companies doing business in the state. Our operating results and financial condition could be adversely affected by any of these factors.

Impacts from the Covered Agreement may involve the introduction of new capital and solvency regulations and changes in state insurance laws that may adversely affect our operating results and financial condition.

The Covered Agreement extends to capital and solvency matters and does not recognize the National Association of Insurance Commissioners ("NAIC") Risk-Based Capital ("RBC") as equivalent to the European Union's ("EU's") Solvency II capital and solvency framework. The solvency and capital requirements in the Covered Agreement are expressed in terms of group supervision, which is the basis of Solvency II, but not consistent with the NAIC RBC framework, which evaluates capital and solvency on a legal entity basis. While the NAIC is considering the potential future adoption of a group supervision based framework, there is no certainty that the effort will be successful or timely in meeting the requirements of the Covered Agreement when it becomes effective. In the absence of a group supervision based capital and solvency framework, U.S. insurers may become subject to a group supervision based capital and solvency framework developed by the Federal Reserve Board ("FRB") or alternatively, the Solvency II framework, which the Covered Agreement implicitly deems equivalent to the FRB group capital proposal, which may adversely affect our measurement of regulatory capital adequacy.

Existing law in 15 states require some form of collateral to be posted for the benefit of the ceding insurer when an assuming reinsurer is not domiciled in the ceding company's state of domicile. In the remaining states, laws governing reinsurance typically require an assuming reinsurer to post an amount of collateral, which may be zero, based on an

independently determined financial strength rating and other factors including whether a particular reinsurer has achieved certified status. Through the authority provided by Dodd-Frank, a Covered Agreement may preempt state insurance laws if they are incompatible with the terms of a Covered Agreement. The Covered Agreement submitted to Congress provides states with 60 months to conform their laws with the terms of the Covered Agreement to avoid preemption. The Covered Agreement between the U.S. and EU could eliminate the requirement for all EU reinsurers that meet certain minimum requirements to post collateral. The scope of the Covered Agreement includes amended reinsurance agreements. Depending on the interpretation of amended, which could include administrative modifications, a release of existing collateral could occur that may adversely affect our operating results and financial condition if reinsurers fail to pay our reinsurance billings.

Changes in the level of price competition and the use of underwriting standards in the property and casualty business may adversely affect our operating results and financial condition

The property and casualty market historically has been cyclical with periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates. A downturn in the profitability of the property and casualty business could have a material effect on our operating results and financial condition.

Additionally, we may change premium rates and underwriting standards in response to underwriting results. Premium rate increases and adopting tighter underwriting practices may result in a decline in new business and renewals and negatively impact our competitive position.

The potential benefits of our sophisticated risk segmentation process may not be fully realized

We believe that our sophisticated pricing and underwriting methods have allowed us to offer competitive pricing to attract and retain more customers while continuing to operate profitably. However, because many of our competitors seek to adopt underwriting criteria and sophisticated pricing models similar to those we use, our competitive advantage could decline or be lost. Further, the use of increasingly sophisticated pricing models is being reviewed by regulators and special interest groups. Competitive pressures could also force us to modify our sophisticated pricing models. Furthermore, we cannot be assured that these sophisticated pricing models will accurately reflect the level of losses that we will ultimately incur.

Actual claims incurred may exceed current reserves established for claims and may adversely affect our operating results and financial condition

Recorded claim reserves in the Property-Liability business are based on our best estimates of losses, both reported and incurred but not reported claims reserves ("IBNR"), after considering known facts and interpretations of circumstances and using models that rely on the assumption that past loss development patterns will persist into the future. Internal factors are considered including our experience with similar cases, actual claims paid, historical trends involving claim payment patterns, pending levels of unpaid claims, loss management programs, product mix, contractual terms and changes in claim reporting and settlement practices. External factors are also considered, such as court decisions; changes in law; litigation imposing unintended coverage and benefits such as disallowing the use of benefit payment schedules, requiring coverage designed to cover losses that occur in a single policy period to losses that develop continuously over multiple policy periods or requiring the availability of multiple limits; regulatory requirements and economic conditions. Because reserves are estimates of the unpaid portion of losses that have occurred, including IBNR losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process that is continually refined to reflect current processes and practices. The ultimate cost of losses may vary materially from recorded reserves and such variance may adversely affect our operating results and financial condition as the reserves are reestimated.

Predicting claim costs relating to asbestos, environmental and other discontinued lines is inherently uncertain and may have a material effect on our operating results and financial condition

The process of estimating asbestos, environmental and other discontinued lines liabilities is complicated by complex legal issues concerning, among other things, the interpretation of various insurance policy provisions and whether losses are covered, or were ever intended to be covered, and whether losses could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Asbestos-related bankruptcies and other asbestos litigation are complex, lengthy proceedings that involve substantial uncertainty for insurers. Actuarial techniques and databases used in estimating asbestos, environmental and other discontinued lines net loss reserves may prove to be inadequate indicators of the extent of probable loss. Ultimate net losses from these discontinued lines could materially exceed established loss reserves and expected recoveries and have a material effect on our operating results and financial condition as the reserves are reestimated.

Risks Relating to the Allstate Financial Segment

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

Our product pricing includes long-term assumptions regarding investment returns, mortality, morbidity, persistency and operating costs and expenses of the business. We establish target returns for each product based upon these factors and the average amount of capital that we must hold to support in-force contracts taking into account rating agencies

and regulatory requirements. We monitor and manage our pricing and overall sales mix to achieve target new business returns on a portfolio basis, which could result in the discontinuation or de-emphasis of products and a decline in sales. Profitability from new business emerges over a period of years depending on the nature and life of the product and is subject to variability as actual results may differ from pricing assumptions. Additionally, many of our products have fixed or guaranteed terms that limit our ability to increase revenues or reduce benefits, including credited interest, once the product has been issued.

Our profitability in this segment depends on the sufficiency of premiums and contract charges to cover mortality and morbidity benefits, the adequacy of investment spreads, the persistency of policies, the management of market and credit risks associated

with investments, and the management of operating costs and expenses within anticipated pricing allowances. Legislation and regulation of the insurance marketplace and products could also affect our profitability and financial condition.

Changes in reserve estimates may adversely affect our operating results

The reserve for life-contingent contract benefits payable under insurance policies, including traditional life insurance, life-contingent immediate annuities and voluntary accident and health insurance products, is computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, persistency and expenses. Mortality and morbidity may continue to improve in the future from current levels, due to medical advancements that have resulted in policyholders living longer than anticipated. We periodically review the adequacy of these reserves on an aggregate basis and if future experience differs significantly from assumptions, adjustments to reserves and amortization of deferred policy acquisition costs (“DAC”) may be required that could have a material effect on our operating results. We also review these policies on an aggregate basis for circumstances where projected profits would be recognized in early years followed by projected losses in later years. If this circumstance exists in the future, we will be required to accrue a liability, during the period of profits, to offset the losses at such time as the future losses are expected to commence.

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

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

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

DAC related to interest-sensitive life contracts is amortized in proportion to actual historical gross profits and estimated future gross profits (“EGP”) over the estimated lives of the contracts. The principal assumptions for determining the amount of EGP are mortality, persistency, expenses, investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of any hedges. Updates to these assumptions (commonly referred to as “DAC unlocking”) could result in accelerated amortization of DAC and thereby adversely affect our profitability and financial condition. In addition, assumption changes impact the reserve for secondary guarantees on interest-sensitive life insurance and could also lead to volatility in net income. Reducing our concentration in spread-based business and exiting certain distribution channels may adversely affect reported results

We have been reducing our concentration in spread-based business since 2008 and discontinued offering fixed annuities effective January 1, 2014. We also exited the independent master brokerage agencies and structured settlement annuity brokers distribution channels in 2013 and sold Lincoln Benefit Life Company (“LBL”) on April 1, 2014. The reduction in sales of these products has and will continue to reduce investment portfolio levels. It may also affect the settlement of contract benefits including forced sales of assets with unrealized capital losses, and affect goodwill impairment testing and insurance reserves deficiency testing.

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

Under current federal and state income tax law, certain products we provide, primarily life insurance, receive beneficial tax treatment. This favorable treatment may give certain of our products a competitive advantage over noninsurance products. Congress and various state legislatures from time to time consider legislation that would reduce or eliminate the beneficial policyholder tax treatment currently applicable to life insurance. Congress and various state legislatures also consider proposals to reduce the taxation of certain products or investments that may compete with life insurance. Legislation that increases the taxation on insurance products or reduces the taxation on competing products could lessen the advantage or create a disadvantage for certain of our products making them less competitive. Such proposals, if adopted, could have a material effect on our profitability and financial

condition or ability to sell such products and could result in the surrender of some existing contracts and policies. In addition, changes in the federal estate tax laws could negatively affect the demand for the types of life insurance used in estate planning.

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

Regulatory capital and reserving requirements affect the amount of capital retained in Allstate Financial companies. Changes to capital or reserving requirements or regulatory interpretations may result in additional capital held in Allstate Financial companies. To support statutory reserves for certain life insurance products, we currently utilize reinsurance and captive reserve financing solutions for financing a portion of our statutory reserve requirements deemed to be non-economic. Changes to capital or reserving requirements or an inability to continue existing financing as a result of market conditions or otherwise could require us to increase prices, reduce our sales of certain products, and/or accept a return on equity below original levels assumed in pricing.

A decline in Lincoln Benefit Life Company's financial strength ratings may adversely affect our results of operations. We reinsure life insurance and payout annuity business from LBL. Premiums and contract charges assumed from LBL totaled \$749 million in 2016. A decline in LBL's financial strength ratings could lead to an increase in policy lapses. This could adversely affect our results of operations by decreasing future premiums.

Risks Relating to Investments

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

We continually reevaluate our investment management strategies since we are subject to the risk of loss due to adverse changes in interest rates, credit spreads, equity prices or currency exchange rates. Adverse changes in these rates, spreads and prices may occur due to changes in monetary policy and the economic climate, the liquidity of a market or market segment, investor return expectations and/or risk tolerance, insolvency or financial distress of key market makers or participants, or changes in market perceptions of credit worthiness. The performance and value of our investment portfolios are also subject to market risk related to investments in real estate, loans and securities collateralized by real estate. Some of our investment strategies target individual investments with unique risks that are less highly correlated with broad market risks. Although we expect these investments to increase total portfolio returns over time, their performance may vary from and under-perform relative to the market.

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

A decline in market interest rates or credit spreads could have an adverse effect on investment income as we invest cash in new investments that may earn less than the portfolio's average yield. In a low interest rate environment, borrowers may prepay or redeem securities more quickly than expected as they seek to refinance at lower rates. Sustained low interest rates could also lead to purchases of longer-term or riskier assets in order to obtain adequate investment yields, which could also result in a duration gap when compared to the duration of liabilities.

Alternatively, longer-term assets may be sold and reinvested in shorter-term assets that may have lower yields in anticipation of rising interest rates. An increase in market interest rates or credit spreads could have an adverse effect on the value of our investment portfolio by decreasing the fair values of the fixed income securities that comprise a

substantial majority of our investment portfolio. Declining equity markets and/or increases in interest rates or credit spreads could also cause the value of the investments in our pension plans to decrease. Declines in interest rates could cause the funding ratio to decline and the value of the obligations for our pension and postretirement plans to increase. These factors could decrease the funded status of our pension and postretirement plans, increasing the likelihood or magnitude of future benefit expense and contributions. This could also reduce the accumulated other comprehensive income component of shareholders' equity.

The amount and timing of net investment income from our performance-based investments, which primarily includes limited partnership interests, can fluctuate significantly as a result of the performance of the underlying investments. Additionally, the timing of capital contributions and distributions depends on particular events, schedules for making distributions, and cash needs related to the investments. As a result, the amount of net investment income recognized and cash contributed to or received from

these investments can vary substantially from quarter to quarter. Significant volatility or market downturns could adversely impact net investment income, valuation and returns on these investments.

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

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

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

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

Risks Relating to the Insurance Industry

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

The insurance industry is highly competitive. Many of our primary insurance competitors have well-established national reputations and market similar products. In addition, the insurance industry consistently attracts well-capitalized new entrants to the market.

We have invested in growth strategies by utilizing unique customer value propositions for each of our brands, differentiated product offerings and distinctive advertising campaigns. If we are unsuccessful in generating new business and retaining a sufficient number of customers, our ability to increase premiums written could be impacted. In addition, if we experience unexpected increases in underlying costs (such as the frequency or severity of claims costs), it could result in decreases in profitability and lead to price increases which could negatively impact our competitive position leading to a decline in new and renewal business. Further, many of our competitors are also using data analytics to improve pricing accuracy, be more targeted in marketing, strengthen customer relationships and provide more customized services. If they are able to use data analytics more effectively than we are, it may give them a competitive advantage.

Because of the competitive nature of the insurance industry, there can be no assurance that we will continue to compete effectively with our industry rivals, including new entrants, or that competitive pressures will not have a material effect on our business, operating results or financial condition. This includes competition for producers such as exclusive and independent agents and their licensed sales professionals. In the event we are unable to attract and retain these producers, they are unable to attract and retain their licensed sales professionals, or they are unable to attract and retain customers for our products, growth and retention could be materially affected. Furthermore, certain competitors operate using a mutual insurance company structure and therefore may have dissimilar profitability and return targets. Additionally, many of our voluntary benefits employer contracts are renewed annually. There is a risk that employers may be able to obtain more favorable terms from competitors than they could by renewing coverage with us. These competitive pressures may adversely affect the persistency of these products, as well as our ability to sell our products in the future.

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

New or changing technologies could materially impact our operating results and financial condition

We are investing in telematics and broadening the value proposition for the connected consumer. If we are not effective in anticipating the impact on our business of changing technology, including automotive technology, our ability to successfully operate may be impaired. Also, telematics devices used have been identified as a potential means for an unauthorized person to connect with a vehicle's computer system resulting in theft or damage, which could affect our ability to use these technologies successfully. Other potential technological changes, such as autonomous or partially autonomous vehicles or technologies that facilitate ride or home sharing, could disrupt the demand for our products from current customers, create coverage issues or impact the frequency or severity of losses, and we may not be able to respond effectively which could have a material effect on our operating results and financial condition.

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

As with most businesses, we believe difficult conditions in the global economy and capital markets, such as relatively stagnant macroeconomic trends, including relatively high and sustained unemployment in certain regions and lower labor participation rates in other regions, reduced consumer spending, low economic growth, lower residential and commercial real estate prices, substantial increases in delinquencies on consumer debt, including defaults on home mortgages, the relatively low availability of credit and ineffective central bank monetary policies could have an adverse effect on our business and operating results.

Stressed conditions, volatility and disruptions in global capital markets, particular markets or financial asset classes could adversely affect our investment portfolio. Disruptions in one market or asset class can also spread to other markets or asset classes. Although the disruption in the global financial markets has moderated, the rate of recovery from the U.S. recession has been below historic averages, and the pace of recovery in many foreign markets is lagging that of the U.S. In addition, events in the U.S. or foreign markets, such as the United Kingdom's June 2016 referendum in which they voted to leave the European Union, can impact the global economy and capital markets and the impact of such events is difficult to predict.

In the years since the financial crisis, the central banks of most developed countries have pursued fairly similar, and highly accommodative, monetary policies. As the U.S. Federal Reserve, through the Federal Open Market Committee, raises interest rates and as global monetary policies diverge, it may result in higher volatility and less certainty in capital markets.

General economic conditions could adversely affect us by impacting consumer behavior and pressuring investment results. Consumer behavior changes could include decreased demand for our products. For example, if consumers purchase fewer automobiles, sales of auto insurance may decline. Also, if consumers become more cost conscious, they may choose lower levels of auto and homeowners insurance. In addition, holders of interest-sensitive life insurance and annuity products may engage in an elevated level of discretionary withdrawals of contractholder funds. Investment results could be adversely affected as deteriorating financial and business conditions affect the issuers of the securities in the investment portfolio.

Losses from legal and regulatory actions may be material to our operating results, cash flows and financial condition. We are involved in various legal actions, including class action litigation challenging a range of company practices and coverage provided by our insurance products, some of which involve claims for substantial or indeterminate amounts. We are also involved in various regulatory actions and inquiries, including market conduct exams by state insurance regulatory agencies. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of amounts currently accrued, if any, and may be material to our operating results or cash flows for a particular quarter or annual period and to our financial condition. The aggregate estimate of the range of reasonably possible loss in excess of the amount accrued, if any, disclosed in Note 14 of the consolidated financial statements is not an indication of expected loss, if any. Actual results may vary significantly from the current estimate. We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth

As insurance companies, broker-dealers, investment advisers, investment companies and other types of companies, many of our subsidiaries are subject to extensive laws and regulations. These laws and regulations are complex and subject to change. Changes may sometimes lead to additional expenses, increased legal exposure, increased required

reserves or capital, and additional limits on our ability to grow or to achieve targeted profitability. Moreover, laws and regulations are administered and enforced by a number of different governmental authorities, each of which exercises a degree of interpretive latitude, including state insurance regulators; state securities administrators; state attorneys general and federal agencies including the SEC, the Financial Industry Regulatory Authority, the U.S. Department of Justice and the National Labor Relations Board. Consequently, we are subject to the risk that compliance with any particular regulator's or enforcement authority's interpretation of a legal issue may not result in compliance with another's interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator's or enforcement authority's interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment may, even absent any particular regulator's or enforcement authority's interpretation of a legal issue changing, cause us to change our views regarding the actions we need to take from a legal risk management

perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow or to improve the profitability of our business. Furthermore, in some cases, these laws and regulations are designed to protect or benefit the interests of a specific constituency rather than a range of constituencies. For example, state insurance laws and regulations are generally intended to protect or benefit purchasers or users of insurance products, not holders of securities, which is generally the jurisdiction of the SEC, issued by The Allstate Corporation. In many respects, these laws and regulations may limit our ability to grow or to improve the profitability of our business. Regulatory reforms, and the more stringent application of existing regulations, may make it more expensive for us to conduct our business

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

In recent years, the state insurance regulatory framework has come under public scrutiny, members of Congress have discussed proposals to provide for federal chartering of insurance companies, and the FIO and Financial Stability Oversight Council (“FSOC”) were established. In the future, if the FSOC were to determine that Allstate is a “systemically important” nonbank financial company, Allstate would be subject to regulation by the Federal Reserve Board. We can make no assurances regarding the potential impact of state or federal measures that may change the nature or scope of insurance and financial regulation.

In April 2016, the U.S. Department of Labor (“DOL”) issued a rule that expands the range of activities that would be considered to be “investment advice” and establishes a new framework for determining whether a person is a fiduciary when selling mutual funds, variable and indexed annuities, or variable life products in connection with an Individual Retirement Account (“IRA”) or employee benefit plan covered under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). The rule, in its current form, would 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 products in connection with IRAs or employee benefit plans covered under ERISA. Allstate Benefits offers universal life products which, when sold in an employee welfare benefit plan, may be considered subject to the fiduciary rule as an insurance product with an “investment component.” Products that we previously offered and continue to have in force, such as indexed annuities, could also be impacted by the rule. These more onerous requirements may increase regulatory costs and litigation exposure. Compliance of certain components of the rule is required by April 10, 2017 and full compliance is required by January 1, 2018. On February 3, 2017, the President of the United States executed a memorandum directing the DOL to examine the fiduciary duty rule to determine whether it might adversely affect the ability of Americans to gain access to retirement information and financial advice. The outcome of the DOL’s examination of the rule is yet to be determined but could result in a delay in the compliance dates or changes to the rule’s requirements.

Such regulatory reforms, any additional legislative or regulatory requirements and any further stringent enforcement of existing regulations may make it more expensive for us to conduct our business, or may limit our ability to grow or to achieve profitability.

Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business. Our personal lines catastrophe reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Market conditions beyond our control impact the availability and cost of the reinsurance we purchase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as is currently available. For example, our ability to afford reinsurance to reduce our catastrophe risk in designated areas may be dependent upon our ability to adjust premium rates for its cost, and there are no assurances that the terms and rates for our current reinsurance program will continue to be available in future years. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our catastrophe exposure, reduce our insurance writings, or develop or seek other alternatives.

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

The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including changes in market conditions, whether insured losses meet the qualifying conditions of the reinsurance contract and whether reinsurers, or their affiliates, have the financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract. Additionally, reinsurance placed in the catastrophe bond market may not provide the same level of coverage as reinsurance placed in the traditional market and any disruption, volatility and uncertainty in the financial markets may decrease our ability to access such market on terms favorable to us or at all. Our inability to collect a material recovery from a reinsurer could have a material effect on our operating results and financial condition.

Our participation in certain state industry pools and facilities subjects us to the risk that reimbursement for qualifying claims and claims expenses may not be received, which could have a material effect on our operating results and financial condition

We have exposure associated with the Michigan Catastrophic Claim Association (“MCCA”), a mandatory insurance coverage and a reimbursement indemnification mechanism for personal injury protection losses and certain qualifying allocated loss adjustment expenses that provides indemnification for losses over a retention level that increases every other MCCA fiscal year based on a formula, which is operating with a deficit, and the New Jersey Property-Liability Insurance Guaranty Association (“PLIGA”) that provides reimbursement to insurers for certain qualifying medical benefits portion of personal injury protection coverage paid in excess of certain levels. Our ultimate reinsurance recoverable from the MCCA and PLIGA was \$4.95 billion and \$506 million, respectively, as of December 31, 2016. The MCCA is funded by annually assessing participating member companies actively writing motor vehicle coverage in Michigan through a per vehicle annual assessment. The MCCA’s assessment of participating member companies is an amount each year sufficient to cover members’ actuarially determined present value of expected payments on lifetime claims of all persons expected to be catastrophically injured in that year, its operating expenses and adjustments for the amount of excesses or deficiencies in prior assessments. The MCCA reimburses all member companies for qualifying claims and claims expenses incurred in an accident while the member companies were actively writing the mandatory personal injury protection coverage including member companies that are no longer actively writing motor vehicle insurance in Michigan.

The MCCA’s annual assessments have been sufficient to fund current operations and member companies’ reimbursements but have not resulted in sufficient pre-funding of its ultimate obligation to reimburse all expected future billings from member companies for reimbursement of their ultimate qualifying claims. The MCCA does not employ any managed care, contractual service or care oversight programs that could improve care and reduce expenditures. Member companies actively writing automobile coverage in Michigan include the MCCA annual assessments in determining the level of premiums to charge insureds in the state.

The MCCA has a statutory accounting permitted practice that has been granted by the Michigan Department of Insurance to discount its liabilities for loss and loss adjustment expense. As of June 30, 2016, the date of the most recent statutory financial reports, the permitted practice reduced the MCCA’s accumulated deficit of \$44.01 billion by \$42.27 billion to \$1.74 billion. Calculation of the pre-funding shortfall is dependent on actuarial estimates and investment funding decisions. As of December 31, 2015, our auto market share in Michigan was 9.0%.

Technological changes such as autonomous or partially autonomous vehicles or technologies that facilitate ride sharing could significantly impact the number of vehicles in use or the extent of customer needs for vehicle insurance. Although the timing and extent of the technology changes and their impact on the numbers of motor vehicle insurance policies and the extent of their coverage in Michigan are uncertain, these changes may result in a diminished number of vehicles to insure over which MCCA assessments can be recovered. If this occurs, we may not be able to recover all of the MCCA’s assessments through our insurance premiums collected from our insureds and, as a result, we may experience increased costs to operate our business. Moreover, the MCCA may not be able to sufficiently assess member companies annually to fund its obligation to reimburse its ultimate obligation to all member companies for qualifying claims and claims expenses. Our inability to recover MCCA annual assessments from insureds or obtain reimbursement for the payment of covered claims ultimately reimbursable by the MCCA could have a material effect on our operating results and financial condition.

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

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company’s business. On an ongoing basis, rating agencies review our financial performance and condition and could downgrade or change the outlook on our ratings due to, for example, a change in the statutory capital of one of our insurance companies; a change in a rating agency’s determination of the amount of risk-adjusted capital required to maintain a particular rating; an increase in the perceived risk of our investment portfolio; a reduced confidence in management or our business strategy; as well as a number of other considerations that may or may not be under our control. The insurance financial strength ratings of Allstate Insurance

Company and Allstate Life Insurance Company and The Allstate Corporation's senior debt ratings from A.M. Best, S&P Global Ratings and Moody's are subject to continuous review, and the retention of current ratings cannot be assured. A downgrade in any of these ratings could have a material effect on our sales, our competitiveness, the marketability of our product offerings, our liquidity, access to and cost of borrowing, operating results and financial condition.

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

In periods of extreme volatility and disruption in the capital and credit markets, liquidity and credit capacity may be severely restricted. In such circumstances, our ability to obtain capital to fund operating expenses, financing costs, capital expenditures or

acquisitions may be limited, and the cost of any such capital may be significant. Our access to additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to our industry, our credit ratings and credit capacity, as well as lenders' perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. If a combination of these factors were to occur, our internal sources of liquidity may prove to be insufficient and in such case, we may not be able to successfully obtain additional financing on favorable terms. The failure in cyber or other information security, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning could result in a loss or disclosure of confidential information, damage to our reputation, additional costs and impairment of our ability to conduct business effectively. We depend heavily on computer systems and mathematical algorithms and data to perform necessary business functions. Despite our implementation of a variety of security measures, we are increasingly exposed to the risk that our computer systems could be subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. We have experienced threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. Events such as these could jeopardize the confidential, proprietary and other information (including personal information of our customers, claimants or employees) processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss. These risks may increase in the future as we continue to expand our internet and mobile strategies, develop additional remote connectivity solutions to serve our customers, and build and maintain an integrated digital enterprise.

We are continually enhancing our cyber and other information security in order to remain secure against emerging threats, together with increasing our ability to detect system compromise and recover should a cyber-attack or unauthorized access occur. Following an assessment of our cybersecurity program by an independent advisor engaged by our Audit Committee in 2016, we implemented a plan to address certain issues identified during the assessment. However, due to the increasing frequency and sophistication of such cyber-attacks and changes in technology, there can be no assurance that a cyber-attack will not take place with adverse consequences to our business, operating results and financial condition.

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

Third parties to whom we outsource certain of our functions are also subject to the risks outlined above. We review and assess the cybersecurity controls of our third party providers, as appropriate, and make changes to our business processes to manage these risks. We also have business process and information technology operations in Canada, Northern Ireland and India and is subject to operating, regulatory and political risks in those countries. Any of these may result in our incurring substantial costs and other negative consequences, including a material adverse effect on our business, financial condition, results of operations and liquidity.

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

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

Acquisitions of businesses may not produce anticipated benefits resulting in operating difficulties, unforeseen liabilities or asset impairments, which may adversely affect our operating results and financial condition. Our ability to achieve certain financial benefits we anticipate from the acquisition of SquareTrade Holding Company, Inc. or other businesses will depend in part upon our ability to successfully grow the businesses consistent with our anticipated acquisition economics. Our financial results could be adversely affected by unanticipated performance issues, unforeseen liabilities, transaction-related charges, diversion of management time and resources to acquisition integration challenges or growth strategies, loss of key employees, amortization of expenses related to intangibles, charges for impairment of long-term assets or goodwill.

and indemnifications. In addition, acquired businesses may not perform as projected, cost savings anticipated from the acquisition may not materialize, and costs associated with the integration may be greater than anticipated and result in the company not achieving returns on its investment at the level projected at acquisition.

We may be required to recognize impairments in the value of our goodwill, which may adversely affect our operating results and financial condition

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired. Goodwill is evaluated for impairment annually, or more frequently if conditions warrant, by comparing the carrying value (attributed equity) of a reporting unit to its estimated fair value. Market declines or other events impacting the fair value of a reporting unit could result in a goodwill impairment, resulting in a charge to income. Such a charge could have an adverse effect on our results of operations or financial condition.

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

Our financial statements are subject to the application of generally accepted accounting principles, which are periodically revised, interpreted and/or expanded. Our life insurance business involves products that remain in force for extended time periods. Accordingly, we may be required to adopt new guidance or interpretations, including those that relate to products which remain in force for extended time periods and were designed and issued in contemplation of a different accounting framework, or new transactions impacted by modified guidance, which may have a material effect on our results of operations and financial condition that is either unexpected or has a greater impact than expected. For a description of changes in accounting standards that are currently pending and, if known, our estimates of their expected impact, see Note 2 of the consolidated financial statements.

Our policyholders and shareholders make decisions in part based on an evaluation of our reported financial condition and results of operations, and the stability and predictability of those conditions and results. Potential accounting changes that retroactively affect long-duration insurance contracts and require more market-based measurements may introduce substantial variability and may unfavorably impact our reported financial condition and results of operations as well as their stability and predictability. The potential impacts of a retroactive accounting change applied to long-duration insurance contracts could be pervasive and may unfavorably impact policyholder and shareholder assessments of our financial condition and results of operations.

The realization of deferred tax assets is subject to uncertainty

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

The ability of our subsidiaries to pay dividends may affect our liquidity and ability to meet our obligations

The Allstate Corporation is a holding company with no significant operations. The principal assets are the stock of its subsidiaries and the holding company's directly held short-term cash portfolio, and the liabilities include debt and pension and other postretirement benefit obligations related to Allstate Insurance Company employees. State insurance regulatory authorities limit the payment of dividends by insurance subsidiaries, as described in Note 16 of the consolidated financial statements. The limitations are based on statutory income and surplus. In addition, competitive pressures generally require the subsidiaries to maintain insurance financial strength ratings. These restrictions and other regulatory requirements affect the ability of the subsidiaries to make dividend payments. Limits on the ability of the subsidiaries to pay dividends could adversely affect holding company liquidity, including our ability to pay dividends to shareholders, service our debt, or complete share repurchase programs in the timeframe expected.

Management views enterprise economic capital as a combination of statutory surplus and invested assets at the parent holding company level. Deterioration in statutory surplus or earnings, from developments such as catastrophe losses, or changes in market conditions or interest rates, could adversely affect holding company liquidity by impacting the amount of dividends from our subsidiaries or the utilization of invested assets at the holding company to increase statutory surplus or for other corporate purposes.

Our ability to pay dividends or repurchase stock is subject to limitations under terms of certain of our securities

Subject to certain limited exceptions, during any dividend period while our preferred stock is outstanding, unless the full preferred stock dividends for the preceding dividend period have been declared and paid or declared and a sum

sufficient for the payment thereof has been set aside and any declared but unpaid preferred stock dividends for any prior period have been paid, we may not repurchase or pay dividends on common stock. If and when dividends on preferred stock have not been declared and paid in full for at least six quarterly dividend periods, the authorized number of directors then constituting the board of directors will be increased by two additional directors, to be elected by the holders of preferred stock together with the holders of all other affected classes and series of voting parity stock, voting as a single class, subject to certain conditions.

We are prohibited from declaring or paying dividends on preferred stock if we fail to meet specified capital adequacy, net income or shareholders' equity levels. The prohibition is subject to an exception permitting us to declare dividends out of the net proceeds of common stock issued by us during the 90 days prior to the date of declaration even if we fail to meet such levels.

The terms of the 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.

Changing climate and weather conditions may adversely affect our financial condition, profitability or cash flows. Climate change, solar flares, eruption of volcanoes, El Niño, La Niña and other events to the extent any one of these produces changes in weather patterns, could affect the frequency or severity of weather events and wildfires and the demand, price and availability of homeowners insurance, the results for our Allstate Protection segment and the value of our investment portfolio.

Loss of key vendor relationships or failure of a vendor to protect our data, confidential and proprietary information, or personal information of our customers, claimants or employees could affect our operations.

We rely on services and products provided by many vendors in the U.S. and abroad. These include, for example, vendors of computer hardware and software and vendors and/or outsourcing of services such as claim adjustment services, human resource benefits management services and investment management services. In the event that one or more of our vendors suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, or fails to protect our data, confidential and proprietary information, or personal information of our customers, claimants or employees, we may suffer operational impairments and financial losses.

We may be subject to the risks and costs associated with intellectual property infringement, misappropriation and third party claims.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our home office complex is owned and located in Northbrook, Illinois. As of December 31, 2016, the home office complex consists of several buildings totaling 1.9 million square feet of office space on a 186-acre site.

We also operate from approximately 1,240 administrative, data processing, claims handling and other support facilities in North America. In addition to our home office facilities, 1.3 million square feet are owned and 6.0 million square feet are leased. Outside North America, we lease three properties in Northern Ireland comprising 166,460 square feet. We also have two leased facilities in India for 232,200 square feet and one lease in London for 1,390 square feet. Generally, only major Allstate facilities are owned. In a majority of cases, new lease terms and renewals are for five years or less.

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

Item 3. Legal Proceedings

Information required for Item 3 is incorporated by reference to the discussion under the heading “Regulation and Compliance” and under the heading “Legal and regulatory proceedings and inquiries” in Note 14 of the consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

24

Part II

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

As of January 31, 2017, there were 80,367 holders of record of The Allstate Corporation's common stock. The principal market for the common stock is the New York Stock Exchange but it is also listed on the Chicago Stock Exchange. Set forth below are the high and low New York Stock Exchange Composite listing prices of, and cash dividends declared for, the common stock during 2016 and 2015.

	High	Low	Close	Dividends Declared
2016				
First quarter	67.92	56.03	67.37	0.33
Second quarter	69.95	64.36	69.95	0.33
Third quarter	70.38	67.24	69.18	0.33
Fourth quarter	74.77	66.55	74.12	0.33

2015				
First quarter	72.87	68.38	71.17	0.30
Second quarter	72.51	64.62	64.87	0.30
Third quarter	69.48	54.12	58.24	0.30
Fourth quarter	64.69	56.97	62.09	0.30

The payment of dividends by Allstate Insurance Company ("AIC") to The Allstate Corporation is limited by Illinois insurance law to formula amounts based on statutory net income and statutory surplus, as well as the timing and amount of dividends paid in the preceding twelve months. In the twelve-month period ending December 31, 2016, AIC paid dividends of \$1.90 billion. Based on the greater of 2016 statutory net income or 10% of statutory surplus, the maximum amount of dividends that AIC will be able to pay, without prior Illinois Department of Insurance approval, at a given point in time in 2017 is \$1.56 billion, less dividends paid during the preceding twelve months measured at that point in time. Notification and approval of intercompany lending activities is also required by the Illinois Department of Insurance for those transactions that exceed formula amounts based on statutory admitted assets and statutory surplus.

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 ⁽³⁾	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs ⁽⁴⁾
October 1, 2016	-			
October 31, 2016				
Open Market Purchases	4,849	\$67.8480	—	
November 1, 2016 - November 30, 2016				
Wells Fargo ASR ⁽²⁾	568,688	68.0952	568,688	
Open Market Purchases	393,044	70.5701	392,400	
December 1, 2016 - December 31, 2016				
Open Market Purchases	2,725,178	73.0555	2,485,300	
Total	3,691,759	\$72.0200	3,446,388	\$691 million

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.

October: 4,849

November: 644

December: 19,173

On September 23, 2016, Allstate entered into an accelerated share repurchase agreement (“ASR Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo”), to purchase \$250 million of our outstanding shares of common stock, which settled on November 23, 2016. Under this ASR Agreement, we repurchased a total of 3.7 million shares at an average repurchase price of \$68.0952.

From time to time, repurchases under our programs are executed under the terms of a pre-set trading plan meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934.

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. Selected Financial Data

5-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(\$ in millions, except per share data and ratios)

	2016	2015	2014	2013	2012
Consolidated Operating Results					
Insurance premiums and contract charges	\$33,582	\$32,467	\$31,086	\$29,970	\$28,978
Net investment income	3,042	3,156	3,459	3,943	4,010
Realized capital gains and losses	(90)) 30	694	594	327
Total revenues	36,534	35,653	35,239	34,507	33,315
Net income applicable to common shareholders	1,761	2,055	2,746	2,263	2,306
Net income applicable to common shareholders per common share:					
Net income applicable to common shareholders per common share - Basic	4.72	5.12	6.37	4.87	4.71
Net income applicable to common shareholders per common share - Diluted	4.67	5.05	6.27	4.81	4.68
Cash dividends declared per common share	1.32	1.20	1.12	1.00	0.88
Consolidated Financial Position					
Investments ⁽¹⁾	\$81,799	\$77,758	\$81,113	\$81,155	\$97,278
Total assets	108,610	104,656	108,479	123,460	126,893
Reserves for claims and claims expense, life-contingent contract benefits and contractholder funds ⁽¹⁾	57,749	57,411	57,832	58,547	75,502
Long-term debt	6,347	5,124	5,140	6,141	6,003
Shareholders' equity	20,573	20,025	22,304	21,480	20,580
Shareholders' equity per diluted common share	50.77	47.34	48.24	45.31	42.39
Property-Liability Operations					
Premiums earned	\$31,307	\$30,309	\$28,929	\$27,618	\$26,737
Net investment income	1,266	1,237	1,301	1,375	1,326
Net income applicable to common shareholders	1,664	1,690	2,427	2,754	1,968
Operating ratios ⁽²⁾					
Claims and claims expense ("loss") ratio	71.0	69.4	67.2	64.9	69.1
Expense ratio	25.1	25.5	26.7	27.1	26.4
Combined ratio	96.1	94.9	93.9	92.0	95.5
Allstate Financial Operations					
Premiums and contract charges	\$2,275	\$2,158	\$2,157	\$2,352	\$2,241
Net investment income	1,734	1,884	2,131	2,538	2,647
Net income applicable to common shareholders	391	663	631	95	541
Investments	36,840	36,792	38,809	39,105	56,999

As of December 31, 2013, \$11.98 billion of investments and \$12.84 billion of reserves for life-contingent contract benefits and contractholder funds were classified as held for sale relating to the sale of Lincoln Benefit Life Company.

We use operating ratios to measure the profitability of our Property-Liability results. We believe that they enhance an investor's understanding of our profitability. They are calculated as follows: Claims and claims expense ("loss") ratio is the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses. Expense ratio is the ratio of amortization of deferred policy acquisition costs, operating costs and expenses, and restructuring and related charges to premiums earned. Combined ratio is the ratio of claims and claims expense, amortization of deferred policy acquisition costs, 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.

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

	Page
<u>Overview</u>	<u>29</u>
<u>2016 Highlights</u>	<u>30</u>
<u>Consolidated Net Income</u>	<u>30</u>
<u>Impact of Low Interest Rate Environment</u>	<u>31</u>
<u>Property-Liability 2016 Highlights</u>	<u>33</u>
<u>Property-Liability Operations</u>	<u>33</u>
<u>Allstate Protection Segment</u>	<u>35</u>
<u>Discontinued Lines and Coverages Segment</u>	<u>57</u>
<u>Property-Liability Investment Results</u>	<u>58</u>
<u>Property-Liability Claims and Claims Expense Reserves</u>	<u>59</u>
<u>Allstate Financial 2016 Highlights</u>	<u>70</u>
<u>Allstate Financial Segment</u>	<u>70</u>
<u>Investments 2016 Highlights</u>	<u>83</u>
<u>Investments</u>	<u>83</u>
<u>Market Risk</u>	<u>97</u>
<u>Pension and Other Postretirement Plans</u>	<u>100</u>
<u>Goodwill</u>	<u>102</u>
<u>Capital Resources and Liquidity 2016 Highlights</u>	<u>103</u>
<u>Capital Resources and Liquidity</u>	<u>103</u>
<u>Enterprise Risk and Return Management</u>	<u>109</u>
<u>Application of Critical Accounting Estimates</u>	<u>112</u>
<u>Regulation and Legal Proceedings</u>	<u>123</u>
<u>Pending Accounting Standards</u>	<u>123</u>

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 5-year summary of selected financial data, consolidated financial statements and related notes found under Part II, Item 6, and Item 8, contained herein. 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 in 2017:

- better serve our customers;
- achieve target economic returns on capital;
- grow customer base;
- proactively manage investments; and
- build long-term growth platforms.

The most important factors we monitor to evaluate the financial condition and performance of our company include: For Allstate Protection: premium, the number of policies in force (“PIF”), new business sales, policy retention, price changes, claim frequency and severity, catastrophes, loss ratio, expenses, underwriting results, and relative competitive position.

For Allstate Financial: benefit and investment spread, asset-liability matching, amortization of deferred policy acquisition costs (“DAC”), expenses, operating income, net income, new business sales, invested assets, and premiums and contract charges.

For Investments: exposure to market risk, asset allocation, credit quality/experience, total return, net investment income, cash flows, realized capital gains and losses, unrealized capital gains and losses, stability of long-term returns, and asset and liability duration.

For financial condition: liquidity, parent holding company level of deployable assets, financial strength ratings, operating leverage, debt levels, book value per share, and return on equity.

Summary of Results:

Consolidated net income applicable to common shareholders was \$1.76 billion in 2016 compared to \$2.06 billion in 2015 and \$2.75 billion in 2014. The decrease in 2016 compared to 2015 was primarily due to higher Property-Liability insurance claims and claims expense and catastrophe losses, net realized net capital losses in 2016 compared to net realized net capital gains in 2015 and lower net investment income, partially offset by higher Property-Liability insurance premiums. The decrease in 2015 compared to 2014 was primarily due to higher Property-Liability insurance claims and claims expense and lower realized net capital gains and net investment income, partially offset by higher Property-Liability insurance premiums and decreased catastrophe losses and operating costs and expenses. Net income applicable to common shareholders per diluted common share was \$4.67, \$5.05 and \$6.27 in 2016, 2015 and 2014, respectively.

Allstate Protection had underwriting income of \$1.32 billion in 2016 compared to \$1.61 billion in 2015 and \$1.89 billion in 2014. The decrease in 2016 compared to 2015 was primarily due to decreases in underwriting income in homeowners resulting from increased catastrophe losses and commercial lines, partially offset by increases in underwriting income in auto resulting from increased insurance premiums. The decrease in 2015 compared to 2014 was primarily due to decreases in underwriting income in auto and commercial lines, partially offset by increases in underwriting income in homeowners and other personal lines and lower catastrophe losses. For a discussion on the components of the increase (decrease) in underwriting income, see the Allstate Protection segment section of the MD&A. The Allstate Protection combined ratio was 95.8, 94.7 and 93.5 in 2016, 2015 and 2014, respectively.

Underwriting income is defined in the Property-Liability Operations section of the MD&A.

Allstate Financial net income applicable to common shareholders was \$391 million in 2016 compared to \$663 million in 2015 and \$631 million in 2014. The decrease in 2016 primarily relates to net realized capital losses in 2016 compared to net realized capital gains in 2015 and lower net investment income, partially offset by higher premiums and contract charges. The increase in 2015 primarily relates to higher net realized capital gains and lower loss on disposition related to the Lincoln Benefit Life Company (“LBL”) sale, partially offset by lower net investment income and the reduction in business due to the sale of LBL.

2016 HIGHLIGHTS

Consolidated net income applicable to common shareholders was \$1.76 billion in 2016 compared to \$2.06 billion in 2015. Net income applicable to common shareholders per diluted common share was \$4.67 in 2016 compared to \$5.05 in 2015.

Property-Liability net income applicable to common shareholders was \$1.66 billion in 2016 compared to \$1.69 billion in 2015.

The Property-Liability combined ratio was 96.1 in 2016 compared to 94.9 in 2015.

Allstate Financial net income applicable to common shareholders was \$391 million in 2016 compared to \$663 million in 2015.

Total revenues were \$36.53 billion in 2016 compared to \$35.65 billion in 2015.

Property-Liability premiums earned totaled \$31.31 billion in 2016, an increase of 3.3% from \$30.31 billion in 2015.

Investments totaled \$81.80 billion as of December 31, 2016, increasing from \$77.76 billion as of December 31, 2015.

Net investment income was \$3.04 billion in 2016, a decrease of 3.6% from \$3.16 billion in 2015.

Net realized capital losses were \$90 million in 2016 compared to net realized capital gains of \$30 million in 2015.

Book value per diluted common share (ratio of common shareholders' equity to total common shares outstanding and dilutive potential common shares outstanding) was \$50.77 as of December 31, 2016, an increase of 7.2% from \$47.34 as of December 31, 2015.

For the twelve months ended December 31, 2016, return on the average of beginning and ending period common shareholders' equity of 9.5% decreased by 1.1 points from 10.6% for the twelve months ended December 31, 2015. As of December 31, 2016, shareholders' equity was \$20.57 billion. This total included \$2.43 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)	2016	2015	2014
Revenues			
Property-liability insurance premiums	\$31,307	\$30,309	\$28,929
Life and annuity premiums and contract charges	2,275	2,158	2,157
Net investment income	3,042	3,156	3,459
Realized capital gains and losses:			
Total other-than-temporary impairment ("OTTI") losses	(313)	(452)	(242)
OTTI losses reclassified to (from) other comprehensive income	10	36	(3)
Net OTTI losses recognized in earnings	(303)	(416)	(245)
Sales and other realized capital gains and losses	213	446	939
Total realized capital gains and losses	(90)	30	694
Total revenues	36,534	35,653	35,239
Costs and expenses			
Property-liability insurance claims and claims expense	(22,221)	(21,034)	(19,428)
Life and annuity contract benefits	(1,857)	(1,803)	(1,765)
Interest credited to contractholder funds	(726)	(761)	(919)
Amortization of deferred policy acquisition costs	(4,550)	(4,364)	(4,135)
Operating costs and expenses	(4,106)	(4,081)	(4,341)
Restructuring and related charges	(30)	(39)	(18)
Loss on extinguishment of debt	—	—	(1)
Interest expense	(295)	(292)	(322)
Total costs and expenses	(33,785)	(32,374)	(30,929)
Gain (loss) on disposition of operations	5	3	(74)
Income tax expense	(877)	(1,111)	(1,386)
Net income	1,877	2,171	2,850

Edgar Filing: ALLSTATE CORP - Form 10-K

Preferred stock dividends	(116)	(116)	(104)
Net income applicable to common shareholders	\$1,761	\$2,055	\$2,746
Property-Liability	\$1,664	\$1,690	\$2,427
Allstate Financial	391	663	631
Corporate and Other	(294)	(298)	(312)
Net income applicable to common shareholders	\$1,761	\$2,055	\$2,746

30

IMPACT OF LOW INTEREST RATE ENVIRONMENT

In December 2016, the Federal Open Market Committee (“FOMC”) tightened monetary policy by setting the new target range for the federal funds rate at 1/2 percent to 3/4 percent. The FOMC indicated that monetary policy remains accommodative after the increase, thereby supporting further strengthening in the labor market and a return to 2 percent inflation. The path of the federal funds rate increase will depend on economic conditions and their impact on the economic outlook. We anticipate that interest rates will continue to increase but remain below historic averages and that financial markets may continue to have periods of high volatility and less liquidity.

Deferred annuity contracts and interest-sensitive life insurance policies with fixed and guaranteed crediting rates, or floors that limit crediting rate reductions, are adversely impacted by a prolonged low interest rate environment since we may not be able to reduce crediting rates sufficiently to maintain investment spreads. Financial results of long duration products that do not have stated crediting rate guarantees but for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates, such as structured settlements and term life insurance, may also be adversely impacted. Our investment strategy for structured settlements includes increasing performance-based investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic asset or operating performance. We stopped selling new fixed annuity products January 1, 2014 and structured settlement annuities March 22, 2013.

The following table summarizes the weighted average guaranteed crediting rates and weighted average current crediting rates as of December 31, 2016 for certain fixed annuities and interest-sensitive life contracts where management has the ability to change the crediting rate, subject to a contractual minimum. Other products, including equity-indexed, variable and immediate annuities, and equity-indexed and variable life totaling \$5.62 billion of contractholder funds, have been excluded from the analysis because management does not have the ability to change the crediting rate or the minimum crediting rate is not considered meaningful in this context.

(\$ in millions)	Weighted average guaranteed crediting rates	%	Weighted average current crediting rates	%	Contractholder funds
Annuities with annual crediting rate resets	3.10	%	3.11	%	\$ 5,362
Annuities with multi-year rate guarantees ⁽¹⁾ :					
Resettable in next 12 months	1.85		3.24		401
Resettable after 12 months	1.37		3.25		1,212
Interest-sensitive life insurance	3.99		4.05		7,668

⁽¹⁾ These contracts include interest rate guarantee periods which are typically 5, 6 or 10 years.

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

As of December 31, 2016, Allstate Financial has fixed income securities that are not subject to prepayment with an amortized cost of \$23.52 billion and \$4.21 billion of commercial mortgage loans, of which approximately 5.9% and 7.0%, respectively, are expected to mature in 2017. Additionally, for asset-backed securities (“ABS”), residential mortgage-backed securities (“RMBS”) and commercial mortgage-backed securities (“CMBS”) that have the potential for prepayment and are therefore not categorized by contractual maturity, we received periodic principal payments of \$981 million in 2016. To the extent portfolio cash flows are reinvested into fixed income securities, the average pre-tax investment yield is expected to decline due to lower market yields. We shortened the maturity profile of the fixed income securities in Allstate Financial in 2015 to make the portfolio less sensitive to rising interest rates.

Proceeds from the sale of longer duration fixed income securities were initially reinvested in shorter duration fixed income and public equity securities that lowered net investment income and portfolio yields. We expect to increase the portfolio allocation to performance-based investments over time, to better match the long-term nature of our

immediate annuity liabilities and improve long-term economic results. We anticipate higher long-term returns on these investments. Since June 30, 2015, the carrying value of performance-based investments and market-based equity securities have increased by \$1.37 billion to \$4.36 billion.

As of December 31, 2016, Property-Liability has fixed income securities that are not subject to prepayment with an amortized cost of \$29.02 billion, of which approximately 10.8% are expected to mature in 2017. Additionally, for ABS, RMBS and CMBS securities that have the potential for prepayment and are therefore not categorized by contractual maturity, we received periodic principal payments of \$213 million in 2016. We have maintained a shorter maturity profile of the fixed income securities in Property-Liability so the portfolio is less sensitive to rising interest rates. This approach to reducing interest rate risk resulted in realized capital gains in 2013, but contributed to lower portfolio yields as sales proceeds were invested at lower market yields.

The portfolio yield will respond more quickly to changes in market interest rates as a result of its shorter maturity profile. The average pre-tax investment yield may decline to the extent reinvestment is at lower market yields. In order to mitigate the unfavorable impact that the current and changing interest rate environment could have on investment results, we are:

Managing our exposure to interest rate risk by maintaining a shorter maturity profile in the Property-Liability and Allstate Financial portfolios which will also result in the yield responding more quickly to changes in market interest rates.

Shifting the portfolio mix over time to have less reliance on investments whose returns come primarily from interest payments to performance-based investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic asset or operating performance.

Seeking opportunities to increase portfolio yield by extending duration primarily in the Property-Liability portfolio as market interest rates increase.

Investing for the specific needs and characteristics of Allstate's businesses.

We expect volatility in accumulated other comprehensive income resulting from changes in unrealized net capital gains and losses and unrecognized pension cost.

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

PROPERTY-LIABILITY 2016 HIGHLIGHTS

Net income applicable to common shareholders was \$1.66 billion in 2016 compared to \$1.69 billion in 2015.

Premiums written totaled \$31.60 billion in 2016, an increase of 2.4% from \$30.87 billion in 2015.

Premiums earned totaled \$31.31 billion in 2016, an increase of 3.3% from \$30.31 billion in 2015.

The loss ratio was 71.0 in 2016 compared to 69.4 in 2015.

Catastrophe losses were \$2.57 billion in 2016 compared to \$1.72 billion in 2015. The effect of catastrophes on the combined ratio was 8.2 in 2016 compared to 5.7 in 2015.

Prior year reserve reestimates totaled \$17 million favorable in 2016 compared to \$81 million unfavorable in 2015.

Underwriting income was \$1.21 billion in 2016 compared to \$1.56 billion in 2015. Underwriting income is defined below.

Investments were \$42.72 billion as of December 31, 2016, an increase of 11.0% from \$38.48 billion as of December 31, 2015, including \$1.25 billion in proceeds from the issuance of debt that were used to fund the acquisition of SquareTrade Holding Company, Inc. (“SquareTrade”) on January 3, 2017. Net investment income was \$1.27 billion in 2016, an increase of 2.3% from \$1.24 billion in 2015.

Net realized capital losses were \$6 million in 2016 compared to \$237 million in 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 is calculated as premiums earned, less claims and claims expense (“losses”), amortization of DAC, operating costs and expenses and restructuring and related charges, as determined using accounting principles generally accepted in the United States of America (“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. Underwriting income is reconciled to net income applicable to common shareholders below.

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 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)	2016	2015	2014
Premiums written	\$31,600	\$30,871	\$29,614
Revenues			
Premiums earned	\$31,307	\$30,309	\$28,929
Net investment income	1,266	1,237	1,301
Realized capital gains and losses	(6)	(237)	549
Total revenues	32,567	31,309	30,779
Costs and expenses			
Claims and claims expense	(22,221)	(21,034)	(19,428)
Amortization of DAC	(4,267)	(4,102)	(3,875)
Operating costs and expenses	(3,580)	(3,575)	(3,838)
Restructuring and related charges	(29)	(39)	(16)
Total costs and expenses	(30,097)	(28,750)	(27,157)
Gain on disposition of operations	—	—	16
Income tax expense	(806)	(869)	(1,211)
Net income applicable to common shareholders	\$1,664	\$1,690	\$2,427
Underwriting income	\$1,210	\$1,559	\$1,772
Net investment income	1,266	1,237	1,301
Income tax expense on operations	(812)	(952)	(1,040)
Realized capital gains and losses, after-tax	—	(154)	357
Gain on disposition of operations, after-tax	—	—	37
Net income applicable to common shareholders	\$1,664	\$1,690	\$2,427
Catastrophe losses	\$2,572	\$1,719	\$1,993
GAAP operating ratios			
Claims and claims expense ratio	71.0	69.4	67.2
Expense ratio	25.1	25.5	26.7
Combined ratio	96.1	94.9	93.9
Effect of catastrophe losses on combined ratio	8.2	5.7	6.9
Effect of prior year reserve reestimates on combined ratio	(0.1)	0.3	(0.3)
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio ⁽¹⁾	—	—	0.1
Effect of amortization of purchased intangible assets on combined ratio	0.1	0.2	0.2
Effect of restructuring and related charges on combined ratio	0.1	0.1	0.1
Effect of Discontinued Lines and Coverages on combined ratio	0.3	0.2	0.4

(1) Prior year reserve reestimates included in catastrophe losses totaled \$6 million unfavorable, \$15 million favorable and \$43 million unfavorable in 2016, 2015 and 2014, respectively.

ALLSTATE PROTECTION SEGMENT

Overview and strategy The Allstate Protection segment primarily sells private passenger auto, homeowners, and other personal lines insurance products to individuals through agencies and directly through contact centers and the internet. Our strategy is to position our products and distribution systems to meet the changing needs of our customer in managing the risks they face. This includes customers who want local advice and assistance and those who are self-directed. In addition, there are customers who are brand-sensitive and those who are brand-neutral. Our strategy is to serve all four of these consumer segments with unique products and value propositions, while leveraging our claims, pricing and operational capabilities. When we do not offer a product our customers need, we may make available non-proprietary products that meet their needs.

Our products are marketed under the Allstate, Esurance and Encompass brand names. The Allstate brand serves customers who prefer local personalized advice and service and are brand-sensitive. The Esurance brand serves self-directed, brand-sensitive customers, while the Encompass brand serves customers who prefer personal advice and assistance from an independent adviser and are brand-neutral. For those customers who are self-directed and brand-neutral, Answer Financial, a personal lines insurance agency, offers a choice between insurance carriers and comparison quotes for auto and homeowners insurance from approximately 25 insurance companies through its website and over the phone. It receives commissions for this service. We utilize specific customer value propositions for each brand to improve our competitive position and performance. Over time, delivering on these customer value propositions may include investments in resources and require significant changes to our products, service, capabilities and processes.

Our pricing and underwriting strategies and decisions for all of our brands are primarily designed to achieve appropriate returns along with enhancing our competitive position. Our sophisticated pricing methodology allows us to attract and retain customers in multiple risk segments. A combination of underwriting information, pricing and discounts are also used to achieve a more competitive position. Our pricing strategy involves local marketplace pricing and underwriting decisions that are based on these risk evaluation factors and an evaluation of competitors to the extent permissible by applicable law.

Pricing of property products is typically intended to establish risk adjusted returns that we deem acceptable over a long-term period. Losses, including losses from catastrophic events and weather-related losses (such as wind, hail, lightning and freeze losses not meeting our criteria to be declared a catastrophe), are recognized on an occurrence basis within the policy period. Therefore, in any reporting period, loss experience from catastrophic events and weather-related losses may contribute to negative or positive underwriting performance relative to the expectations we incorporated into product pricing. We pursue rate increases where indicated, taking into consideration potential customer disruption, the impact on our ability to market our auto and homeowners lines, regulatory limitations, our competitive position and profitability, using a methodology that appropriately addresses the changing costs of losses from catastrophes such as severe weather and the net cost of reinsurance.

We continue to manage our property catastrophe exposure with the goal of providing shareholders an acceptable return on the risks assumed in our property business and to reduce the variability of our earnings. Our property business includes personal homeowners, commercial property and other property insurance lines. As of December 31, 2016, we have less than a 1% likelihood of exceeding average annual aggregate catastrophe losses by \$2 billion, net of reinsurance, from hurricanes and earthquakes, based on modeled assumptions and applications currently available. The use of different assumptions and updates to industry models, and updates to our risk transfer program, could materially change the projected loss. Our growth strategies include areas previously restricted where we believe we can enhance diversification and earn an appropriate return for the risk and as a result our exposure may increase, but in aggregate remain lower than \$2 billion as noted above. In addition, we have exposure to severe weather events which impact catastrophe losses.

Property catastrophe exposure management includes purchasing reinsurance to provide coverage for known exposure to hurricanes, earthquakes, wildfires, fires following earthquakes and other catastrophes. We are also working to promote measures to prevent and mitigate losses and make homes and communities more resilient, including enactment of stronger building codes and effective enforcement of those codes, adoption of sensible land use policies, and development of effective and affordable methods of improving the resilience of existing structures.

Allstate Protection outlook

Allstate Protection will continue to focus on its strategy of offering differentiated products and services to our customers while maintaining pricing discipline.

We will continue to take actions to improve auto profitability by increasing prices, evaluating underwriting standards, managing expenses, and managing loss cost through focus on claims process excellence.

We will pursue growth in homeowners policies that do not significantly increase catastrophe exposure.

We expect that volatility in the level of catastrophes we experience will contribute to variation in our underwriting results; however, this volatility will be mitigated due to our catastrophe management actions, including the purchase of reinsurance.

We will continue the implementation of our trusted advisor strategy, enabling Allstate agencies to more fully deliver on the Allstate brand customer value proposition.

We will continue to modernize our operating model, including enhancing our digital capabilities, to efficiently deliver our customer value propositions.

We will invest in building long-term growth platforms.

Underwriting results are shown in the following table.

(\$ in millions)	2016	2015	2014
Premiums written	\$31,597	\$30,871	\$29,613
Premiums earned	\$31,307	\$30,309	\$28,928
Claims and claims expense	(22,116)	(20,981)	(19,315)
Amortization of DAC	(4,267)	(4,102)	(3,875)
Other costs and expenses	(3,578)	(3,573)	(3,835)
Restructuring and related charges	(29)	(39)	(16)
Underwriting income	\$1,317	\$1,614	\$1,887
Catastrophe losses	\$2,572	\$1,719	\$1,993

Underwriting income (loss) by line of business

Auto	\$172	\$23	\$604
Homeowners	1,075	1,431	1,097
Other personal lines	160	175	150
Commercial lines	(110)	(40)	9
Other business lines	27	33	40
Answer Financial	(7)	(8)	(13)
Underwriting income	\$1,317	\$1,614	\$1,887

The following table summarizes the changes in underwriting results from the prior year by the components of the increase (decrease) in underwriting income (loss) by line of business. The 2016 column presents changes in 2016 compared to 2015. The 2015 column presents changes in 2015 compared to 2014.

(\$ in millions)	Auto		Homeowners		Other personal lines		Commercial lines		Allstate Protection ⁽¹⁾	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Underwriting income (loss) - prior year	\$23	\$604	\$1,431	\$1,097	\$175	\$150	\$(40)	\$9	\$1,614	\$1,887
Changes in underwriting income (loss)										
from:										
Premiums earned	854	1,066	121	232	8	30	(4)	34	998	1,381
Incurred claims and claims expense ("losses"):										
Incurred losses, excluding catastrophe losses and reserve reestimates	(499)	(1,49)	14	(62)	26	(42)	(6)	(65)	(453)	(1,658)
Catastrophe losses, excluding reserve reestimates	(321)	80	(443)	128	(58)	2	(9)	6	(832)	216
Non-catastrophes reserve reestimates	193	(265)	13	(13)	27	18	(60)	(19)	171	(282)
Catastrophes reserve reestimates	(8)	(3)	(13)	66	—	(2)	—	(3)	(21)	58
Total reserve reestimates	185	(268)	—	53	27	16	(60)	(22)	150	(224)
Losses subtotal - (loss) income	(635)	(1,679)	(429)	119	(5)	(24)	(75)	(81)	(1,135)	(1,666)

Edgar Filing: ALLSTATE CORP - Form 10-K

Expenses	(70)	32	(48)	(17)	(18)	19	9	(2)	(160)	12
Underwriting income (loss)	\$172	\$23	\$1,075	\$1,431	\$160	\$175	\$(110)	\$(40)	\$1,317	\$1,614

⁽¹⁾ Includes other business lines underwriting income of \$27 million and \$33 million in 2016 and 2015, respectively, and Answer Financial underwriting loss of \$7 million and \$8 million in 2016 and 2015, respectively. Underwriting income totaled \$1.32 billion in 2016, an 18.4% decrease from \$1.61 billion in 2015, primarily due to higher catastrophe losses and rising loss costs, partially offset by increased premiums earned. Underwriting income totaled \$1.61 billion in 2015, a 14.5% decrease from \$1.89 billion in 2014, primarily due to rising loss costs, partially offset by increased premiums earned.

Investment results are not included in the underwriting income analysis above. The Company does not allocate Property-Liability investment income, realized capital gains and losses, or assets to the Allstate Protection and Discontinued Lines and Coverages segments. Management reviews assets at the Property-Liability level for decision-making purposes. For a more detailed

discussion on investment results, see the Property-Liability Investment Results section of the MD&A and Note 19 of the consolidated financial statements. Additional analysis related to premiums written and the combined ratios, including loss and expense ratios are included below and in the brand sections.

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 Consolidated Statements of Financial Position.

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

(\$ in millions)	2016	2015	2014
Premiums written			
Allstate Protection	\$31,597	\$30,871	\$29,613
Discontinued Lines and Coverages ⁽¹⁾	3	—	1
Property-Liability premiums written	31,600	30,871	29,614
Increase in unearned premiums	(381)	(549)	(723)
Other	88	(13)	38
Property-Liability premiums earned	\$31,307	\$30,309	\$28,929
Premiums earned			
Allstate Protection	\$31,307	\$30,309	\$28,928
Discontinued Lines and Coverages	—	—	1
Property-Liability	\$31,307	\$30,309	\$28,929

⁽¹⁾ Primarily represents retrospective reinsurance premium recognized when billed.

Premiums written and earned by line of business are shown in the following table.

(\$ in millions)	2016	2015	2014
Premiums written			
Auto	\$21,425	\$20,662	\$19,668
Homeowners	7,240	7,238	7,051
Other personal lines ⁽¹⁾	1,724	1,699	1,683
Subtotal – Personal lines	30,389	29,599	28,402
Commercial lines	499	516	494
Other business lines ⁽²⁾	709	756	717
Total	\$31,597	\$30,871	\$29,613
Premiums earned			
Auto	\$21,264	\$20,410	\$19,344
Homeowners	7,257	7,136	6,904
Other personal lines ⁽¹⁾	1,700	1,692	1,662
Subtotal – Personal lines	30,221	29,238	27,910
Commercial lines	506	510	476
Other business lines ⁽²⁾	580	561	542
Total	\$31,307	\$30,309	\$28,928

⁽¹⁾ Other personal lines include renter, condominium, landlord and other personal lines products.

⁽²⁾ Other business lines primarily include Allstate Roadside Services and Allstate Dealer Services.

Auto premiums written totaled \$21.43 billion in 2016, a 3.7% increase from \$20.66 billion in 2015, following a 5.1% increase in 2015 from \$19.67 billion in 2014.

Homeowners premiums written totaled \$7.24 billion in 2016, which was comparable to 2015, following a 2.7% increase in 2015 from \$7.05 billion in 2014. Excluding the cost of catastrophe reinsurance, which is recorded as a reduction to premiums, premiums written decreased 0.4% in 2016 compared to 2015. For a more detailed discussion on reinsurance, see the Property-Liability Claims and Claims Expense Reserves section of the MD&A and Note 10 of the consolidated financial statements.

Edgar Filing: ALLSTATE CORP - Form 10-K

The following table shows the unearned premium balance as of December 31 and the time frame in which we expect to recognize these premiums as earned.

(\$ in millions)

	2016	2015	% earned after			
			Three months	Six months	Nine months	Twelve months
Allstate brand:						
Auto	\$5,134	\$4,947	71.2%	96.6 %	99.2 %	100.0%
Homeowners	3,682	3,685	43.4%	75.6 %	94.2 %	100.0%
Other personal lines	868	837	43.3%	75.3 %	94.1 %	100.0%
Commercial lines	253	259	44.3%	75.5 %	94.0 %	100.0%
Other business lines	966	837	16.1%	30.0 %	42.0 %	52.2 %
Total unearned premium	10,903	10,565	54.3%	81.6 %	92.0 %	95.8 %
Esurance brand:						
Auto	399	385	74.2%	98.8 %	99.7 %	100.0%
Homeowners	31	17	43.5%	75.6 %	94.2 %	100.0%
Other personal lines	2	2	43.3%	75.3 %	94.1 %	100.0%
Total Esurance brand	432	404	71.9%	97.1 %	99.3 %	100.0%
Encompass brand:						
Auto	298	329	44.3%	75.9 %	94.2 %	100.0%
Homeowners	241	267	44.4%	76.3 %	94.4 %	100.0%
Other personal lines	50	54	44.2%	75.9 %	94.3 %	100.0%
Total Encompass brand	589	650	44.3%	76.1 %	94.3 %	100.0%
Allstate Protection unearned premiums	\$11,924	\$11,619	54.5%	81.9 %	92.4 %	96.2 %

Combined ratios by line of business are analyzed in the following table.

	Loss ratio ⁽¹⁾			Expense ratio ⁽¹⁾			Combined ratio		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Auto	74.7	74.7	70.1	24.5	25.2	26.8	99.2	99.9	96.9
Homeowners	61.3	56.3	59.9	23.9	23.6	24.2	85.2	79.9	84.1
Other Personal lines	62.9	62.9	62.6	27.7	26.8	28.4	90.6	89.7	91.0
Commercial lines	93.9	78.4	67.0	27.8	29.4	31.1	121.7	107.8	98.1
Other business lines	43.8	46.9	48.3	51.5	47.2	44.3	95.3	94.1	92.6
Total	70.6	69.2	66.8	25.2	25.5	26.7	95.8	94.7	93.5

⁽¹⁾ Ratios are calculated using the premiums earned for the respective line of business.

Loss ratios by line of business are analyzed in the following table and discussed in detail in the brand sections below.

	Loss ratio			Effect of catastrophe losses on combined ratio			Effect of prior year reserve reestimates on combined ratio			Effect of catastrophe losses included in prior year reserve reestimates on combined ratio		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Auto	74.7	74.7	70.1	2.7	1.2	1.7	(0.7)	0.1	(1.2)	—	(0.1)	(0.1)
Homeowners	61.3	56.3	59.9	24.4	18.4	21.8	(0.3)	(0.4)	0.4	0.2	—	0.9
Other Personal lines	62.9	62.9	62.6	11.3	7.9	8.1	(0.5)	1.1	2.0	(0.1)	(0.1)	(0.3)
Commercial lines	93.9	78.4	67.0	6.9	5.1	6.1	12.2	0.4	(4.2)	1.0	1.0	0.4
Other business lines	43.8	46.9	48.3	0.2	—	—	0.7	0.4	(0.2)	—	—	—
Total	70.6	69.2	66.8	8.2	5.7	6.9	(0.4)	0.1	(0.7)	—	—	0.1

Catastrophe losses were \$2.57 billion in 2016 compared to \$1.72 billion in 2015 and \$1.99 billion in 2014.

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 in 2016 by the size of event are shown in the following table.

(\$ in millions)

	Number of Events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
Greater than \$250 million	2	2.3 %	\$ 629	24.5 %	2.0	\$ 315
\$101 million to \$250 million	2	2.3	330	12.8	1.1	165
\$50 million to \$100 million	8	9.3	591	23.0	1.9	74
Less than \$50 million	74	86.1	1,016	39.5	3.2	14
Total	86	100.0%	2,566	99.8	8.2	30
Prior year reserve reestimates			6	0.2	—	
Total catastrophe losses			\$ 2,572	100.0%	8.2	

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

(\$ in millions)

	2016	2015	2014
	Number of events	Number of events	Number of events
Hurricanes/Tropical storms	2 \$156	1 \$21	1 \$2
Tornadoes	2 7	2 152	2 99
Wind/Hail	72 2,256	72 1,274	70 1,429
Wildfires	8 92	6 51	5 19
Other events	2 55	4 236	7 401
Prior year reserve reestimates	6	(15)	43
Total catastrophe losses	86 \$2,572	85 \$1,719	85 \$1,993

Expense ratio for Allstate Protection decreased 0.3 points in 2016 compared to 2015. The expense ratios by line of business are shown in the following table.

	2016	2015	2014
Auto	24.5	25.2	26.8
Homeowners	23.9	23.6	24.2
Other personal lines	27.7	26.8	28.4
Commercial lines	27.8	29.4	31.1
Other business lines	51.5	47.2	44.3
Total expense ratio	25.2	25.5	26.7

The impact of specific costs and expenses on the expense ratio are shown in the following table.

	2016	2015	2014
Amortization of DAC	13.6	13.6	13.4
Advertising expense	2.5	2.5	3.2
Amortization of purchased intangible assets	0.1	0.2	0.2
Other costs and expenses	8.9	9.1	9.8
Restructuring and related charges	0.1	0.1	0.1
Total expense ratio	25.2	25.5	26.7

DAC We establish a DAC asset for costs that are related directly to the successful acquisition of new or renewal insurance policies, principally agents' remuneration and premium taxes. For the Allstate Protection business, DAC is amortized to income over the period in which premiums are earned.

The DAC balance as of December 31 by product type are shown in the following table.

(\$ in millions)	2016	2015
Auto	\$738	\$713
Homeowners	540	546

Other personal lines	122	118
Commercial lines	32	33
Other business lines	756	619
Total DAC	\$2,188	\$2,029

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.

Catastrophe management

Historical catastrophe experience For the last ten years, the average annual impact of catastrophes on our Property-Liability loss ratio was 8.2 points, but has varied from 4.5 points to 14.7 points. The average annual impact of catastrophes on the homeowners loss ratio for the last ten years was 32.3 points. Over time, we have limited our aggregate insurance exposure to catastrophe losses in certain regions of the country that are subject to high levels of natural catastrophes. Limitations include our participation in various state facilities, such as the California Earthquake Authority (“CEA”), which provides insurance for California earthquake losses; the Florida Hurricane Catastrophe Fund, which provides reimbursements to participating insurers for certain qualifying Florida hurricane losses; and other state facilities, such as wind pools. However, the impact of these actions may be diminished by the growth in insured values, and the effect of state insurance laws and regulations. In addition, in various states we are required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Because of our participation in these and other state facilities such as wind pools, we may be exposed to losses that surpass the capitalization of these facilities and to assessments from these facilities.

We have continued to take actions to maintain an appropriate level of exposure to catastrophic events while continuing to meet the needs of our customers, including the following:

- Continuing to limit or not offer new homeowners, manufactured home and landlord package policy business in certain coastal geographies.

- Increased capacity in our brokerage platform for customers not offered an Allstate policy.

North Light Specialty Insurance Company (“North Light”), our surplus lines company that operates under different regulatory rules, began writing homeowners in California in February 2013 and continued operations in 43 states.

Any earthquake coverage provided under homeowners writings (other than fire following earthquakes) in California is currently ceded via quota share reinsurance.

- In certain states, we have been ceding wind exposure related to insured property located in wind pool eligible areas.

In 2016, we began to write a limited number of homeowners policies in select areas of California. Meanwhile, we will continue to renew current policyholders and allow replacement policies for existing customers who buy a new home, or change their residence to rental property. For landlord package policies we allow replacement policies on an exception basis, and offer a small number of new landlord package policies in order to accommodate current personal umbrella policy customers.

- Since 2011, homeowners business in Florida has been focused on existing customers who replace their currently-insured home with an acceptable property. Encompass withdrew from property lines in Florida in 2009.

- Tropical cyclone deductibles are generally higher than all peril deductibles and are in place for a large portion of coastal insured properties.

We have additional catastrophe exposure, beyond the property lines, for auto customers who have purchased physical damage coverage. Auto physical damage coverage generally includes coverage for flood-related loss.

- We manage this additional exposure through inclusion of auto losses in our nationwide reinsurance program, including Florida personal lines automobile business, as of June 1, 2016. New Jersey is excluded from the nationwide reinsurance program as auto losses are included in our New Jersey reinsurance program.

Designed a homeowners new business offering, Allstate House and Home[®], that provides options of coverage for roof damage, including graduated coverage and pricing based on roof type and age. Allstate House and Home is currently available in 40 states. The House and Home product is available in 76% of the states where our catastrophe losses occurred in 2016.

Hurricanes We consider the greatest areas of potential catastrophe losses due to hurricanes generally to be major metropolitan centers in counties along the eastern and gulf coasts of the United States. Usually, the average premium on a property policy near these coasts is greater than in other areas. However, average premiums are often not considered commensurate with the inherent risk of loss. In addition and as explained in Note 14 of the consolidated financial statements, in various states Allstate is subject to assessments from assigned risk plans, reinsurance facilities and joint underwriting associations providing insurance for wind related property losses.

We have addressed our risk of hurricane loss by, among other actions, purchasing reinsurance for specific states and on a countrywide basis for our personal lines property insurance in areas most exposed to hurricanes, limiting personal homeowners, landlord package policy and manufactured home new business writings in coastal areas in southern and eastern states, implementing tropical cyclone deductibles where appropriate, and not offering continuing coverage on certain policies in coastal counties in certain states. We continue to seek appropriate returns for the risks we write. This may require further actions, similar to those already taken, in geographies where we are not getting appropriate returns. However, we may maintain or opportunistically increase our presence in areas where we achieve adequate returns and do not materially increase our hurricane risk.

Earthquakes We do not offer earthquake coverage in most states and actions taken to reduce our exposure from earthquake losses are complete. We purchased reinsurance in the state of Kentucky and entered into arrangements in many states to make earthquake coverage available through non-proprietary insurers.

We retain approximately 28,000 PIF with earthquake coverage, primarily in Kentucky, due to regulatory and other reasons. We continue to have exposure to earthquake risk on certain policies that do not specifically exclude coverage for earthquake losses, including our auto policies, and to fires following earthquakes. Allstate policyholders in the state of California are offered coverage through the CEA, a privately-financed, publicly-managed state agency created to provide insurance coverage for earthquake damage. Allstate is subject to assessments from the CEA under certain circumstances as explained in Note 14 of the consolidated financial statements. While North Light writes property policies in California, which can include earthquake coverage, this coverage is 100% ceded via quota share reinsurance.

Fires Following Earthquakes Under a standard homeowners policy we cover fire losses, including those caused by an earthquake. Actions taken related to our risk of loss from fires following earthquakes include restrictive underwriting guidelines in California for new business writings, purchasing reinsurance for Kentucky personal lines property risks, and purchasing nationwide occurrence reinsurance, excluding Florida and New Jersey.

Wildfires Actions taken related to managing our risk of loss from wildfires include changing homeowners underwriting requirements in certain states and purchasing nationwide occurrence reinsurance. We also have inspection programs to identify homes that are susceptible to wildfires.

Reinsurance A description of our current catastrophe reinsurance program appears in Note 10 of the consolidated financial statements.

The following table presents underwriting income (loss), premiums written and PIF by line of business for Allstate brand, Esurance brand, Encompass brand and Allstate Protection for the year ended December 31, 2016. Detailed analysis of underwriting results, premiums written and earned, and the combined ratios, including loss and expense ratios are discussed in the brand sections below.

(\$ in millions)	Allstate brand		Esurance brand		Encompass brand		Allstate Protection	
		Percent to total		Percent to total		Percent to total		Percent to total
Underwriting income (loss)								
Auto	\$266	18.4 %	\$(65)	52.4 %	\$(29)	— %	\$172	13.1 %
Homeowners	1,098	75.9	(59)	47.6	36	—	1,075	81.6
Other personal lines	166	11.5	—	—	(6)	—	160	12.1
Commercial lines	(110)	(7.6)	—	—	—	—	(110)	(8.4)
Other business lines	27	1.8	—	—	—	—	27	2.1
Answer Financial	—	—	—	—	—	—	(7)	(0.5)
Total	\$1,447	100.0 %	\$(124)	100.0%	\$1	— %	\$1,317	100.0 %
Premiums written								
Auto	\$19,209	66.8 %	\$1,625	96.2 %	\$591	51.9 %	\$21,425	67.8 %
Homeowners	6,730	23.4	56	3.3	454	39.8	7,240	22.9
Other personal lines	1,621	5.6	8	0.5	95	8.3	1,724	5.5
Commercial lines	499	1.7	—	—	—	—	499	1.6
Other business lines	709	2.5	—	—	—	—	709	2.2
Total	\$28,768	100.0 %	\$1,689	100.0%	\$1,140	100.0%	\$31,597	100.0 %
Percent to total Allstate Protection		91.1 %		5.3 %		3.6 %		100.0 %
PIF (thousands)								
Auto	19,742	63.5 %	1,391	93.0 %	622	61.3 %	21,755	64.7 %
Homeowners	6,099	19.6	58	3.9	295	29.1	6,452	19.2
Other personal lines	4,214	13.5	47	3.1	98	9.6	4,359	13.0

Edgar Filing: ALLSTATE CORP - Form 10-K

Commercial lines	285	0.9	—	—	—	—	285	0.8
Other business lines	768	2.5	—	—	—	—	768	2.3
Total	31,108	100.0 %	1,496	100.0%	1,015	100.0%	33,619	(1) 100.0 %
Percent to total Allstate Protection		92.5 %		4.5 %		3.0 %		100.0 %

(1) Allstate Protection PIF excludes 21 thousand of PIF related to North Light, our excess and surplus line. Including North Light, total Allstate Protection PIF was 33,640 thousand as of December 31, 2016.

When analyzing premium measures and statistics for all three brands the following calculations are used as described below.

- 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. Allstate brand

Strategy In 2016, we continued to focus on a multi-year effort to position agents, licensed sales professionals and exclusive financial specialists to serve customers as trusted advisors. Our strategy centers around customers who prefer local personal advice and service and are brand-sensitive. Being a trusted advisor means that our agencies have a local presence that instills confidence; know their customers and understand the unique needs of their households; help them assess the potential risks they face; provide local expertise and personalized guidance on how to protect what matters most to them by offering customized solutions; and support them when they have changes in their lives and during their times of need. To ensure agencies have the resources, capacity, and support needed to serve customers at this level, we are deploying technology, processes, education and support focused on relationship initiation and insurance and retirement expertise. This includes continuing efforts to enhance agency capabilities with customer-centric technology while simplifying and automating service processes to enable agencies to focus more time in an advisory role.

Our customer-focused strategy aligns targeted marketing, product innovation, distribution effectiveness, and pricing toward acquiring and retaining an increased share of our target customers. Our target customers are those who want to purchase multiple products from one insurance provider including auto, homeowners and financial products, and who potentially present more favorable prospects for profitability over the course of their relationships with us. The Allstate brand differentiates itself from competitors by offering a comprehensive range of innovative product options and features through a network of agencies that provide local advice and service, including a partnership with exclusive financial specialists to deliver life and retirement solutions.

We utilize marketing delivered to target customers to promote our strategic priorities, with messaging that communicates the value of our “Good Hand®”, the importance of having proper coverage by highlighting our comprehensive product and coverage options, and the ease of doing business with Allstate and Allstate agencies. We offer Allstate Your Choice Auto® with product features and options such as Accident Forgiveness, Deductible Rewards®, Safe Driving Bonus® and New Car Replacement. The Allstate House and Home product includes features such as Claim RateGuard®, Claim-Free Bonus, flexibility in options and coverages, including graduated roof coverage and pricing based on roof type and age for damage related to wind and hail events. In addition, we offer a Claim Satisfaction GuaranteeSM that promises a return of premium to Allstate brand auto insurance customers dissatisfied with their claims experience. Our Drivewise® program, available in 49 states and the District of Columbia as of December 31, 2016, uses a mobile application or an in-car device to capture driving behaviors and reward customers for driving safely. The Drivewise mobile application also provides customers with information and tools to encourage safer driving and incentivize through driving challenges. In 2015, Drivewise began offering Allstate Rewards®, a program that provides reward points for safe driving. Milewise®, Allstate’s usage based insurance product, was launched in 2016 and is currently available to customers as a limited market test. Milewise gives customers flexibility to customize their insurance and pay based on the number of miles they drive. We will continue to focus on

developing and introducing products and services that benefit today's customers and further differentiate Allstate and enhance the customer experience. In 2016, we launched Arity, a non-insurance technology company that leverages software, data and analytics and our telematics-based insurance programs to help better manage risk. Currently Allstate brand, Esurance, and Answer Financial use Arity's services internally. Arity is planning to market to non-affiliates in 2017.

We plan to deepen customer relationships through value-added customer interactions and expanding our presence in households with multiple products by providing financial protection for customer needs, including life insurance products. In certain areas with higher risk of catastrophes or where customers do not meet our standard underwriting profile, we offer a homeowners product from North Light. When an Allstate product is not available, we may make available non-proprietary products for customers through brokering arrangements. Allstate agencies sell non-proprietary property insurance products, primarily related to property

business in hurricane exposed areas and commercial insurance. Allstate agencies and exclusive financial specialists also sell non-proprietary retirement and investment products, including mutual funds, fixed and variable annuities, disability insurance and long-term care insurance. These non-proprietary products are offered to our customers who prefer to use a single agent for all of their insurance needs.

We are implementing an organizationally driven approach, using the continuous improvement management process. This process helps deliver holistic, sustainable change in process efficiency, effectiveness, performance management, and organizational alignment. The approach enables our employees to engage more effectively and directly in problem solving and ultimately helping to improve the customer experience, agency owner experience and business outcomes. As part of continuous improvement, our claims organization is focused on three key strategic efforts: improving our core operations, strengthening the foundation and building the future. Improving our core operations is focused on enhanced loss cost management, expense control and customer experience. Strengthening the foundation will advance our capabilities in knowledge management, quality assurance and data and analytics. Building our future is focused on leveraging emerging technologies and predictive analytics to simplify the customer experience and expedite the claims process. This strategy aligns the claims organization along coverages to achieve operational efficiencies and to facilitate comparable claims processes throughout the nation.

We continue to enhance our technology to improve customer service, facilitate the introduction of new products and services, improve the handling of claims and reduce infrastructure costs related to supporting our agency force. These actions and others are designed to optimize the effectiveness of our distribution and service channels by increasing the productivity of the Allstate brand's exclusive agencies and exclusive financial specialists.

Other personal lines sold under the Allstate brand include renter, condominium, landlord, boat, umbrella and manufactured home insurance policies. Commercial lines primarily include auto insurance products for small business owners.

Other business lines include Allstate Roadside Services, Allstate Dealer Services and Ivantage. Allstate Roadside Services is a leading provider of roadside assistance in North America with approximately 750 thousand retail customers and wholesale partners that incorporated our service offerings into approximately one quarter of the new vehicles sold in the United States in 2016. Customers are served through a combination of proprietary and third party services, Allstate-branded plans, and pay-per-use plans. In 2016, Allstate Roadside Services handled approximately three million roadside rescues through thousands of service providers. Our strategy for Allstate Roadside Services remains focused on delivering a superior customer experience, expanding capabilities, digitizing the business and offering new services while at the same time, lowering costs in the customer assistance centers and optimizing the rescue network at the local level to improve profitability.

Allstate Dealer Services leverages the Allstate brand to deliver finance and insurance products and services. These products and services are distributed countrywide by independent agencies and brokers through auto dealerships in the U.S. to customers in conjunction with the purchase of a new or used vehicle. The products primarily include vehicle service contracts, guaranteed asset protection waivers, road hazard tire and wheel protection, and paintless dent repair protection. Where required by state regulations, Allstate Dealer Services issues contractual liability insurance policies or guaranteed asset protection reimbursement insurance policies to cover the liabilities of these products. The products offered through Allstate Dealer Services fall under the regulation of departments of insurance in many states with requirements for filing of forms and rates varying by product and by state. Our strategy for Allstate Dealer Services focuses on continuing to leverage strategic relationships with auto dealerships while improving both operational efficiency and profitability.

Ivantage is a general agency for Allstate exclusive agencies. Our strategy for Ivantage is focused on providing agencies a solution for their customers when coverage through Allstate brand underwritten products is not available. The agent access to this coverage is technology driven with a focus on enhancing the agency ease of doing business while meeting customer needs.

Underwriting results are shown in the following table.

(\$ in millions)	2016	2015	2014
Premiums written	\$28,768	\$28,014	\$26,820
Premiums earned	\$28,445	\$27,452	\$26,218
Claims and claims expense	(20,003)	(18,856)	(17,244)
Amortization of DAC	(4,005)	(3,827)	(3,601)
Other costs and expenses	(2,962)	(2,919)	(3,125)
Restructuring and related charges	(28)	(38)	(13)
Underwriting income	\$1,447	\$1,812	\$2,235
Catastrophe losses	\$2,425	\$1,594	\$1,809

Underwriting income (loss) by line of business

Auto	\$266	\$204	\$906
Homeowners	1,098	1,418	1,120
Other personal lines	166	197	160
Commercial lines	(110)	(40)	9
Other business lines	27	33	40
Underwriting income	\$1,447	\$1,812	\$2,235

The following table summarizes the changes in underwriting results from the prior year by the components of the increase (decrease) in underwriting income. The 2016 column presents changes in 2016 compared to 2015. The 2015 column presents changes in 2015 compared to 2014.

(\$ in millions)	2016	2015
Underwriting income - prior year	\$1,812	\$2,235
Changes in underwriting income from:		
Premiums earned	993	1,234
Incurred claims and claims expense ("losses"):		
Incurred losses, excluding catastrophe losses and reserve reestimates	(480)	(1,563)
Catastrophe losses, excluding reserve reestimates	(811)	160
Non-catastrophes reserve reestimates	164	(264)
Catastrophes reserve reestimates	(20)	55
Total reserve reestimates	144	(209)
Losses subtotal - loss	(1,147)	(1,612)
Expenses	(211)	(45)
Underwriting income	\$1,447	\$1,812

Underwriting income totaled \$1.45 billion in 2016, a 20.1% decrease from \$1.81 billion in 2015, primarily due to lower homeowners underwriting income resulting from higher catastrophe losses and higher commercial lines underwriting losses due to rising loss costs, partially offset by increased auto underwriting income as a result of rate actions. Underwriting income totaled \$1.81 billion in 2015, an 18.9% decrease from \$2.24 billion in 2014, primarily due to lower auto underwriting income resulting from rising loss costs, partially offset by increased homeowners underwriting income as a result of growth actions.

Our underwriting results were impacted by our profit improvement actions. We regularly monitor profitability trends and take appropriate pricing actions, underwriting actions, claims process improvements and targeted expense spending reductions to achieve adequate returns.

Given auto loss trends emerging in 2015 and continuing into 2016, we responded with a multi-faceted approach to improve profitability, which has impacted our growth and retention.

We increased and accelerated rate filings broadly across the country. Approximately 28% of the Allstate brand rate increases approved in 2016 were 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 were achieved, the guidelines were modified appropriately.

For homeowners, we continue to be disciplined in how we manage margins through underwriting guidelines, risk management policies, property inspections and implement rate and other actions to maintain or improve returns where required. Our growth actions planned include continuing to implement our House & Home product, leveraging agency sales practices focused on multi-line households, increasing availability in coastal markets, improving penetration in underserved markets in the middle of the country and targeted advertising campaigns.

Premiums written and earned by line of business are shown in the following table.

(\$ in millions)	2016	2015	2014
Premiums written			
Auto	\$19,209	\$18,445	\$17,504
Homeowners	6,730	6,711	6,536
Other personal lines ⁽¹⁾	1,621	1,586	1,569
Subtotal – Personal lines	27,560	26,742	25,609
Commercial lines	499	516	494
Other business lines ⁽²⁾	709	756	717
Total	\$28,768	\$28,014	\$26,820
Premiums earned			
Auto	\$19,031	\$18,191	\$17,234
Homeowners	6,736	6,613	6,415
Other personal lines ⁽¹⁾	1,592	1,577	1,551
Subtotal – Personal lines	27,359	26,381	25,200
Commercial lines	506	510	476
Other business lines ⁽²⁾	580	561	542
Total	\$28,445	\$27,452	\$26,218

⁽¹⁾ Other personal lines include renter, condominium, landlord and other personal lines products.

⁽²⁾ Other business lines primarily include Allstate Roadside Services and Allstate Dealer Services.

Auto premium measures and statistics that are used to analyze the business are shown in the following table.

	2016	2015	2014
PIF (thousands)	19,742	20,326	19,916
New issued applications (thousands)	2,312	2,962	3,033
Average premium	\$ 523	\$ 492	\$ 479
Renewal ratio (%)	87.8	88.6	88.9
Approved rate changes ⁽¹⁾ :			
# of locations ⁽²⁾	53	50	46
Total brand (%) ⁽³⁾	7.2	5.3	2.3
Location specific (%) ⁽⁴⁾⁽⁵⁾	8.1	7.6	3.2

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

⁽¹⁾ 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. Allstate brand auto rate changes were cumulatively \$2.28 billion or 12.5% in 2016 and 2015.

⁽²⁾ Allstate brand operates in 50 states, the District of Columbia, and 5 Canadian provinces.

⁽³⁾ 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.

Represents the impact in the states, the District of Columbia and Canadian provinces where rate changes were

⁽⁴⁾ approved during the period as a percentage of its respective total prior year-end premiums written in those same locations.

⁽⁵⁾ Based on historical premiums written in the locations noted above, rate changes approved for auto totaled \$1.33 billion, \$942 million and \$399 million in 2016, 2015 and 2014, respectively.

Auto premiums written totaled \$19.21 billion in 2016, a 4.1% increase from \$18.45 billion in 2015. Factors impacting premiums written were the following:

2.9% or 584 thousand decrease in PIF as of December 31, 2016 compared to December 31, 2015. Allstate brand auto PIF increased in 9 states, including 1 out of our largest 10 states, as of December 31, 2016 compared to December 31, 2015.

21.9% decrease in new issued applications in 2016 compared to 2015. All of our largest 10 states experienced decreases in new issued applications in 2016 compared to 2015. New issued applications were relatively consistent throughout the year.

6.3% increase in average premium in 2016 compared to 2015, primarily due to rate increases. These amounts do not assume customer choices such as non-renewal or changes in policy terms which might reduce future premiums.

Approximately 61% of the change in rates approved for auto in 2016 are driven by the increases approved in our 10 largest states.

0.8 point decrease in the renewal ratio in 2016 compared to 2015. Of our largest 10 states, 9 experienced decreases in the renewal ratio in 2016 compared to 2015.

Auto premiums written totaled \$18.45 billion in 2015, a 5.4% increase from \$17.50 billion in 2014. Factors impacting premiums written were the following:

2.1% or 410 thousand increase in PIF as of December 31, 2015 compared to December 31, 2014. Allstate brand auto PIF increased in 39 states, including 8 out of our largest 10 states, as of December 31, 2015 compared to December 31, 2014.

2.3% decrease in new issued applications to 2,962 thousand in 2015 from 3,033 thousand in 2014. A change was implemented in 2015 allowing a greater number of autos on a single policy, which reduced the new issued application growth rate by 3.2 points. Without this change, new issued applications would have increased 0.9% in 2015 from 2014.

2.7% increase in average premium in 2015 compared to 2014, primarily due to rate increases. Based on historical premiums written, rate changes approved for auto totaled \$942 million in 2015 compared to \$399 million in 2014.

These amounts do not assume customer choices such as non-renewal or changes in policy terms which might reduce future premiums. Fluctuation in the Canadian exchange rate reduced premiums written and average premium growth rates in 2015 by 0.7 points.

0.3 point decrease in the renewal ratio in 2015 compared to 2014.

Homeowners premium measures and statistics that are used to analyze the business are shown in the following table.

	2016	2015	2014
PIF (thousands)	6,099	6,174	6,106
New issued applications (thousands)	712	781	725
Average premium	\$1,177	\$1,155	\$1,140
Renewal ratio (%)	87.8	88.5	88.4
Approved rate changes ⁽¹⁾ :			
# of locations ⁽²⁾	40	36	37
Total brand (%)	1.1	⁽⁴⁾ 2.8	1.7
Location specific (%) ⁽³⁾	2.2	⁽⁴⁾ 5.0	4.7

⁽¹⁾ Includes rate changes approved based on our net cost of reinsurance. Allstate brand homeowner rate changes were cumulatively \$265 million or 3.9% in 2016 and 2015.

⁽²⁾ Allstate brand operates in 50 states, the District of Columbia, and 5 Canadian provinces.

⁽³⁾ Based on historical premiums written in the locations noted above, rate changes approved for homeowners totaled \$75 million, \$190 million and \$124 million in 2016, 2015 and 2014, respectively.

⁽⁴⁾ 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 2.1% and 5.1% in 2016, respectively.

Homeowners premiums written totaled \$6.73 billion in 2016, a 0.3% increase from \$6.71 billion in 2015. Factors impacting premiums written were the following:

1.2% or 75 thousand decrease in PIF as of December 31, 2016 compared to December 31, 2015. Allstate brand homeowners PIF increased in 17 states, including 3 out of our largest 10 states, as of December 31, 2016 compared to December 31, 2015.

8.8% decrease in new issued applications in 2016 compared to 2015. Of our largest 10 states, 8 experienced decreases in new issued applications in 2016 compared to 2015. New issued applications were relatively consistent throughout the year.

1.9% increase in average premium in 2016 compared to 2015 primarily due to rate changes and increasing insured home valuations due to inflationary costs.

0.7 point decrease in the renewal ratio in 2016 compared to 2015. Of our largest 10 states, 9 experienced decreases in the renewal ratio in 2016 compared to 2015.

\$35 million decrease in the cost of our catastrophe reinsurance program to \$335 million in 2016 from \$370 million in 2015. Catastrophe reinsurance premiums are a reduction of premium.

Premiums written for Allstate's House and Home product, our redesigned homeowners new business offering currently available in 80% of total states, totaled \$1.89 billion in 2016 compared to \$1.46 billion in 2015.

In states with severe weather and risk, our excess and surplus lines carrier North Light as well as non-proprietary products will remain a critical component to our overall homeowners strategy to profitably grow and serve our customers.

Homeowners premiums written totaled \$6.71 billion in 2015, a 2.7% increase from \$6.54 billion in 2014. Factors impacting premiums written were the following:

1.1% or 68 thousand increase in PIF as of December 31, 2015 compared to December 31, 2014 due primarily to increases in new issued applications. Allstate brand homeowners PIF increased in 32 states, including 7 out of our largest 10 states, as of December 31, 2015 compared to December 31, 2014.

7.7% increase in new issued applications to 781 thousand in 2015 from 725 thousand in 2014.

- 1.3% increase in average premium in 2015 compared to 2014 primarily due to rate changes and increasing insured home valuations due to inflationary costs. Fluctuation in the Canadian exchange rate has reduced premiums written and average premium growth rates in 2015 by 0.5 points.

0.1 point increase in the renewal ratio in 2015 compared to 2014.

\$19 million decrease in the cost of our catastrophe reinsurance program to \$370 million in 2015 from \$389 million in 2014.

Other personal lines premiums written totaled \$1.62 billion in 2016, a 2.2% increase from \$1.59 billion in 2015, following a 1.1% increase in 2015 from \$1.57 billion in 2014. The increase in 2016 was primarily due to increased average premium for condominium insurance, partially offset by a decreased volume of landlords insurance. The increase in 2015 primarily relates to renters insurance.

Commercial lines premiums written totaled \$499 million in 2016, a 3.3% decrease from \$516 million in 2015, following a 4.5% increase in 2015 from \$494 million in 2014. The decrease in 2016 was driven by decreased new business and lower renewals due to profit improvement actions. The increase in 2015 was driven by higher renewals and increased average premiums.

Other business lines premiums written totaled \$709 million in 2016, a 6.2% decrease from \$756 million in 2015, following a 5.4% increase in 2015 from \$717 million in 2014. The decrease in 2016 was driven by lower wholesale rescue volume primarily due to partner exits and lower retail memberships in force in Allstate Roadside Services and a decrease in guaranteed asset protection contracts due to rate increases in Allstate Dealer Services. The increase in 2015 was primarily due to increased sales of vehicle service contracts, guaranteed asset protection contracts, and other products at Allstate Dealer Services, partially offset by a decline in Allstate Roadside Services premiums.

Combined ratios by line of business are analyzed in the following table.

	Loss ratio ⁽¹⁾			Expense ratio ⁽¹⁾			Combined ratio		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Auto	74.5	74.5	69.2	24.1	24.4	25.5	98.6	98.9	94.7
Homeowners	61.0	55.6	58.7	22.7	23.0	23.8	83.7	78.6	82.5
Other personal lines	62.0	60.9	61.7	27.6	26.6	28.0	89.6	87.5	89.7
Commercial lines	93.9	78.4	67.0	27.8	29.4	31.1	121.7	107.8	98.1
Other business lines	43.8	46.9	48.3	51.5	47.2	44.3	95.3	94.1	92.6
Total	70.3	68.7	65.8	24.6	24.7	25.7	94.9	93.4	91.5

⁽¹⁾ Ratios are calculated using the premiums earned for the respective line of business.

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

	Loss ratio			Effect of catastrophe losses on combined ratio			Effect of prior year reserve reestimates on combined ratio			Effect of catastrophe losses included in prior year reserve reestimates on combined ratio		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Auto	74.5	74.5	69.2	2.8	1.3	1.6	(0.7)	0.2	(1.2)	(0.1)	(0.1)	(0.1)

Edgar Filing: ALLSTATE CORP - Form 10-K

Homeowners	61.0	55.6	58.7	24.6	18.3	21.4	(0.3)	(0.3)	0.4	0.1	(0.1)	1.0
Other personal lines	62.0	60.9	61.7	11.8	8.1	8.2	(0.9)	0.5	2.1	(0.2)	(0.1)	(0.2)
Commercial lines	93.9	78.4	67.0	6.9	5.1	6.1	12.2	0.4	(4.2)	1.0	1.0	0.4
Other business lines	43.8	46.9	48.3	0.2	—	—	0.7	0.4	(0.2)	—	—	—
Total	70.3	68.7	65.8	8.5	5.8	6.9	(0.4)	0.1	(0.7)	—	(0.1)	0.1

Auto loss ratio in 2016 was comparable to 2015, primarily due to increased catastrophe losses and rising loss costs, offset by increased premiums earned and favorable prior year reserve reestimates. Auto loss ratio for the Allstate brand increased 5.3 points

in 2015 compared to 2014, primarily due to higher claim frequency and severity and unfavorable reserve reestimates, partially offset by increased premiums earned and decreased catastrophe losses.

Frequency and severity statistics, which are influenced by driving patterns, inflation and other factors, 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. 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. 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 will often differ from gross claim frequency trends due to differences in the timing of when notices are received and when claims are settled. For property damage claims, paid frequency trends reflect little differences as timing between opening and settlement is minimal. For bodily injury, gross frequency trends reflect emerging trends since the difference in timing between opening and settlement is much greater and gross frequency does not experience the same volatility in quarterly fluctuations seen in paid frequency. In evaluating frequency, we typically rely upon paid frequency trends for physical damage coverages such as property damage and gross frequency for casualty coverages such as bodily injury to provide an indicator of emerging trends in overall claim frequency while also providing insights for our analysis of severity.

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 percent change in paid claim severity is calculated as the amount of increase or decrease in paid claim severity in the current period compared to the same period in the prior year; divided by the prior year paid claims severity.

Claims is undergoing continuous improvement focusing on effective loss cost management, process efficiency and leveraging emerging technologies to enhance the customer experience to ensure our claim processes result in an easy settlement experience that is fast and fair. While this is occurring, frequency and severity statistics may be impacted by claims organizational and process changes, which started in the second half of 2016 and are anticipated to continue for several years. Changes in claim opening and closing practices, if any, can impact claim frequency and severity comparisons to prior periods.

Bodily injury gross claim frequency increased 0.5% in 2016 compared to 2015. Bodily injury paid claim frequency decreased 7.9% while bodily injury paid claim severity increased 4.7% in 2016 compared to 2015. These changes are related and reflect payment mix and claim closure patterns that were impacted by changes in bodily injury claim processes in the second half of 2016 related to enhanced documentation of injuries and related medical treatments. Paid claim severity was impacted by increases in medical inflationary trends that were offset by improvements in loss cost management.

Property damage paid claim frequency increased 0.3% in 2016 compared to 2015. Approximately 30% of individual states experienced a year over year increase in property damage paid claim frequency in 2016 when compared to 2015. Property damage paid claim severities increased 4.1% in 2016 compared to 2015 due to the impact of higher costs to repair more sophisticated newer model vehicles and increased volume of total losses.

Homeowners loss ratio increased 5.4 points to 61.0 in 2016 from 55.6 in 2015, primarily due to higher catastrophe losses, partially offset by increases in premiums earned. Paid claim frequency excluding catastrophe losses decreased 4.3% in 2016 compared to 2015. Paid claim severity excluding catastrophe losses increased 0.9% in 2016 compared to 2015. Homeowner paid claim severity can be impacted by both the mix of perils and the magnitude of specific losses paid during the year. Homeowners loss ratio decreased 3.1 points to 55.6 in 2015 from 58.7 in 2014, primarily due to lower catastrophe losses, decreased claim frequency excluding catastrophe losses and increased premiums earned.

Claim frequency excluding catastrophe losses decreased 2.3% in 2015 compared to 2014. Paid claim severity excluding catastrophe losses increased 4.3% in 2015 compared to 2014.

Commercial lines loss ratio increased 15.5 points in 2016 compared to 2015, primarily due to higher unfavorable prior year reserve reestimates, higher claim severity and higher catastrophe losses. Commercial lines loss ratio increased 11.4 points in 2015 compared to 2014.

Catastrophe losses were \$2.43 billion in 2016 compared to \$1.59 billion in 2015 and \$1.81 billion in 2014.

Expense ratio The expense ratios by line of business are shown in the following table.

	2016	2015	2014
Auto	24.1	24.4	25.5
Homeowners	22.7	23.0	23.8
Other personal lines	27.6	26.6	28.0
Commercial lines	27.8	29.4	31.1
Other business lines	51.5	47.2	44.3
Total expense ratio	24.6	24.7	25.7

The impact of specific costs and expenses on the expense ratio are shown in the following table.

	2016	2015	2014
Amortization of DAC	14.1	14.0	13.7
Advertising expense	2.1	2.0	2.5
Other costs and expenses	8.3	8.6	9.5
Restructuring and related charges	0.1	0.1	—
Total expense ratio	24.6	24.7	25.7

Expense ratio decreased 0.1 point in 2016 compared to 2015. The decrease primarily related to expense spending reductions in professional services and lower compensation incentives earned by employees in 2016, 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 2016 were higher than 2015.

Expense ratio decreased 1.0 point in 2015 compared to 2014. The decrease primarily related to expense spending reductions in advertising and professional services costs, partially offset by an increase in the amortization of acquisition costs. Expense reductions were primarily related to actions that could be modified as margins return to targeted underwriting results. Allstate agency total incurred base commissions, variable compensation and bonuses in 2015 were higher than 2014.

Esurance brand

Strategy Our strategy for the Esurance brand focuses on self-directed customers. To best serve these customers, Esurance develops its technology, website and mobile capabilities to continuously improve its hassle-free purchase and claims experience and offer innovative product options and features. Esurance continues to develop additional products to complement its auto line of business and provide a more comprehensive solution to its customers. Esurance also continues to invest in geographic expansion of its products. Esurance expanded its homeowners products in 2016 from 25 to 31 states and renters from 20 to 21 states. Esurance continues to focus on increasing its preferred driver mix, while raising marketing effectiveness to support growth and profitability. Esurance's DriveSense® program, available in 32 states as of December 31, 2016, enables participating customers to be eligible for discounts based on driving performance as measured by a device installed in the vehicle or a mobile application. Esurance Pay Per Mile® usage-based insurance product was launched in 2015 and gives customers flexibility to customize their insurance and pay based on the number of miles they drive.

Underwriting results are shown in the following table.

(\$ in millions)	2016	2015	2014
Premiums written	\$1,689	\$1,613	\$1,513
Premiums earned	\$1,660	\$1,588	\$1,463
Claims and claims expense	(1,258)	(1,192)	(1,123)
Amortization of DAC	(41)	(40)	(40)
Other costs and expenses	(485)	(520)	(559)
Restructuring and related charges	—	—	—
Underwriting loss	\$(124)	\$(164)	\$(259)
Catastrophe losses	\$36	\$14	\$19

Edgar Filing: ALLSTATE CORP - Form 10-K

Underwriting income (loss) by line of business

Auto	\$(65)	\$(145)	\$(256)
Homeowners	(59)	(19)	1
Other personal lines	—	—	(4)
Underwriting loss	\$(124)	\$(164)	\$(259)

49

The following table summarizes the changes in underwriting results from the prior year by the components of the increase (decrease) in underwriting income (loss). The 2016 column presents changes in 2016 compared to 2015. The 2015 column presents changes in 2015 compared to 2014.

(\$ in millions)	2016	2015
Underwriting loss - prior year	\$(164)	\$(259)
Changes in underwriting loss from:		
Premiums earned	72	125
Incurred claims and claims expense ("losses"):		
Incurred losses, excluding catastrophe losses and reserve reestimates	(47)	(76)
Catastrophe losses, excluding reserve reestimates	(23)	6
Non-catastrophes reserve reestimates	3	2
Catastrophes reserve reestimates	1	(1)
Total reserve reestimates	4	1
Losses subtotal - loss	(66)	(69)
Expenses	34	39
Underwriting loss	\$(124)	\$(164)

Our underwriting results were impacted by profit improvement actions that include rate increases, underwriting guideline adjustments, and decreased marketing in select geographies to manage risks.

Underwriting loss totaled \$124 million in 2016, a 24.4% decrease from \$164 million in 2015, primarily due to improved auto underwriting losses resulting from the profit improvement plan, partially offset by an increase in homeowners underwriting losses due to higher advertising expenses. Underwriting loss totaled \$164 million in 2015, a 36.7% decrease from \$259 million in 2014, primarily due to lower auto underwriting losses resulting from profit improvement actions, partially offset by higher homeowners underwriting losses due to higher catastrophe losses.

Premiums written and earned by line of business are shown in the following table.

(\$ in millions)	2016	2015	2014
Premiums written			
Auto	\$1,625	\$1,576	\$1,499
Homeowners	56	30	9
Other personal lines	8	7	5
Total	\$1,689	\$1,613	\$1,513
Premiums earned			
Auto	\$1,610	\$1,562	\$1,455
Homeowners	42	19	3
Other personal lines	8	7	5
Total	\$1,660	\$1,588	\$1,463

Auto premium measures and statistics that are used to analyze the business are shown in the following table.

	2016	2015	2014
PIF (thousands)	1,391	1,415	1,424
New issued applications (thousands)	597	627	747
Average premium	\$ 547	\$ 516	\$ 499
Renewal ratio (%)	79.4	79.5	79.5
Approved rate changes ⁽¹⁾ :			
# of locations ⁽²⁾	33	37	38
Total brand (%) ⁽³⁾	4.2	7.1	6.0
Location specific (%) ^{(4) (5)}	6.1	9.3	6.9

Rate changes that are indicated based on loss trend analysis to achieve a targeted return will continue to be

- (1) 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.
- (2) Esurance brand operates in 43 states and 1 Canadian province.
- (3) Represents the impact in the states and Canadian provinces where rate changes were approved during the period as a percentage of total brand prior year-end premiums written.
- (4) Represents the impact in the states 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.
- (5) Based on historical premiums written in the locations noted above, rate changes approved for auto for Esurance brand totaled \$65 million, \$106 million and \$77 million in 2016, 2015 and 2014, respectively.

Auto premiums written totaled \$1.63 billion in 2016, a 3.1% increase from \$1.58 billion in 2015. Factors impacting premiums written were the following:

- 1.7% or 24 thousand decrease in PIF as of December 31, 2016 compared to December 31, 2015.
- 4.8% decrease in new issued applications in 2016 compared to 2015 due to a decrease in marketing activities and the impact of rate increases. Quote volume decreased due to marketing spending reductions. The conversion rate (the percentage of actual issued policies to completed quotes) increased 0.1 points in 2016 compared to 2015.
- 6.0% increase in average premium in 2016 compared to 2015.
- 0.1 point decrease in the renewal ratio in 2016 compared to 2015 primarily due to continued pressure from rate actions.

Auto premiums written totaled \$1.58 billion in 2015, a 5.1% increase from \$1.50 billion in 2014. Factors impacting premiums written were the following:

- 0.6% or 9 thousand decrease in PIF as of December 31, 2015 compared to December 31, 2014.
- 16.1% decrease in new issued applications to 627 thousand in 2015 from 747 thousand in 2014 due to a decrease in marketing activities and an increase in rates. Quote volume declined reflecting lower advertising spend. The conversion rate (the percentage of actual issued policies to completed quotes) decreased 0.3 points in 2015 compared to 2014.
- 3.4% increase in average premium in 2015 compared to 2014.
- The renewal ratio in 2015 was comparable to 2014.

Homeowners premium measures and statistics that are used to analyze the business are shown in the following table.

	2016	2015	2014
PIF (thousands)	58	32	10
New issued applications (thousands)	37	28	11
Average premium	\$ 875	\$ 833	\$ 811
Renewal ratio (%) ⁽¹⁾	76.6	72.7	N/A
Approved rate changes ⁽²⁾ :			
# of locations ⁽³⁾	1	N/A	N/A
Total brand (%) ⁽⁴⁾	(0.5)	N/A	N/A
Location specific (%) ⁽⁴⁾	(10.0)	N/A	N/A

-
- Esurance's renewal 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 renewal ratio was 82.6 in 2016 compared to 81.9 in 2015.
- (1) Includes rate changes approved based on our net cost of reinsurance.
 - (2) Esurance brand operates in 31 states and 2 Canadian provinces.
 - (3) Includes the impact of a rate decrease in Texas. No rate changes were approved in any other states in 2016. No rate changes were approved for homeowners in 2015 or 2014.
 - (4) N/A reflects not applicable.

Homeowners premiums written totaled \$56 million in 2016 compared to \$30 million in 2015. Factors impacting premiums written were the following:

- 26 thousand increase in PIF as of December 31, 2016 compared to December 31, 2015.
- 9 thousand increase in new issued applications in 2016 compared to 2015.
- As of December 31, 2016, Esurance is writing homeowners insurance in 31 states with lower hurricane risk that have lower average premium.

Homeowners premiums written totaled \$30 million in 2015 compared to \$9 million in 2014. Factors impacting premiums written were the following:

- 22 thousand increase in PIF as of December 31, 2015 compared to December 31, 2014.
- New issued applications totaled 28 thousand in 2015 compared to 11 thousand in 2014.
- As of December 31, 2015, Esurance is writing homeowners insurance in 25 states with lower hurricane risk that have lower average premium.

Combined ratios by line of business are analyzed in the following table.

	Loss ratio ⁽¹⁾			Expense ratio ⁽¹⁾			Combined ratio		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Auto	75.8	75.3	76.8	28.2	34.0	40.8	104.0	109.3	117.6
Homeowners	78.6	63.2	66.7	161.9	136.8	—	240.5	200.0	66.7
Other personal lines	62.5	57.1	60.0	37.5	42.9	120.0	100.0	100.0	180.0
Total	75.8	75.1	76.8	31.7	35.2	40.9	107.5	110.3	117.7

⁽¹⁾ Ratios are calculated using the premiums earned for the respective line of business.

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

	Loss ratio			Effect of catastrophe losses on combined ratio			Effect of prior year reserve reestimates on combined ratio			Effect of catastrophe losses included in prior year reserve reestimates on combined ratio		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Auto	75.8	75.3	76.8	1.5	0.7	1.3	(1.3)	(1.1)	(1.1)	—	—	—
Homeowners	78.6	63.2	66.7	28.6	15.8	—	—	—	—	—	—	—
Other personal lines	62.5	57.1	60.0	—	—	—	—	—	—	—	—	—
Total	75.8	75.1	76.8	2.2	0.9	1.3	(1.3)	(1.1)	(1.1)	—0.1	—	—

Auto loss ratio increased 0.5 points in 2016 compared to 2015, primarily due to higher claim frequency and catastrophe losses, partially offset by increases in premiums earned. Auto loss ratio decreased 1.5 points in 2015 compared to 2014, primarily due to increases in premiums earned and lower catastrophe losses, partially offset by higher claim frequency and severity across several coverages.

Catastrophe losses were \$36 million in 2016 compared to \$14 million in 2015 and \$19 million in 2014.

Expense ratio The expense ratios by line of business are shown in the following table.

	2016	2015	2014
Auto	28.2	34.0	40.8
Homeowners	161.9	136.8	—
Other personal lines	37.5	42.9	120.0
Total expense ratio	31.7	35.2	40.9

The impact of specific costs and expenses on the expense ratio are shown in the following table.

	2016	2015	2014
Amortization of DAC	2.5	2.5	2.7

Edgar Filing: ALLSTATE CORP - Form 10-K

Advertising expense	11.2	12.6	17.4
Amortization of purchased intangible assets	1.4	2.2	3.3
Other costs and expenses	16.6	17.9	17.5
Total expense ratio	31.7	35.2	40.9

Expense ratio decreased 3.5 points in 2016 compared to 2015. Esurance uses a direct distribution model, therefore its primary acquisition-related costs are advertising as opposed to commissions. Esurance has continued to invest in growth, including offering

a comprehensive suite of products including homeowners, motorcycle and usage-based insurance as well as expanding into the Canadian market. Esurance advertising expense ratio decreased 1.4 points in 2016 compared to 2015 in conjunction with our profitability actions. Strategic reductions in marketing spending have been made on auto while homeowners advertising spending was increased. We manage the direct to customer business based on its profitability over the lifetime of the customer relationship. We continue to review our advertising spend to ensure our acquisition costs meet our targeted returns. Esurance incurs substantially all of its acquisition costs in the year of policy inception. As a result, the Esurance expense ratio will be higher or lower depending on the advertising expenditures incurred related to our profitability actions. Esurance's annual combined ratio is below 100, excluding amortization of purchased intangible assets, after the year of policy inception (in which substantially all acquisition costs are incurred), driven by pricing changes, customer mix and renewal experience. Other costs and expenses, including salaries of telephone sales personnel and other underwriting costs related to customer acquisition, were lower in 2016 than 2015. Expense ratio includes amortization of purchased intangible assets from the original acquisition in 2011. Starting in 2017, the portion of the remaining purchased intangible asset related to the Esurance brand name will be classified as an infinite-lived intangible and will no longer be amortized, but tested for impairment on an annual basis. Expense ratio decreased 5.7 points in 2015 compared to 2014. Advertising expenses decreased in 2015 compared to 2014 in conjunction with our profitability actions. Other costs and expenses, including salaries of telephone sales personnel and other underwriting costs related to customer acquisition, were higher in 2015 than 2014.

Encompass brand

Strategy Our strategy for the Encompass brand centers around offering broad coverage options specifically focused on the customers who prefer an independent agency while simplifying the insurance experience by packaging products into a single annual household ("package") policy with one premium, one bill, one policy deductible, one renewal date and one advisor - an independent insurance agent. Package policies represent over 85% of premiums written where they are offered, with concentrations in suburban and urban areas throughout the country. Package policies currently are not offered in Massachusetts, North Carolina and Texas. In pursuit of this strategy and to achieve its financial objectives, Encompass is partnering with dedicated independent agency professionals who understand the needs of our coverage conscious customers and the value of the Encompass products. Agency segmentation and strategic deployment are a continued focus, as are improved sales leader effectiveness and accountability. Encompass is focused on improving returns while building a foundation for future growth. We seek to achieve these goals in 2017 by continuing to implement profit improvement actions in states with inadequate returns, continuing to contemporize product offerings, and maintaining focus on claims operational excellence, while accelerating growth in markets achieving target returns.

Underwriting results are shown in the following table.

(\$ in millions)	2016	2015	2014
Premiums written	\$1,140	\$1,244	\$1,280
Premiums earned	\$1,202	\$1,269	\$1,247
Claims and claims expense	(855)	(933)	(948)
Amortization of DAC	(221)	(234)	(234)
Other costs and expenses	(124)	(127)	(138)
Restructuring and related charges	(1)	(1)	(3)
Underwriting income (loss)	\$1	\$(26)	\$(76)
Catastrophe losses	\$111	\$111	\$165

Underwriting income (loss) by line of business

Auto	\$(29)	\$(36)	\$(46)
Homeowners	36	32	(24)
Other personal lines	(6)	(22)	(6)
Underwriting income (loss)	\$1	\$(26)	\$(76)

The following table summarizes the changes in underwriting results from the prior year by the components of the increase (decrease) in underwriting income (loss). The 2016 column presents changes in 2016 compared to 2015. The 2015 column presents changes in 2015 compared to 2014.

(\$ in millions)	2016	2015
Underwriting loss - prior year	\$(26)	\$(76)
Changes in underwriting loss from:		
Premiums earned	(67)	22
Incurred claims and claims expense ("losses"):		
Incurred losses, excluding catastrophe losses and reserve reestimates	74	(19)
Catastrophe losses, excluding reserve reestimates	2	50
Non-catastrophes reserve reestimates	4	(20)
Catastrophes reserve reestimates	(2)	4
Total reserve reestimates	2	(16)
Losses subtotal - income	78	15
Expenses	16	13
Underwriting income (loss)	\$1	\$(26)

Underwriting income totaled \$1 million in 2016, an improvement from an underwriting loss of \$26 million in 2015, primarily due to lower underwriting losses on other personal lines and auto and higher underwriting income on homeowners resulting from lower loss costs and expenses. Underwriting loss totaled \$26 million in 2015, a 65.8% decrease from \$76 million in 2014, primarily due to higher homeowners underwriting income resulting from lower catastrophe losses, partially offset by higher underwriting losses on other personal lines.

Our underwriting results were impacted by our profit improvement actions that are being implemented in states with inadequate returns, while targeted growth plans are being focused on states with adequate returns. These actions are tailored based on geography and include higher rates, enhanced pricing and underwriting sophistication, adopting best in class underwriting and claim processes, enhanced product analytics, and a focus on geographic presence and product distribution.

Premiums written and earned by line of business are shown in the following table.

(\$ in millions)	2016	2015	2014
Premiums written			
Auto	\$591	\$641	\$665
Homeowners	454	497	506
Other personal lines	95	106	109
Total	\$1,140	\$1,244	\$1,280
Premiums earned			
Auto	\$623	\$657	\$655
Homeowners	479	504	486
Other personal lines	100	108	106
Total	\$1,202	\$1,269	\$1,247

Auto premium measures and statistics that are used to analyze the business are shown in the following table.

	2016	2015	2014
PIF (thousands)	622	723	790
New issued applications (thousands)	54	82	135
Average premium	\$1,008	\$945	\$895
Renewal ratio (%)	74.4	77.3	79.7
Approved rate changes ⁽¹⁾ :			
# of locations ⁽²⁾	24	30	29
Total brand (%) ⁽³⁾	10.5	9.4	6.6
Location specific (%) ⁽⁴⁾⁽⁵⁾	14.3	11.1	7.9

Rate changes that are indicated based on loss trend analysis to achieve a targeted return will continue to be

(1) 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.

(2) Encompass brand operates in 40 states and the District of Columbia.

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

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

(5) Based on historical premiums written in the locations noted above, rate changes approved for auto totaled \$68 million, \$63 million and \$44 million in 2016, 2015 and 2014, respectively.

Auto premiums written totaled \$591 million in 2016, a 7.8% decrease from \$641 million in 2015. Factors impacting premiums written were the following:

• 4.0% or 101 thousand decrease in PIF as of December 31, 2016 compared to December 31, 2015.

• 4.1% decrease in new issued applications in 2016 compared to 2015.

• 6.7% increase in average premium in 2016 compared to 2015.

• 2.9 point decrease in the renewal ratio in 2016 compared to 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.

Auto premiums written totaled \$641 million in 2015, a 3.6% decrease from \$665 million in 2014. Factors impacting premiums written were the following:

• 8.5% or 67 thousand decrease in PIF as of December 31, 2015 compared to December 31, 2014.

• 9.3% decrease in new issued applications to 82 thousand in 2015 from 135 thousand in 2014.

• 5.6% increase in average premium in 2015 compared to 2014.

• 2.4 point decrease in the renewal ratio in 2015 compared to 2014.

Homeowners premium measures and statistics that are used to analyze the business are shown in the following table.

	2016	2015	2014
PIF (thousands)	295	338	365
New issued applications (thousands)	34	48	70
Average premium	\$1,639	\$1,555	\$1,457
Renewal ratio (%)	79.4	82.5	85.6
Approved rate changes ⁽¹⁾ :			
# of locations ⁽²⁾	19	27	23
Total brand (%)	5.1	6.5	4.7
Location specific (%) ⁽³⁾	9.0	8.8	8.9

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

(2) Encompass brand operates in 40 states and the District of Columbia.

(3)

Based on historical premiums written in the locations noted above, rate changes approved for homeowner totaled \$27 million, \$35 million and \$23 million in 2016, 2015 and 2014, respectively. Homeowners premiums written totaled \$454 million in 2016, an 8.7% decrease from \$497 million in 2015. Factors impacting premiums written were the following:

- 12.7% or 43 thousand decrease in PIF as of December 31, 2016 compared to December 31, 2015.
- 29.2% decrease in new issued applications in 2016 compared to 2015.
- 5.4% increase in average premium in 2016 compared to 2015, primarily due to rate changes.

3.1 point decrease in the renewal ratio in 2016 compared to 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 \$497 million in 2015, a 1.8% decrease from \$506 million in 2014. Factors impacting premiums written were the following:

7.4% or 27 thousand decrease in PIF as of December 31, 2015 compared to December 31, 2014.

31.4% decrease in new issued applications to 48 thousand in 2015 from 70 thousand in 2014.

6.7% increase in average premium in 2015 compared to 2014.

3.1 point decrease in the renewal ratio in 2015 compared to 2014.

Combined ratios by line of business are analyzed in the following table.

	Loss ratio ⁽¹⁾			Expense ratio ⁽¹⁾			Combined ratio		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Auto	76.1	77.0	77.1	28.6	28.5	29.9	104.7	105.5	107.0
Homeowners	63.5	64.9	74.7	29.0	28.8	30.2	92.5	93.7	104.9
Other personal lines	77.0	92.6	75.5	29.0	27.8	30.2	106.0	120.4	105.7
Total	71.1	73.5	76.0	28.8	28.5	30.1	99.9	102.0	106.1

⁽¹⁾ Ratios are calculated using the premiums earned for the respective line of business.

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

	Loss ratio			Effect of catastrophe losses on combined ratio			Effect of prior year reserve reestimates on combined ratio			Effect of catastrophe losses included in prior year reserve reestimates on combined ratio		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Auto	76.1	77.0	77.1	1.6	1.1	3.2	—	0.3	(2.0)	(0.4)	(0.1)	(0.2)
Homeowners	63.5	64.9	74.7	20.3	19.3	28.2	—	(1.0)	0.4	0.5	(0.2)	0.7
Other personal lines	77.0	92.6	75.5	4.0	6.5	6.6	5.0	9.3	1.9	—	—	—
Total	71.1	73.5	76.0	9.2	8.7	13.2	0.4	0.6	(0.7)	—	(0.1)	0.1

Auto loss ratio decreased 0.9 points in 2016 compared to 2015, primarily due to lower loss costs, partially offset by higher catastrophe losses. Auto loss ratio decreased 0.1 points in 2015 compared to 2014, primarily due to lower catastrophe losses and increased premiums earned.

Homeowners loss ratio decreased 1.4 points in 2016 compared to 2015, primarily due to lower claim frequency.

Homeowners loss ratio decreased 9.8 points in 2015 compared to 2014, primarily due to lower catastrophe losses and increased premiums earned.

Catastrophe losses were \$111 million in 2016 compared to \$111 million in 2015 and \$165 million in 2014.

Expense ratio The expense ratios by line of business are shown in the following table.

	2016	2015	2014
Auto	28.6	28.5	29.9
Homeowners	29.0	28.8	30.2
Other personal lines	29.0	27.8	30.2
Total expense ratio	28.8	28.5	30.1

The impact of specific costs and expenses on the expense ratio are shown in the following table.

	2016	2015	2014
Amortization of DAC	18.4	18.4	18.8
Advertising expense	0.2	0.4	0.4
Other costs and expenses	10.1	9.6	10.7
Restructuring and related charges	0.1	0.1	0.2

Total expense ratio 28.8 28.5 30.1

Expense ratio increased 0.3 points in 2016 compared to 2015 primarily due to increased spending in professional services, partially offset by expense spending reductions in advertising and marketing. The Encompass brand DAC amortization rate is higher on average than Allstate brand DAC amortization due to higher commission rates paid to independent agencies.

56

Expense ratio decreased 1.6 points in 2015 compared to 2014 primarily due to agency compensation, employee compensation and technology costs.

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.

Discontinued Lines and Coverages outlook

We may continue to experience asbestos and/or environmental losses in the future. These losses could be due to the potential adverse impact of new information relating to new and additional claims or the impact of resolving unsettled claims based on unanticipated events such as arbitrations, litigation, legislative, judicial or regulatory actions. Environmental losses may also increase as the result of additional funding for environmental site cleanup. Because of our annual review, we believe that our reserves are appropriately established based on available information, technology, laws and regulations.

- We anticipate progress in the resolution of certain bankruptcies related to insureds with asbestos claims, reducing the industry's asbestos related claims exposures.

We continue to address challenges related to the concentration of insurance and reinsurance industry legacy claims into companies who specialize in the runoff of this business.

Summarized underwriting results for the years ended December 31 are presented in the following table.

(\$ in millions)	2016	2015	2014
Premiums written	\$3	\$—	\$1
Premiums earned	\$—	\$—	\$1
Claims and claims expense	(105)	(53)	(113)
Operating costs and expenses	(2)	(2)	(3)
Underwriting loss	\$(107)	\$(55)	\$(115)

Underwriting losses of \$107 million in 2016 primarily related to our annual reserve 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. The cost of administering claims settlements totaled \$9 million for 2016, \$10 million for 2015, and \$10 million for 2014.

Underwriting losses of \$55 million in 2015 primarily related to our annual reserve 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.

Underwriting losses of \$115 million in 2014 primarily related to our annual reserve review resulting in unfavorable reestimates of \$102 million, including an \$87 million unfavorable reestimate of asbestos reserves, a \$15 million unfavorable reestimate of environmental reserves and a \$3 million increase in the allowance for future uncollectible reinsurance, partially offset by a \$3 million favorable reestimate of other exposure reserves.

See the Property-Liability Claims and Claims Expense Reserves section of the MD&A for a more detailed discussion.

PROPERTY-LIABILITY INVESTMENT RESULTS

Net investment income The following table presents net investment income.

(\$ in millions)	2016	2015	2014
Fixed income securities	\$882	\$885	\$860
Equity securities	95	81	95
Mortgage loans	12	15	17
Limited partnership interests	269	262	346
Short-term investments	9	5	4
Other	89	75	65
Investment income, before expense	1,356	1,323	1,387
Investment expense	(90)	(86)	(86)
Net investment income	\$1,266	\$1,237	\$1,301

Net investment income increased 2.3% or \$29 million to \$1.27 billion in 2016 from \$1.24 billion in 2015 after decreasing 4.9% in 2015 compared to 2014. The 2016 increase was primarily due to higher equity dividends and higher limited partnership income. The 2015 decrease was primarily due to lower limited partnership income, a decline in average investment balances and lower prepayment fee income and litigation proceeds, partially offset by higher taxable fixed income portfolio yields.

The average pre-tax investment yields for the years ended December 31 are presented in the following table. Pre-tax yield is calculated as 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 (depreciation and direct expenses of the assets reported in investment expense). For investments carried at fair value, investment balances exclude unrealized capital gains and losses.

	2016	2015	2014
Fixed income securities: tax-exempt	2.1 %	2.4 %	2.6 %
Fixed income securities: tax-exempt equivalent	3.1	3.5	3.8
Fixed income securities: taxable	3.1	3.1	2.9
Equity securities	2.8	2.9	2.9
Mortgage loans	3.9	4.5	4.3
Limited partnership interests	9.6	10.4	13.1
Total portfolio	3.4	3.4	3.6

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

(\$ in millions)	2016	2015	2014
Impairment write-downs	\$(130)	\$(132)	\$(21)
Change in intent write-downs	(56)	(156)	(169)
Net other-than-temporary impairment losses recognized in earnings	(186)	(288)	(190)
Sales and other	185	85	789
Valuation and settlements of derivative instruments	(5)	(34)	(50)
Realized capital gains and losses, pre-tax	(6)	(237)	549
Income tax benefit (expense)	6	83	(192)
Realized capital gains and losses, after-tax	\$—	\$(154)	\$357

Realized capital gains and losses in 2016 primarily related to impairment and change in intent write-downs, offset by net gains on sales.

PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE RESERVES

Property-Liability underwriting results are significantly influenced by estimates of property-liability claims and claims expense reserves. For a description of our reserve process, see Note 8 of the consolidated financial statements and for a further description of our reserving policies and the potential variability in our reserve estimates, see the Application of Critical Accounting Estimates section of the MD&A. These reserves are an estimate of amounts necessary to settle all outstanding claims, including incurred but not reported (“IBNR”) claims, as of the reporting date.

The facts and circumstances leading to our reestimates of reserves relate to revisions to the development factors used to predict how losses are likely to develop from the end of a reporting period until all claims have been paid.

Reestimates occur because actual losses are likely different than those predicted by the estimated development factors used in prior reserve estimates. As of December 31, 2016, the impact of a reserve reestimation corresponding to a one percent increase or decrease in net reserves would be a decrease or increase of approximately \$124 million in net income applicable to common shareholders.

We believe the net loss reserves for Allstate Protection exposures are appropriately established based on available facts, technology, laws and regulations.

The table below shows total reserves net of reinsurance recoverables (“net reserves”) as of December 31 by line of business.

(\$ in millions)	2016	2015	2014
Allstate brand	\$16,132	\$14,974	\$14,214
Esurance brand	740	717	649
Encompass brand	749	770	754
Total Allstate Protection	17,621	16,461	15,617
Discontinued Lines and Coverages	1,445	1,516	1,612
Total Property-Liability	\$19,066	\$17,977	\$17,229

The year-end 2016 gross reserves of \$25.25 billion for property-liability insurance claims and claims expense, as determined under GAAP, were \$7.53 billion more than the net reserve balance of \$17.72 billion recorded on the basis of statutory accounting practices for reports provided to state regulatory authorities. The principal differences are reinsurance recoverables from third parties totaling \$6.18 billion, including \$4.95 billion related to the Michigan Catastrophic Claims Association (“MCCA”), that reduce reserves for statutory reporting but are recorded as assets for GAAP reporting, and a liability for the reserves of the Canadian subsidiaries for \$1.21 billion which are a component of our GAAP reserves, but not included in our US statutory reserves. Remaining differences are due to variations in requirements between GAAP and statutory reporting.

The tables below show net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2016, 2015 and 2014 and the effect of reestimates in each year.

(\$ in millions)	January 1 reserves								
	2016	2015	2014	2016		2015		2014	
				Reserve reestimate (1)	Effect on combined ratio (2)	Reserve reestimate (1)	Effect on combined ratio (2)	Reserve reestimate (1)	Effect on combined ratio (2)
Allstate brand	\$14,974	\$14,214	\$14,225	\$(106)	(0.3)	\$38	0.1	\$(171)	(0.6)
Esurance brand	717	649	575	(21)	(0.1)	(17)	—	(16)	(0.1)
Encompass brand	770	754	747	5	—	7	—	(9)	—
Total Allstate Protection	16,461	15,617	15,547	(122)	(0.4)	28	0.1	(196)	(0.7)
Discontinued Lines and Coverages	1,516	1,612	1,646	105	0.3	53	0.2	112	0.4
Total Property-Liability	\$17,977	\$17,229	\$17,193	\$(17)	(0.1)	\$81	0.3	\$(84)	(0.3)
Reserve reestimates, after-tax				\$(11)		\$53		\$(55)	
Consolidated net income applicable to common shareholders				\$1,761		\$2,055		\$2,746	
Reserve reestimates as a % impact on consolidated net income applicable to common shareholders				0.6 %		(2.6)%		2.0 %	

(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 \$6 million unfavorable, \$15 million favorable and \$43 million unfavorable in 2016, 2015 and 2014, respectively.

The following tables reflect the accident years to which the reestimates shown above are applicable. Favorable reserve reestimates are shown in parentheses.

2016 Prior year reserve reestimates

(\$ in millions)	2006										
	& prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Allstate brand	\$1	\$3	\$(11)	\$2	\$7	\$(13)	\$(52)	\$(69)	\$(40)	\$66	\$(106)
Esurance brand	—	1	(5)	(1)	(1)	(1)	(3)	(5)	(9)	3	(21)
Encompass brand	(1)	(2)	(4)	(4)	(4)	(10)	7	3	14	6	5
Total Allstate Protection	—	2	(20)	(3)	2	(24)	(48)	(71)	(35)	75	(122)
Discontinued Lines and Coverages	105	—	—	—	—	—	—	—	—	—	105
Total Property-Liability	\$105	\$2	\$(20)	\$(3)	\$2	\$(24)	\$(48)	\$(71)	\$(35)	\$75	\$(17)

2015 Prior year reserve reestimates

(\$ in millions)	2005										
	& prior	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Allstate brand	\$39	\$(1)	\$(17)	\$(15)	\$(58)	\$(21)	\$(74)	\$(29)	\$42	\$172	\$38
Esurance brand	—	(1)	(1)	(1)	(1)	(1)	(3)	(2)	(5)	(2)	(17)
Encompass brand	(2)	(2)	(2)	(2)	(1)	(2)	1	2	12	3	7

Edgar Filing: ALLSTATE CORP - Form 10-K

Total Allstate Protection	37	(4)	(20)	(18)	(60)	(24)	(76)	(29)	49	173	28
Discontinued Lines and Coverages	53	—	—	—	—	—	—	—	—	—	53
Total Property-Liability	\$90	\$(4)	\$(20)	\$(18)	\$(60)	\$(24)	\$(76)	\$(29)	\$49	\$173	\$81

2014 Prior year reserve reestimates

(\$ in millions)	2004										
	&	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	prior										
Allstate brand	\$ (38)	\$ (10)	\$ (11)	\$ 2	\$ (20)	\$ 37	\$ (86)	\$ (35)	\$ (99)	\$ 89	\$ (171)
Esurance brand	—	—	—	—	—	—	—	(9)	6	(13)	(16)
Encompass brand	2	1	—	1	(1)	(2)	(2)	(5)	(6)	3	(9)
Total Allstate Protection	(36)	(9)	(11)	3	(21)	35	(88)	(49)	(99)	79	(196)
Discontinued Lines and Coverages	112	—	—	—	—	—	—	—	—	—	112
Total Property-Liability	\$ 76	\$ (9)	\$ (11)	\$ 3	\$ (21)	\$ 35	\$ (88)	\$ (49)	\$ (99)	\$ 79	\$ (84)

Allstate brand prior year reserve reestimates were \$106 million favorable in 2016, \$38 million unfavorable in 2015 and \$171 million favorable in 2014. In 2016, this was primarily due to severity development for auto liability coverages that was better than expected. In 2015, this was primarily due to severity development for bodily injury coverage for recent years that was more than expected and litigation settlements from older years. In 2014, this was primarily due to severity development that was better than expected.

These trends are primarily responsible for revisions to loss development factors, as described above, used to predict how losses are likely to develop from the end of a reporting period until all claims have been paid. Because these trends cause actual losses to differ from those predicted by the estimated development factors used in prior reserve estimates, reserves are revised as actuarial studies validate new trends based on the indications of updated development factor calculations.

The impact of these reestimates on the Allstate brand underwriting income is shown in the table below.

(\$ in millions)	2016	2015	2014
Reserve reestimates	\$(106)	\$38	\$(171)
Allstate brand underwriting income	1,447	1,812	2,235
Reserve reestimates as a % impact on underwriting income	7.3 %	(2.1)%	7.7 %

Esurance brand prior year reserve reestimates were \$21 million favorable in 2016, \$17 million favorable in 2015 and \$16 million favorable in 2014. In 2016, 2015 and 2014, this was primarily due to severity development that was better than expected for liability coverages.

The impact of these reestimates on the Esurance brand underwriting loss is shown in the table below.

(\$ in millions)	2016	2015	2014
Reserve reestimates	\$(21)	\$(17)	\$(16)
Esurance brand underwriting loss	(124)	(164)	(259)
Reserve reestimates as a % impact on underwriting loss	16.9 %	10.4 %	6.2 %

Encompass brand prior year reserve reestimates were \$5 million unfavorable in 2016, \$7 million unfavorable in 2015 and \$9 million favorable in 2014. In 2016 and 2015, this was primarily due to severity development that was more than expected for personal umbrella policies. In 2014, this was primarily due to severity development that was better than expected.

The impact of these reestimates on the Encompass brand underwriting income (loss) is shown in the table below.

(\$ in millions)	2016	2015	2014
Reserve reestimates	\$ 5	\$ 7	\$(9)
Encompass brand underwriting income (loss)	1	(26)	(76)
Reserve reestimates as a % impact on underwriting income (loss)	N/A	(26)%	11.8%

N/A reflects not applicable.

Loss Reserve Reestimates

The following Loss Reserve Reestimates table illustrates the change over time of the net reserves established for property-liability insurance claims and claims expense at the end of the last eleven calendar years. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to that reserve liability. The third section, reading down, shows retroactive reestimates of the original recorded reserve as of the end of each successive year

which is the result of Allstate's expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest reestimated reserve to the reserve originally established, and indicates whether the original reserve was adequate to cover the estimated costs of unsettled claims. The table also presents the gross reestimated liability as of the end of the latest reestimation period, with separate disclosure of the related reestimated reinsurance recoverable.

Edgar Filing: ALLSTATE CORP - Form 10-K

The Loss Reserve Reestimates table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years. Unfavorable reserve reestimates are shown in this table in parentheses.

(\$ in millions)	Loss Reserve Reestimates								
	December 31, 2006 & prior	2007	2008	2009	2010	2011	2012	2013	2014
Gross reserves for unpaid claims and claims expense	\$18,866	\$18,865	\$19,456	\$19,167	\$19,468	\$20,375	\$21,288	\$21,857	\$22,923
Reinsurance recoverable	2,256	2,205	2,274	2,139	2,072	2,588	4,010	4,664	5,694
Reserve for unpaid claims and claims expense	16,610	16,660	17,182	17,028	17,396	17,787	17,278	17,193	17,229
Paid (cumulative) as of:									
One year later	6,684	6,884	6,995	6,571	6,302	6,435	6,338	6,468	6,626
Two years later	9,957	9,852	10,069	9,491	9,396	9,513	9,511	9,686	9,774
Three years later	11,837	11,761	11,915	11,402	11,287	11,467	11,477	11,586	
Four years later	12,990	12,902	13,071	12,566	12,497	12,650	12,651		
Five years later	13,723	13,628	13,801	13,323	13,239	13,405			
Six years later	14,239	14,154	14,305	13,823	13,778				
Seven years later	14,657	14,543	14,702	14,248					
Eight years later	14,985	14,887	15,070						
Nine years later	15,283	15,225							
Ten years later	15,600								
Reserve reestimated as of:									
End of year	16,610	16,660	17,182	17,028	17,396	17,787	17,278	17,193	17,229
One year later	16,438	16,830	17,070	16,869	17,061	17,122	17,157	17,109	17,310
Two years later	16,633	17,174	17,035	16,903	16,906	17,001	16,994	17,017	17,218
Three years later	17,135	17,185	17,217	16,909	16,869	16,937	16,853	16,960	
Four years later	17,238	17,393	17,260	16,892	16,854	16,825	16,867		
Five years later	17,447	17,477	17,306	16,965	16,818	16,887			
Six years later	17,542	17,560	17,344	16,953	16,904				
Seven years later	17,671	17,619	17,392	17,037					
Eight years later	17,727	17,685	17,479						
Nine years later	17,813	17,792							
Ten years later	17,918								
Initial reserve (less than) in excess of reestimated reserve:									
Amount of reestimate	(1,308)	(1,132)	(297)	(9)	492	900	411	233	11
Percent	(7.9)%	(6.8)%	(1.7)%	(0.1)%	2.8 %	5.1 %	2.4 %	1.4 %	0.1 %
Gross reestimated liability-latest	23,370	23,150	22,944	22,289	22,167	22,278	23,301	22,728	23,048

Edgar Filing: ALLSTATE CORP - Form 10-K

Reestimated recoverable-latest	5,452	5,358	5,465	5,252	5,263	5,391	6,434	5,768	5,830	
Net reestimated liability-latest	17,918	17,792	17,479	17,037	16,904	16,887	16,867	16,960	17,218	
Gross cumulative reestimate (increase) decrease	\$(4,504)	\$(4,285)	\$(3,488)	\$(3,122)	\$(2,699)	\$(1,903)	\$(2,013)	\$(871)	\$(125)	
(\$ in millions)	Amount of reestimates for each segment									
	December 31,									
	2006 & prior	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net Discontinued Lines and Coverages reestimate	\$(601)	\$(554)	\$(536)	\$(512)	\$(484)	\$(463)	\$(412)	\$(270)	\$(158)	\$(105)
Net Allstate Protection reestimate	(707)	(578)	239	503	976	1,363	823	503	169	122
Amount of reestimate (net)	\$(1,308)	\$(1,132)	\$(297)	\$(9)	\$492	\$900	\$411	\$233	\$11	\$17

As shown in the above table, the subsequent cumulative increase in the net reserves established up to December 31, 2006, in general, reflect additions to reserves in the Discontinued Lines and Coverages Segment, primarily for asbestos and environmental liabilities, which offset the effects of favorable severity trends experienced by Allstate Protection, as discussed more fully below. The cumulative increases in reserves established as of December 31, 2006 and 2007 are due to the shift of reserves to older accident years attributable to a reallocation of reserves related to employee postretirement benefits to more accident years, litigation settlements, reclassification of injury and non-injury reserves to older years along with reserve strengthening as discussed below.

The following table is derived from the Loss Reserve Reestimates table and summarizes the effect of reserve reestimates, net of reinsurance, on calendar year operations for the ten-year period ended December 31, 2016. The total of each column details the amount of reserve reestimates made in the indicated calendar year and shows the accident years to which the reestimates are

applicable. The amounts in the total accident year column on the far right represent the cumulative reserve reestimates for the indicated accident year(s). Favorable reserve reestimates are shown in this table in parentheses. The changes in total reserve reestimates, as shown and described below, have generally been favorable other than 2008 which was adversely impacted due to litigation filed in conjunction with a Louisiana deadline for filing suits related to Hurricane Katrina.

(\$ in millions)	Effect of net reserve reestimates on calendar year operations										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
BY ACCIDENT YEAR											
2006 & prior	\$(172)	\$195	\$502	\$103	\$209	\$95	\$129	\$56	\$86	\$105	\$1,308
2007		(25)	(158)	(92)	(1)	(11)	(46)	3	(20)	2	(348)
2008			(456)	(46)	(26)	(41)	(37)	(21)	(18)	(20)	(665)
2009				(124)	(148)	(37)	(63)	35	(60)	(3)	(400)
2010					(369)	(161)	(20)	(88)	(24)	2	(660)
2011						(510)	(84)	(49)	(76)	(24)	(743)
2012							—	(99)	(29)	(48)	(176)
2013								79	49	(71)	57
2014									173	(35)	138
2015										75	75
TOTAL	\$(172)	\$170	\$(112)	\$(159)	\$(335)	\$(665)	\$(121)	\$(84)	\$81	\$(17)	\$(1,414)

In 2016, favorable prior year reserve reestimates were primarily due to severity development for auto liability coverages that was better than expected. The increased reserves in accident years 2006 & prior is due to reserve strengthening by the Discontinued Lines and Coverages segment.

In 2015, unfavorable prior year reserve reestimates were primarily due to severity development for bodily injury coverage for recent years that was more than expected. The increased reserves in accident years 2005 & prior is due to reserve strengthening by the Discontinued Lines and Coverages segment and litigation settlements from older years.

In 2014, favorable prior year reserve reestimates were primarily due to auto severity development that was better than expected. The increased reserves in accident years 2004 & prior is due to reserve strengthening by the Discontinued Lines and Coverages segment.

In 2013, favorable prior year reserve reestimates were primarily due to auto severity development that was less than anticipated in previous estimates and catastrophe losses. The increased reserves in accident years 2003 & prior is due to reserve strengthening by the Discontinued Lines and Coverages segment and a reclassification of injury reserves to older years.

In 2012, favorable prior year reserve reestimates were primarily due to catastrophe losses and auto severity development that was less than anticipated in previous estimates. The increased reserves in accident years 2002 & prior is due to a reclassification of injury reserves to older years and reserve strengthening.

In 2011, favorable prior year reserve reestimates were primarily due to auto severity development that was less than anticipated in previous estimates and catastrophe losses. The increased reserves in accident years 2001 & prior is due to a reclassification of injury reserves to older years and reserve strengthening.

In 2010, favorable prior year reserve reestimates were primarily due to Allstate Protection catastrophe losses and auto severity development that was less than anticipated in previous estimates, partially offset by litigation settlements. The increased reserves in accident years 2000 & prior is due to litigation settlements of \$100 million, a reclassification of injury reserves to older years and reserve strengthening.

In 2009, favorable prior year reserve reestimates were primarily due to Allstate Protection catastrophe losses that were less than anticipated in previous estimates. The shift of reserves to older accident years is attributable to a reallocation of reserves related to employee postretirement benefits to more accident years, and a reclassification of injury and 2008 non-injury reserves to older years.

In 2008, unfavorable prior year reserve reestimates were primarily due to Allstate Protection catastrophe losses that were more than anticipated in previous estimates.

In 2007, favorable prior year reserve reestimates were primarily due to Allstate Protection auto severity development that was less than what was anticipated in previous estimates. Decreased reserve reestimates for Allstate Protection more than offset increased reestimates of losses primarily related to environmental liabilities reported by the Discontinued Lines and Coverages segment.

Allstate Protection

The tables below show Allstate Protection net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2016, 2015, and 2014, and the effect of reestimates in each year.

(\$ in millions)	January 1 reserves		
	2016	2015	2014
Auto	\$12,459	\$11,698	\$11,616
Homeowners	1,937	1,849	1,821
Other personal lines	1,490	1,502	1,512
Commercial lines	554	549	576
Other business lines	21	19	22
Total Allstate Protection	\$16,461	\$15,617	\$15,547

(\$ in millions, except ratios)	2016		2015		2014	
	Reserve reestimate	Effect on combined ratio	Reserve reestimate	Effect on combined ratio	Reserve reestimate	Effect on combined ratio
Auto	\$(155)	(0.5)	\$30	0.1	\$(238)	(0.8)
Homeowners	(24)	(0.1)	(24)	(0.1)	29	0.1
Other personal lines	(9)	—	18	0.1	34	0.1
Commercial lines	62	0.2	2	—	(20)	(0.1)
Other business lines	4	—	2	—	(1)	—
Total Allstate Protection	\$(122)	(0.4)	\$28	0.1	\$(196)	(0.7)
Underwriting income	\$1,317		\$1,614		\$1,887	
Reserve reestimates as a % impact on underwriting income	9.3 %		(1.7)%		10.4 %	

Auto reserve reestimates in 2016 were primarily due to severity development for auto liability coverages that was better than expected. Auto reserve reestimates in 2015 were primarily due to claim severity development for bodily injury coverage for recent years that was more than expected and litigation settlements from older years for Allstate brand. Auto reserve reestimates in 2014 were primarily due to claim severity development that was better than expected.

Favorable homeowners reserve reestimates in 2016 and 2015 were primarily due to favorable non-catastrophe reserve reestimates. Unfavorable homeowners reserve reestimates in 2014 were primarily due to unfavorable catastrophe reserve reestimates.

Other personal lines reserve reestimates in 2016 was primarily due to the result of non-catastrophe loss development lower than anticipated in previous estimates. Other personal lines reserve reestimates in 2015 and 2014 were primarily the result of non-catastrophe loss development higher than anticipated in previous estimates.

Commercial lines reserve reestimates in 2016 were primarily due to severity development for auto bodily injury coverage that was more than expected. Commercial lines reserve reestimates in 2015 were primarily the result of non-catastrophe loss development higher than anticipated in previous estimates. Commercial lines reserve reestimates in 2014 were primarily due to favorable non-catastrophe reserve reestimates.

Pending, new and closed claims for Allstate Protection are summarized in the following table for the years ended December 31. The increase in pending claims as of December 31, 2016 compared to December 31, 2015 was primarily due to higher auto counts. The increase in pending claims as of December 31, 2015 compared to December 31, 2014 relates to auto frequency and growth.

Number of claims	2016	2015	2014
Auto			
Pending, beginning of year	521,890	487,227	473,703
New	6,844,491	6,752,401	6,330,940
Total closed	(6,831,850)	(6,717,738)	(6,317,416)
Pending, end of year	534,531	521,890	487,227
Homeowners			
Pending, beginning of year	38,865	33,648	37,420
New	818,084	714,562	759,794
Total closed	(822,258)	(709,345)	(763,566)
Pending, end of year	34,691	38,865	33,648
Other personal lines			
Pending, beginning of year	15,835	15,494	17,004
New	219,053	307,011	204,549
Total closed	(219,951)	(306,670)	(206,059)
Pending, end of year	14,937	15,835	15,494
Commercial lines			
Pending, beginning of year	11,837	11,836	10,422
New	73,139	74,942	65,970
Total closed	(73,458)	(74,941)	(64,556)
Pending, end of year	11,518	11,837	11,836
Total Allstate Protection			
Pending, beginning of year	588,427	548,205	538,549
New	7,954,767	7,848,916	7,361,253
Total closed	(7,947,517)	(7,808,694)	(7,351,597)
Pending, end of year	595,677	588,427	548,205

Discontinued Lines and Coverages We conduct an annual review in the third quarter of each year to evaluate and establish asbestos, environmental and other discontinued lines reserves. Reserves are recorded in the reporting period in which they are determined. Using established industry and actuarial best practices and assuming no change in the regulatory or economic environment, this detailed and comprehensive methodology determines reserves based on assessments of the characteristics of exposure (e.g. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by policyholders.

Reserve reestimates for the Discontinued Lines and Coverages are shown in the table below.

(\$ in millions)	2016		2015		2014	
	January 1 reserves	Reserve reestimate	January 1 reserves	Reserve reestimate	January 1 reserves	Reserve reestimate
Asbestos claims	\$960	\$ 67	\$1,014	\$ 39	\$1,017	\$ 87
Environmental claims	179	23	203	1	208	15
Other discontinued lines	377	15	395	13	421	10
Total Discontinued Lines and Coverages	\$1,516	\$ 105	\$1,612	\$ 53	\$1,646	\$ 112
Underwriting loss		\$(107)		\$(55)		\$(115)
Reserve reestimates as a % impact on underwriting loss		(98.1)%		(96.4)%		(97.4)%

Reserve additions for asbestos in 2016 were 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. Reserve additions for asbestos in 2015 were primarily related to a settlement with a

large insured and more reported claims than expected. Reserve additions for asbestos in 2014 were primarily related to more reported claims than expected and increased severity including claims from certain large insurance programs. Reserve additions for environmental in 2016 and 2014 were primarily related to greater reported loss activity than expected. There were no significant reserve additions for environmental reserves in 2015.

Edgar Filing: ALLSTATE CORP - Form 10-K

The table below summarizes reserves and claim activity for asbestos and environmental claims before (Gross) and after (Net) the effects of reinsurance for the past three years.

(\$ in millions, except ratios)	2016		2015		2014	
	Gross	Net	Gross	Net	Gross	Net
Asbestos claims						
Beginning reserves	\$1,418	\$960	\$1,492	\$1,014	\$1,495	\$1,017
Incurred claims and claims expense	96	67	51	39	124	87
Claims and claims expense paid	(158)	(115)	(125)	(93)	(127)	(90)
Ending reserves	\$1,356	\$912	\$1,418	\$960	\$1,492	\$1,014
Annual survival ratio	8.6	7.9	11.3	10.3	11.7	11.3
3-year survival ratio	9.9	9.2	11.7	10.8	12.5	12.1
Environmental claims						
Beginning reserves	\$222	\$179	\$267	\$203	\$268	\$208
Incurred claims and claims expense	24	23	(13)	1	22	15
Claims and claims expense paid	(27)	(23)	(32)	(25)	(23)	(20)
Ending reserves	\$219	\$179	\$222	\$179	\$267	\$203
Annual survival ratio	8.1	7.8	6.9	7.2	11.6	10.2
3-year survival ratio	8.1	7.8	9.3	9.0	14.1	12.7

Combined environmental and asbestos claims

Annual survival ratio	8.5	7.9	10.4	9.7	11.7	11.1
3-year survival ratio	9.6	8.9	11.3	10.4	12.7	12.2
Percentage of IBNR in ending reserves		56.7 %		56.9 %		56.9 %

The survival ratio is calculated by taking our ending reserves divided by payments made during the year. This is a commonly used but extremely simplistic and imprecise approach to measuring the adequacy of asbestos and environmental reserve levels. Many factors, such as mix of business, level of coverage provided and settlement procedures have significant impacts on the amount of environmental and asbestos claims and claims expense reserves, claim payments and the resultant ratio. As payments result in corresponding reserve reductions, survival ratios can be expected to vary over time.

In 2016, 2015 and 2014, the asbestos and environmental net 3-year survival ratio decreased due to increased claim payments.

Our net asbestos reserves by type of exposure and total reserve additions are shown in the following table.

(\$ in millions)	December 31, 2016				December 31, 2015				December 31, 2014			
	Active policyholders	Net reserves	% of total reserves	% of active policyholders	Active policyholders	Net reserves	% of total reserves	% of active policyholders	Active policyholders	Net reserves	% of total reserves	% of active policyholders
Direct policyholders:												
Primary	51	\$ 9	1 %	48	\$ 10	1 %	44	\$ 8	1 %			
Excess	297	266	29	298	248	26	296	265	26			
Total	348	275	30	346	258	27	340	273	27			
Assumed reinsurance		125	14		156	16		166	16			
IBNR		512	56		546	57		575	57			
Total net reserves		\$ 912	100 %		\$ 960	100 %		\$ 1,014	100 %			
Total reserve additions		\$ 67			\$ 39			\$ 87				

During the last three years, 45 direct primary and excess policyholders reported new claims, and claims of 51 policyholders were closed, decreasing the number of active policyholders by 6 during the period. There was a net increase of 2 policyholders in 2016, including 17 new policyholders reporting new claims and the closing of 15 policyholders' claims. There was a net increase of 6 policyholders in 2015, including 15 new policyholders reporting

new claims and the closing of 9 policyholders' claims. There was a net decrease of 14 in 2014, including 13 new policyholders reporting new claims and the closing of 27 policyholders' claims.

IBNR net reserves decreased \$34 million as of December 31, 2016 compared to December 31, 2015. As of December 31, 2016, IBNR represented 56% of total net asbestos reserves, compared to 57% as of December 31, 2015 and 2014. IBNR provides for reserve development of known claims and future reporting of additional unknown claims from current policyholders and ceding companies.

Pending, new, total closed and closed without payment claims for asbestos and environmental exposures for the years ended December 31 are summarized in the following table.

Number of claims	2016	2015	2014
Asbestos			
Pending, beginning of year	7,151	7,306	7,444
New	477	530	727
Closed	(745)	(685)	(865)
Pending, end of year	6,883	7,151	7,306
Closed without payment	373	398	433

Environmental

Pending, beginning of year	3,504	3,552	3,717
New	292	347	381
Closed	(397)	(395)	(546)
Pending, end of year	3,399	3,504	3,552
Closed without payment	211	254	369

Property-Liability reinsurance ceded For Allstate Protection, we utilize reinsurance to reduce exposure to catastrophe risk and manage capital, and to support the required statutory surplus and the insurance financial strength ratings of certain subsidiaries such as Castle Key Insurance Company and Allstate New Jersey Insurance Company. We purchase significant reinsurance to manage our aggregate countrywide exposure to an acceptable level. The price and terms of reinsurance and the credit quality of the reinsurer are considered in the purchase process, along with whether the price can be appropriately reflected in the costs that are considered in setting future rates charged to policyholders. We also participate in various reinsurance mechanisms, including industry pools and facilities, which are backed by the financial resources of the property-liability insurance company market participants, and have historically purchased reinsurance to mitigate long-tail liability lines, including environmental, asbestos and other discontinued lines exposures. We retain primary liability as a direct insurer for all risks ceded to reinsurers. The MCCA provides indemnification for losses over a retention level and under the National Flood Insurance Program (“NFIP”) the Federal Government pays all covered claims and certain qualifying claim expenses.

Our reinsurance recoverable balances are shown in the following table as of December 31, net of the allowance we have established for uncollectible amounts.

(\$ in millions)

	S&P financial strength rating ⁽¹⁾	Reinsurance recoverable on paid and unpaid claims, net	
		2016	2015
Industry pools and facilities			
MCCA	N/A	\$4,949 ⁽²⁾	\$4,664 ⁽²⁾
New Jersey Property-Liability Insurance Guaranty Association (“PLIGA”)	N/A	506	500
North Carolina Reinsurance Facility	N/A	81	71
NFIP	N/A	77	27
Other		6	3
Subtotal		5,619	5,265
Other reinsurance			
Lloyd’s of London (“Lloyd’s”)	A+	174	183
Westport Insurance Corporation	AA-	61	62
New England Reinsurance Corporation	N/A	35	32
Clearwater Insurance Company	N/A	27	28
R&Q Reinsurance Company	N/A	23	26

Edgar Filing: ALLSTATE CORP - Form 10-K

Bedivere Insurance Company	N/A	23	23
Other, including allowance for future uncollectible reinsurance recoverables		315	360
Subtotal		658	714
Total Property-Liability		\$6,277	\$5,979

(1) N/A reflects no S&P Global Ratings (“S&P”) rating available.

As of December 31, 2016 and 2015, MCCA includes \$28 million and \$29 million of reinsurance recoverable on

(2) paid claims, respectively, and \$4.92 billion and \$4.63 billion of reinsurance recoverable on unpaid claims, respectively.

Reinsurance recoverables include an estimate of the amount of property-liability insurance claims and claims expense reserves that are ceded under the terms of the reinsurance agreements, including incurred but not reported unpaid losses. We calculate our ceded reinsurance estimate based on the terms of each applicable reinsurance agreement, including an estimate of how IBNR losses will ultimately be ceded under the agreement. We also consider other limitations and coverage exclusions under our reinsurance agreements. Accordingly, our estimate of reinsurance recoverables is subject to similar risks and uncertainties as our estimate of reserves for property-liability claims and claims expense. We believe the recoverables are appropriately established; however, as our underlying reserves continue to develop, the amount ultimately recoverable may vary from amounts currently recorded. We regularly evaluate the reinsurers and the respective amounts recoverable, and a provision for uncollectible reinsurance is recorded if needed. The establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance is also an inherently uncertain process involving estimates. Changes in estimates could result in additional changes to the Consolidated Statements of Operations.

The allowance for uncollectible reinsurance primarily relates to Discontinued Lines and Coverages reinsurance recoverables and was \$84 million and \$80 million as of December 31, 2016 and 2015, respectively. The allowance for Discontinued Lines and Coverages represents 13.3% and 11.9% of the related reinsurance recoverable balances as of December 31, 2016 and 2015, respectively. The allowance is based upon our ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, and other relevant factors. In addition, in the ordinary course of business, we may become involved in coverage disputes with certain of our reinsurers which may ultimately result in lawsuits and arbitrations brought by or against such reinsurers to determine the parties' rights and obligations under the various reinsurance agreements. We employ dedicated specialists to manage reinsurance collections and disputes. We also consider recent developments in commutation activity between reinsurers and cedents, and recent trends in arbitration and litigation outcomes in disputes between cedents and reinsurers in seeking to maximize our reinsurance recoveries.

Adverse developments in the insurance industry have led to a decline in the financial strength of some of our reinsurance carriers, causing amounts recoverable from them and future claims ceded to them to be considered a higher risk. There has also been consolidation activity in the industry, which causes reinsurance risk across the industry to be concentrated among fewer companies. In addition, some companies have segregated asbestos, environmental, and other discontinued lines exposures into separate legal entities with dedicated capital. Regulatory bodies in certain cases have supported these actions. We are unable to determine the impact, if any, that these developments will have on the collectability of reinsurance recoverables in the future.

For a detailed description of the MCCA, PLIGA and Lloyd's, see Note 10 of the consolidated financial statements. As of December 31, 2016, other than the recoverable balances listed in the table above, no other amount due or estimated to be due from any single Property-Liability reinsurer was in excess of \$22 million.

The effects of reinsurance ceded on our property-liability premiums earned and claims and claims expense for the years ended December 31 are summarized in the following table.

(\$ in millions)	2016	2015	2014
Ceded property-liability premiums earned	\$987	\$1,006	\$1,030

Ceded property-liability claims and claims expense

Industry pool and facilities

MCCA	\$386	\$337	\$1,042
NFIP	537	120	38
PLIGA	20	9	158
Other	78	78	69
Subtotal industry pools and facilities	1,021	544	1,307
Other	95	58	86
Ceded property-liability claims and claims expense	\$1,116	\$602	\$1,393

In 2016, ceded property-liability premiums earned decreased \$19 million, primarily due to decreased reinsurance premium rates and a decrease in policies written for the NFIP. In 2015, ceded property-liability premiums earned decreased \$24 million, primarily due to decreased reinsurance premium rates and a decrease in policies written for the

NFIP and the MCCA. MCCA ceded premiums earned were \$73 million, \$84 million and \$99 million in 2016, 2015 and 2014, respectively.

Ceded property-liability claims and claims expenses increased in 2016 primarily due to higher amounts ceded to the NFIP. Ceded property-liability claims and claims expense decreased in 2015 primarily due to lower reserve increases for the MCCA and PLIGA programs.

Reserve increases in the PLIGA program in 2016 and 2015 are attributable to limited personal injury protection coverage on policies written prior to 2004. The ceded claims reflect increased longer term paid loss trends due to increased costs of medical

care and increased longevity of claimants. New claims for this cohort of policies are unlikely and pending claims are expected to decline.

Our claim reserve development experience is similar to the MCCA with reported and pending claims increasing in recent years. Moreover, the MCCA has reported severity increasing with nearly 60% of reimbursements for attendant and residential care services. Michigan's unique no-fault motor vehicle insurance law provides unlimited lifetime coverage for medical expenses resulting from motor vehicle accidents. The reserve increases in the MCCA program are attributable to an increased recognition of longer term paid loss trends. The paid loss trends are rising due to increased costs in medical and attendant care and increased longevity of claimants. As a result of continuing to originate motor vehicle policies in Michigan with unlimited personal injury protection coverage, we expect the number of MCCA covered claims and losses to increase each year.

The table below summarizes reserves and claim activity for Michigan personal injury protection claims before (gross) and after (net) the effects of MCCA reinsurance for the years ended December 31.

(\$ in millions)	2016		2015		2014	
	Gross	Net	Gross	Net	Gross	Net
Beginning reserves	\$5,121	\$486	\$4,804	\$417	\$3,798	\$365
Incurred claims and claims expense-current year	578	214	526	200	420	178
Incurred claims and claims expense-prior years	8	(15)	37	26	819	19
Claims and claims expense paid-current year ⁽¹⁾	(60)	(58)	(56)	(55)	(46)	(45)
Claims and claims expense paid-prior years ⁽¹⁾	(204)	(105)	(190)	(102)	(187)	(100)
Ending reserves ⁽²⁾	\$5,443	\$522	\$5,121	\$486	\$4,804	\$417

⁽¹⁾ Paid claims and claims expenses, reported in the table for the current and prior years, recovered from the MCCA totaled \$101 million, \$89 million and \$88 million in 2016, 2015 and 2014, respectively.

Gross reserves for the year ended December 31, 2016 comprise 85% case reserves (claims with a file review

⁽²⁾ conducted) and 15% IBNR. Reserves for the years ended December 31, 2015 and 2014, comprise 86% case reserves and 14% IBNR.

Pending MCCA claims differ from most personal lines insurance pending claims as other personal lines policies have coverage limits and incurred claims settle in shorter periods. Claims are considered pending as long as payments are continuing pursuant to an outstanding MCCA claim, which can be for a claimant's lifetime. Claims that occurred more than 5 years ago and continue to be paid often include lifetime benefits. Pending, new and closed claims for Michigan personal injury protection exposures, including those covered and not covered by the MCCA reinsurance, for the years ended December 31 are summarized in the following table.

	2016	2015	2014
Number of claims			
Pending, beginning of year	5,127	4,936	4,684
New	9,577	8,956	8,620
Closed	(9,316)	(8,765)	(8,368)
Pending, end of year	5,388	5,127	4,936

As of December 31, 2016, approximately 1,330 of our pending claims have been reported to the MCCA, of which approximately 60% represents claims that occurred more than 5 years ago. There are 75 Allstate brand claims with reserves in excess of \$15 million as of December 31, 2016 which comprise approximately 40% of the gross ending reserves in the table above. As a result, significant developments with a single claimant can result in volatility in prior year incurred claims.

Reinsurance recoverable on paid and unpaid claims including IBNR as of December 31, 2016 and 2015 includes \$4.95 billion and \$4.66 billion, respectively, from the MCCA.

We enter into certain intercompany insurance and reinsurance transactions for the Property-Liability operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

Catastrophe reinsurance

Our catastrophe reinsurance program is designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Our program is designed to provide reinsurance protection for catastrophes resulting from multiple perils including hurricanes, windstorms, hail, tornadoes, fires following earthquakes, earthquakes and wildfires. These reinsurance agreements are part of our catastrophe management strategy, which is intended to provide our shareholders an acceptable return on the risks assumed in our property business, and to reduce variability of earnings, while providing protection to our customers.

We anticipate completing the placement of our 2017 nationwide catastrophe reinsurance program in the second quarter of 2017. We expect the program will be similar to our 2016 nationwide catastrophe reinsurance program. For further details of the existing 2016 program, see Note 10 of the consolidated financial statements.

ALLSTATE FINANCIAL 2016 HIGHLIGHTS

Net income applicable to common shareholders was \$391 million in 2016 compared to \$663 million in 2015.

Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled \$2.26 billion in 2016, an increase of 5.5% from \$2.14 billion in 2015.

Investments totaled \$36.84 billion as of December 31, 2016, reflecting an increase of \$48 million from \$36.79 billion as of December 31, 2015. Net investment income decreased 8.0% to \$1.73 billion in 2016 from \$1.88 billion in 2015.

Net realized capital losses totaled \$81 million in 2016 compared to net realized capital gains of \$267 million in 2015.

Contractholder funds totaled \$20.26 billion as of December 31, 2016, reflecting a decrease of \$1.04 billion from \$21.30 billion as of December 31, 2015.

On April 1, 2014, we sold Lincoln Benefit Life Company's ("LBL") life insurance business generated through independent master brokerage agencies, and all of LBL's deferred fixed annuity and long-term care insurance business to Resolution Life Holdings, Inc. Therefore, 2014 includes LBL's results for one quarter.

ALLSTATE FINANCIAL SEGMENT

Overview and strategy The Allstate Financial segment sells traditional, interest-sensitive and variable life insurance and voluntary accident and health insurance products. We serve our customers through Allstate exclusive agencies and exclusive financial specialists, and workplace enrolling independent agents. We previously offered and continue to have in force fixed annuities such as deferred and immediate annuities. We also previously offered institutional products consisting of funding agreements sold to unaffiliated trusts that used them to back medium-term notes. There are no institutional products outstanding as of December 31, 2016. Allstate exclusive agencies and exclusive financial specialists have a portfolio of non-proprietary products to sell, including mutual funds, fixed and variable annuities, disability insurance and long-term care insurance, to help meet customer needs.

Allstate Financial brings value to The Allstate Corporation in three principal ways: through improving the economics of the Protection business through increased customer loyalty and deepened customer relationships based on cross selling Allstate Financial products to existing customers, bringing new customers to Allstate, and profitable growth. Allstate Financial's strategy is focused on expanding Allstate customer relationships, growing the number of products delivered to customers through Allstate exclusive agencies and Allstate Benefits (our workplace distribution business), and managing the runoff of our in-force annuity products to improve returns.

Allstate Financial outlook

Our growth initiatives for life insurance continue to focus on increasing the number of customers served through our proprietary Allstate agencies. This includes positioning Allstate exclusive agencies and exclusive financial specialists as trusted advisors.

The Allstate Benefits strategy for growth includes expansion in the national accounts market and expanding in targeted geographic locations, including Canada, for increased new sales. We are investing in new generation enrollment and administrative technology to improve our customer experience and modernize our operating model.

We will continue to focus on improving long-term economic returns on our in-force annuity products and managing the impacts of historically low interest rates. We expect lower investment spread on annuities due to the continuing managed reduction in contractholder funds and a continuation of our asset allocation

- strategy for long-term immediate annuities to include more performance-based investments. A greater proportion of the return on these investments is derived from idiosyncratic asset or operating performance. While we anticipate higher returns on these investments over time, the investment income can vary significantly between periods.

Allstate Financial has limitations on the amount of dividends Allstate Financial companies can pay without prior insurance department approval.

We continue to review strategic options to reduce exposure and improve returns of the spread-based businesses. As a result, we may take additional operational and financial actions that offer return improvement and risk reduction opportunities.

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

(\$ in millions)	2016	2015	2014
Revenues			
Life and annuity premiums and contract charges	\$2,275	\$2,158	\$2,157
Net investment income	1,734	1,884	2,131
Realized capital gains and losses	(81)	267	144
Total revenues	3,928	4,309	4,432
Costs and expenses			
Life and annuity contract benefits	(1,857)	(1,803)	(1,765)
Interest credited to contractholder funds	(726)	(761)	(919)
Amortization of DAC	(283)	(262)	(260)
Operating costs and expenses	(497)	(472)	(466)
Restructuring and related charges	(1)	—	(2)
Total costs and expenses	(3,364)	(3,298)	(3,412)
Gain (loss) on disposition of operations	5	3	(90)
Income tax expense	(178)	(351)	(299)
Net income applicable to common shareholders	\$391	\$663	\$631
Life insurance			
Life insurance	\$230	\$248	\$242
Accident and health insurance	85	85	105
Annuities and institutional products	76	330	284
Net income applicable to common shareholders	\$391	\$663	\$631
Allstate Life			
Allstate Life	\$219	\$229	\$232
Allstate Benefits	96	104	115
Allstate Annuities	76	330	284
Net income applicable to common shareholders	\$391	\$663	\$631

Investments as of December 31 \$36,840 \$36,792 \$38,809

Net income applicable to common shareholders was \$391 million in 2016 compared to \$663 million in 2015. The decrease was primarily due to net realized capital losses in 2016 compared to net realized capital gains in 2015 and lower net investment income, partially offset by higher premiums and contract charges. The decrease in net income was primarily concentrated in Allstate Annuities.

Net income applicable to common shareholders was \$663 million in 2015 compared to \$631 million in 2014. The increase primarily relates to higher net realized capital gains and the loss on disposition related to the LBL sale in 2014, partially offset by lower net investment income and the reduction in business due to the April 1, 2014 sale of LBL. Net income applicable to common shareholders in 2014 included an after-tax loss on disposition of LBL totaling \$60 million. Excluding the loss on disposition as well as the net income of the LBL business for first quarter 2014 of \$28 million, net income applicable to common shareholders in 2015 was comparable to 2014, primarily due to higher net realized capital gains, higher life and annuity premiums and contract charges, and lower interest credited to contractholder funds offsetting lower net investment income and higher life and annuity contract benefits.

Analysis of revenues Total revenues decreased 8.8% or \$381 million in 2016 compared to 2015, primarily due to net realized capital losses in 2016 compared to net realized capital gains in 2015 and lower net investment income, partially offset by higher premiums and contract charges. Total revenues decreased 2.8% or \$123 million in 2015 compared to 2014. Excluding results of the LBL business for first quarter 2014 of \$211 million, total revenues increased 2.1% or \$88 million in 2015 compared to 2014, primarily due to higher net realized capital gains and higher life and annuity premiums and contract charges, partially offset by lower net investment income.

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 for the years ended December 31.

(\$ in millions)	2016	2015	2014
Underwritten products			
Traditional life insurance premiums	\$533	\$505	\$476
Accident and health insurance premiums	2	2	8
Interest-sensitive life insurance contract charges	715	716	781
Subtotal — Allstate Life	1,250	1,223	1,265
Traditional life insurance premiums	40	37	35
Accident and health insurance premiums	857	778	736
Interest-sensitive life insurance contract charges	114	106	98
Subtotal — Allstate Benefits	1,011	921	869
Total underwritten products	2,261	2,144	2,134
Annuities			
Immediate annuities with life contingencies premiums	—	—	4
Other fixed annuity contract charges	14	14	19
Total — Allstate Annuities	14	14	23
Life and annuity premiums and contract charges ⁽¹⁾	\$2,275	\$2,158	\$2,157

⁽¹⁾ Contract charges related to the cost of insurance totaled \$556 million, \$550 million and \$593 million in 2016, 2015 and 2014, respectively.

Total premiums and contract charges increased 5.4% or \$117 million in 2016 compared to 2015. The increase for Allstate Life primarily relates to increased traditional life insurance renewal premiums as well as lower levels of reinsurance premiums ceded. The increase for Allstate Benefits primarily relates to growth in critical illness, accident and hospital indemnity products.

Total premiums and contract charges increased \$1 million in 2015 compared to 2014. Excluding results of the LBL business for first quarter 2014 of \$85 million, premiums and contract charges increased \$86 million in 2015 compared to 2014, primarily due to growth in Allstate Benefits accident and health insurance business as well as increased traditional life insurance renewal premiums. The growth at Allstate Benefits primarily relates to accident, critical illness 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 for the years ended December 31.

(\$ in millions)	2016	2015	2014
Contractholder funds, beginning balance	\$21,295	\$22,529	\$24,304
Contractholder funds classified as held for sale, beginning balance	—	—	10,945
Total contractholder funds, including those classified as held for sale	21,295	22,529	35,249
Deposits			
Interest-sensitive life insurance	1,002	1,004	1,059
Fixed annuities	162	199	274
Total deposits	1,164	1,203	1,333
Interest credited			
	722	760	919
Benefits, withdrawals, maturities and other adjustments			
Benefits	(966)	(1,077)	(1,197)
Surrenders and partial withdrawals	(1,053)	(1,278)	(2,273)
Maturities of and interest payments on institutional products	(86)	(1)	(2)
Contract charges	(829)	(818)	(881)
Net transfers from separate accounts	5	7	7
Other adjustments ⁽¹⁾	8	(30)	36
Total benefits, withdrawals, maturities and other adjustments	(2,921)	(3,197)	(4,310)
Contractholder funds sold in LBL disposition	—	—	(10,662)
Contractholder funds, ending balance	\$20,260	\$21,295	\$22,529

The table above illustrates the changes in contractholder funds, which are presented gross of reinsurance recoverables on the Consolidated Statements of Financial Position. The table above is intended to supplement our ⁽¹⁾ discussion and analysis of revenues, which are presented net of reinsurance on the 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 4.9% and 5.5% in 2016 and 2015, 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 3.2% in 2016 compared to 2015, primarily due to lower additional deposits on deferred fixed annuities. Contractholder deposits decreased 9.8% in 2015 compared to 2014, primarily due to lower additional deposits on fixed annuities and lower deposits on interest-sensitive life insurance due to the LBL sale. Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 17.6% to \$1.05 billion in 2016 from \$1.28 billion in 2015, primarily due to decreases in deferred fixed annuities. Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 43.8% to \$1.28 billion in 2015 from \$2.27 billion in 2014, primarily due to the continued runoff of our deferred annuity business and the LBL sale. Additionally, 2014 had elevated surrenders on fixed annuities resulting from a large number of contracts reaching the 30-45 day period (typically at their 5 or 6 year anniversary) during which there is no surrender charge. The surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 6.2% in 2016 compared to 7.1% in 2015 and 9.9% in 2014.

Maturities of and interest payments on institutional products included an \$85 million maturity in 2016. There are no institutional products outstanding as of December 31, 2016.

Net investment income for the years ended December 31 are presented in the following table.

(\$ in millions)	2016	2015	2014
Fixed income securities	\$1,134	\$1,296	\$1,561
Equity securities	42	29	22
Mortgage loans	205	213	248
Limited partnership interests	292	287	267
Short-term investments	6	3	2
Other	129	114	100
Investment income, before expense	1,808	1,942	2,200
Investment expense	(74)	(58)	(69)
Net investment income	\$1,734	\$1,884	\$2,131

Allstate Life	\$482	\$490	\$519
Allstate Benefits	71	71	72
Allstate Annuities	1,181	1,323	1,540
Net investment income	\$1,734	\$1,884	\$2,131

Net investment income decreased 8.0% or \$150 million to \$1.73 billion in 2016 from \$1.88 billion in 2015, primarily due to lower fixed income portfolio yields and lower average investment balances. Net investment income decreased 11.6% or \$247 million to \$1.88 billion in 2015 from \$2.13 billion in 2014. Excluding \$126 million related to the LBL business for first quarter 2014, net investment income decreased \$121 million in 2015 compared to 2014, primarily due to lower average investment balances, fixed income portfolio yields, and prepayment fee income and litigation proceeds, partially offset by higher limited partnership income.

In 2015, we shortened the maturity profile of the fixed income securities in Allstate Financial to make the portfolio less sensitive to rising interest rates. The approximately \$2 billion of proceeds from the sale of longer duration fixed income securities were initially reinvested in shorter duration fixed income and public equity securities. We expect to shift the majority of the proceeds to performance-based investments over time. These investments primarily support our immediate annuity liabilities and are intended to improve our long-term economic results. We anticipate higher long-term returns on these investments. The dispositions generated net realized capital gains which results in lower future investment income due to the lower yields on the reinvested proceeds until repositioned to performance-based investments. Since June 30, 2015, the carrying value of performance-based investments and market-based equity securities have increased by \$1.37 billion to \$4.36 billion. The increase is expected to reach \$2 billion by the end of 2018. The carrying value will vary from period to period and reflects amounts invested, cash distributions received from investments and changes in valuation of the underlying investments.

The average pre-tax investment yields were 5.0% for 2016, 5.4% for 2015 and 5.6% for 2014.

Realized capital gains and losses for the years ended December 31 are presented in the following table.

(\$ in millions)	2016	2015	2014
Impairment write-downs	\$(101)	\$(63)	\$(11)
Change in intent write-downs	(13)	(65)	(44)
Net other-than-temporary impairment losses recognized in earnings	(114)	(128)	(55)
Sales and other	28	385	185
Valuation and settlements of derivative instruments	5	10	14
Realized capital gains and losses, pre-tax	(81)	267	144
Income tax benefit (expense)	27	(94)	(50)
Realized capital gains and losses, after-tax	\$(54)	\$173	\$94

Allstate Life	\$(24)	\$1	\$4
Allstate Benefits	(4)	—	1
Allstate Annuities	(26)	172	89
Realized capital gains and losses, after-tax	\$(54)	\$173	\$94

Net realized capital losses in 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 2.0% or \$66 million in 2016 compared to 2015, primarily due to higher contract benefits, operating costs and expenses and amortization of DAC, partially offset by lower interest credited to contractholder funds. Total costs and expenses decreased 3.3% or \$114 million in 2015 compared to 2014. Excluding results

of the LBL business for first quarter 2014 of \$168 million, total costs and expenses increased \$54 million in 2015 compared to 2014, primarily due to higher life and annuity contract benefits, partially offset by lower interest credited to contractholder funds.

Life and annuity contract benefits increased 3.0% or \$54 million in 2016 compared to 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 2016 annual review of assumptions 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.

Life and annuity contract benefits increased 2.2% or \$38 million in 2015 compared to 2014. Excluding results of the LBL business for first quarter 2014 of \$65 million, life and annuity contract benefits increased \$103 million in 2015 compared to 2014, primarily due to unfavorable life insurance mortality experience and growth at Allstate Benefits. Our 2015 annual review of assumptions resulted in a \$4 million increase in reserves primarily for secondary guarantees on interest-sensitive life insurance due to higher than anticipated retention on guaranteed interest-sensitive life business.

In 2016, we completed a mortality study for our structured settlement annuities with life contingencies (a type of immediate fixed annuities). The study indicated that annuitants are 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 results of the study were included in the premium deficiency and profits followed by losses evaluations as of December 31, 2016, and no adjustments were recognized. We aggregate traditional life insurance products and immediate annuities with life contingencies in these evaluations. While there was an unfavorable change in mortality assumptions as a result of the study, there was a favorable change in the long-term investment yield assumptions due to the increase in performance-based investments and equity securities.

We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and life and annuity contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies (“benefit spread”). This implied interest totaled \$511 million, \$511 million and \$521 million in 2016, 2015 and 2014, respectively.

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

(\$ in millions)	2016	2015	2014
Life insurance	\$287	\$250	\$287
Accident and health insurance (6)	(10)	(8)	
Subtotal — Allstate Life	281	240	279
Life insurance	20	24	17
Accident and health insurance	427	396	397
Subtotal — Allstate Benefits	447	420	414
Allstate Annuities	(86)	(80)	(85)
Total benefit spread	\$642	\$580	\$608

Benefit spread increased 10.7% or \$62 million in 2016 compared to 2015. The Allstate Life benefit spread increased primarily due to higher life insurance premiums and favorable life insurance mortality experience. The Allstate Benefits benefit spread increased primarily due to growth in business in force, partially offset by higher claim experience. The Allstate Annuities benefit spread decreased primarily due to unfavorable immediate annuity mortality experience.

Benefit spread decreased 4.6% or \$28 million in 2015 compared to 2014. Excluding results of the LBL business for first quarter 2014 of \$(1) million, benefit spread decreased \$29 million in 2015 compared to 2014, primarily due to unfavorable life insurance mortality experience, partially offset by higher life insurance premiums.

Interest credited to contractholder funds decreased 4.6% or \$35 million in 2016 compared to 2015, primarily due to lower average contractholder funds. Interest credited to contractholder funds decreased 17.2% or \$158 million in 2015 compared to 2014. Excluding results of the LBL business for first quarter 2014 of \$90 million, interest credited to contractholder funds decreased 8.2% or \$68 million in 2015 compared to 2014, primarily due to lower average

contractholder funds and lower interest crediting rates. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged increased interest credited to contractholder funds by \$3 million in 2016 compared to \$2 million in 2015 and \$22 million in 2014.

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 Consolidated Statements of Operations (“investment spread”).

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

(\$ in millions)	2016	2015	2014
Life insurance	\$116	\$130	\$93
Accident and health insurance	5	5	8
Net investment income on investments supporting capital	76	76	110
Subtotal — Allstate Life	197	211	211
Life insurance	10	10	10
Accident and health insurance	11	11	11
Net investment income on investments supporting capital	14	14	15
Subtotal — Allstate Benefits	35	35	36
Annuities and institutional products	128	238	320
Net investment income on investments supporting capital	140	130	146
Subtotal — Allstate Annuities	268	368	466
Investment spread before valuation changes on embedded derivatives that are not hedged	500	614	713
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	(3)	(2)	(22)
Total investment spread	\$497	\$612	\$691

Investment spread before valuation changes on embedded derivatives that are not hedged decreased 18.6% or \$114 million in 2016 compared to 2015, primarily due to lower net investment income at Allstate Annuities. Investment spread before valuation changes on embedded derivatives that are not hedged decreased 13.9% or \$99 million in 2015 compared to 2014. Excluding results of the LBL business for first quarter 2014 of \$46 million, investment spread before valuation changes on embedded derivatives that are not hedged decreased \$53 million in 2015 compared to 2014, primarily due to lower net investment income, partially offset by lower credited interest.

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

	Weighted average investment yield			Weighted average interest crediting rate			Weighted average investment spreads		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Interest-sensitive life insurance	4.9%	5.2%	5.3%	3.9%	3.9%	3.9%	1.0%	1.3%	1.4%
Deferred fixed annuities and institutional products	4.1	4.3	4.5	2.8	2.8	2.9	1.3	1.5	1.6
Immediate fixed annuities with and without life contingencies	6.5	7.0	7.3	5.9	5.9	6.0	0.6	1.1	1.3
Investments supporting capital, traditional life and other products	3.9	4.0	4.4	n/a	n/a	n/a	n/a	n/a	n/a

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

(\$ in millions)	2016	2015	2014
Immediate fixed annuities with life contingencies	\$8,622	\$8,714	\$8,904
Other life contingent contracts and other	3,617	3,533	3,476
Reserve for life-contingent contract benefits	\$12,239	\$12,247	\$12,380
Interest-sensitive life insurance	\$8,062	\$7,975	\$7,880
Deferred fixed annuities	8,921	9,748	10,860
Immediate fixed annuities without life contingencies	3,012	3,226	3,450
Institutional products	—	85	85
Other	265	261	254

Contractholder funds

\$20,260 \$21,295 \$22,529

76

The following table summarizes reserves and contractholder funds for Allstate Life, Allstate Benefits and Allstate Annuities as of December 31.

(\$ in millions)	2016	2015	2014
Allstate Life	\$2,577	\$2,535	\$2,481
Allstate Benefits	944	897	874
Allstate Annuities	8,718	8,815	9,025
Reserve for life-contingent contract benefits	\$12,239	\$12,247	\$12,380

Allstate Life	\$7,326	\$7,226	\$7,130
Allstate Benefits	952	942	929
Allstate Annuities	11,982	13,127	14,470
Contractholder funds	\$20,260	\$21,295	\$22,529

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

(\$ in millions)	2016	2015	2014
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	\$279	\$256	\$263
Amortization relating to realized capital gains and losses ⁽¹⁾ and valuation changes on embedded derivatives that are not hedged	6	5	5
Amortization (deceleration) acceleration for changes in assumptions (“DAC unlocking”)	(2)	1	(8)
Total amortization of DAC	\$283	\$262	\$260

Allstate Life	\$131	\$133	\$140
Allstate Benefits	145	124	112
Allstate Annuities	7	5	8
Total amortization of DAC	\$283	\$262	\$260

The impact of realized capital gains and losses on amortization of DAC is dependent upon the relationship between ⁽¹⁾ 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 8.0% or \$21 million in 2016 compared to 2015, primarily due to growth at Allstate Benefits.

Amortization of DAC increased 0.8% or \$2 million in 2015 compared to 2014. Excluding results of the LBL business for first quarter 2014 of \$5 million, amortization of DAC increased \$7 million in 2015 compared to 2014, primarily due to amortization acceleration for changes in assumptions in 2015 compared to amortization deceleration in 2014. Our annual comprehensive review of assumptions underlying estimated future gross profits for our interest-sensitive life, fixed annuities and other investment contracts covers assumptions for persistency, mortality, expenses, investment returns, including capital gains and losses, interest crediting rates to policyholders, and the effect of any hedges in all product lines. In 2016, the review resulted in a deceleration of DAC amortization (credit to income) of \$2 million related to interest-sensitive life insurance.

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

In 2014, the review resulted in a deceleration of DAC amortization of \$8 million. Amortization deceleration of \$10 million related to interest-sensitive life insurance and was primarily due to a decrease in projected expenses, partially offset by increased projected mortality. Amortization acceleration of \$2 million related to fixed annuities and was primarily due to a decrease in projected gross profits.

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

(\$ in millions)	Traditional life and accident and health		Interest-sensitive life insurance		Fixed annuities		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Balance, beginning of year	\$792	\$753	\$993	\$905	\$47	\$47	\$1,832	\$1,705
Acquisition costs deferred	191	178	100	107	—	—	291	285
Amortization of DAC before amortization relating to realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and changes in assumptions ⁽¹⁾	(162)	(139)	(110)	(111)	(7)	(6)	(279)	(256)
Amortization relating to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged ⁽¹⁾	—	—	(6)	(6)	—	1	(6)	(5)
Amortization deceleration (acceleration) for changes in assumptions (“DAC unlocking [®] ”)	—	—	2	(1)	—	—	2	(1)
Effect of unrealized capital gains and losses ⁽²⁾	—	—	(74)	99	—	5	(74)	104
Ending balance	\$821	\$792	\$905	\$993	\$40	\$47	\$1,766	\$1,832

⁽¹⁾ Included as a component of amortization of DAC on the Consolidated Statements of Operations.

Represents the change in the DAC adjustment for unrealized capital gains and losses. The DAC adjustment

⁽²⁾ represents the amount by which the amortization of DAC would increase or decrease if the unrealized gains and losses in the respective product portfolios were realized.

The following table summarizes the DAC balance for Allstate Life, Allstate Benefits and Allstate Annuities as of December 31.

(\$ in millions)	2016	2015
Allstate Life	\$1,200	\$1,271
Allstate Benefits	526	514
Allstate Annuities	40	47
Total DAC balance	\$1,766	\$1,832

Operating costs and expenses increased 5.3% or \$25 million in 2016 compared to 2015. Operating costs and expenses increased 1.3% or \$6 million in 2015 compared to 2014. Excluding results of the LBL business for first quarter 2014 of \$8 million, operating costs and expenses increased \$14 million in 2015 compared to 2014.

The following table summarizes operating costs and expenses for the years ended December 31.

(\$ in millions)	2016	2015	2014
Non-deferrable commissions	\$109	\$95	\$99
General and administrative expenses	337	325	314
Taxes and licenses	51	52	53
Total operating costs and expenses	\$497	\$472	\$466

Restructuring and related charges	\$1	\$—	\$2
-----------------------------------	-----	-----	-----

Allstate Life	\$225	\$212	\$232
Allstate Benefits	240	222	206
Allstate Annuities	32	38	28
Total operating costs and expenses	\$497	\$472	\$466

General and administrative expenses increased 3.7% or \$12 million in 2016 compared to 2015, primarily due to increased technology and employee costs related to growth at Allstate Benefits.

General and administrative expenses increased 3.5% or \$11 million in 2015 compared to 2014, primarily due to increased expenses at Allstate Benefits relating to employee costs, reinsurance expense allowances paid to LBL for business reinsured to Allstate Life Insurance Company (“ALIC”) after the sale, and a guaranty fund accrual release in the prior year period, partially offset by lower technology costs.

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.

The following section provides more detail on the strategy and results for Allstate Life, Allstate Benefits and Allstate Annuities.

Allstate Life

Strategy The strategy for our life insurance business centers on the continuation of efforts to fully integrate the business into the Allstate brand customer value proposition and modernizing our operating model. The life insurance product portfolio and sales process provide for clear and distinct positioning to meet the varied needs of Allstate customers and position Allstate exclusive agencies and exclusive financial specialists as trusted advisors. Our product positioning provides solutions to help meet customer needs during various life stages ranging from basic mortality protection to more complex mortality and financial planning solutions. Basic mortality protection solutions are provided through less complex products, such as term and whole life insurance, sold through exclusive agents and licensed sales professionals to deepen customer relationships. More advanced mortality and financial planning solutions are provided primarily through exclusive financial specialists with an emphasis on our more complex offerings, such as universal life insurance products. Many Allstate exclusive agencies utilize an exclusive financial specialist for their expertise with advanced life and retirement cases and other financial needs of customers.

Successful partnerships will assist agencies with building stronger and deeper customer relationships. Sales producer education and technology improvements are being made to ensure agencies have the tools and information needed to help customers meet their needs and build personal relationships as trusted advisors. Additionally, tools will be made available to consumers to help them understand their needs and encourage interaction with their local agencies.

The financial results for Allstate Life for the years ended December 31 are presented in the following table.

(\$ in millions)	2016	2015	2014
Revenues			
Life and annuity premiums and contract charges	\$1,250	\$1,223	\$1,265
Net investment income	482	490	519
Realized capital gains and losses	(38)	2	6
Total revenues	1,694	1,715	1,790
Costs and expenses			
Life and annuity contract benefits	(742)	(749)	(734)
Interest credited to contractholder funds	(285)	(282)	(311)
Amortization of DAC	(131)	(133)	(140)
Operating costs and expenses	(225)	(212)	(232)
Restructuring and related charges	(1)	(1)	(2)
Total costs and expenses	(1,384)	(1,377)	(1,419)
Loss on disposition of operations	—	(1)	(40)
Income tax expense	(91)	(108)	(99)
Net income applicable to common shareholders	\$219	\$229	\$232

Net income applicable to common shareholders was \$219 million in 2016 compared to \$229 million in 2015. The decrease was primarily due to net realized capital losses in 2016 compared to net realized capital gains in 2015 and higher operating costs and expenses, partially offset by higher premiums and contract charges. Net income applicable to common shareholders was \$229 million in 2015 compared to \$232 million in 2014.

Premiums and contract charges increased 2.2% or \$27 million in 2016 compared to 2015. The increase 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. Total premiums and contract charges decreased \$42 million in 2015 compared to 2014. Excluding results of the LBL business for first quarter 2014 of \$83 million, premiums and contract charges increased \$41 million in 2015 compared to 2014, primarily due to increased traditional life insurance renewal premiums.

Net realized capital losses in 2016 primarily related to net losses on sales in connection with ongoing portfolio management and impairment write-downs.

Contract benefits decreased 0.9% or \$7 million in 2016 compared to 2015, primarily due to favorable life insurance mortality experience. Contract benefits increased 2.0% or \$15 million in 2015 compared to 2014, primarily due to unfavorable life insurance mortality experience.

Benefit spread increased 17.1% to \$281 million in 2016 compared to \$240 million in 2015, primarily due to higher life insurance premiums and favorable life insurance mortality experience. Benefit spread decreased 14.0% to \$240 million in 2015 compared to \$279 million in 2014, primarily due to unfavorable life insurance mortality experience, partially offset by higher life insurance premiums.

Operating costs and expenses increased 6.1% or \$13 million in 2016 compared to 2015, primarily due to higher non-deferrable commissions and increased regulatory compliance costs. Operating costs and expenses decreased 8.6% or \$20 million in 2015 compared to 2014.

Allstate Benefits

Strategy Allstate Benefits is an industry leader in the voluntary benefits market, offering a broad range of products, including critical illness, accident, cancer, hospital indemnity, disability and universal and group term life. Allstate Benefits differentiates itself by offering a broad product portfolio, flexible enrollment solutions and technology (including significant presence on employer benefit administration systems), and its strong national accounts team, as well as the well-recognized Allstate brand. We are investing in new generation enrollment and administrative technology to improve our customer experience and modernize our operating model.

Market trends for voluntary benefits are favorable as the market has nearly doubled in size since 2006, driven by the ability of voluntary benefits to fill gaps from employers seeking to contain rising health care costs, by providing higher deductible medical plans, and shifting costs to employees. Allstate Benefits has introduced new products and enhanced existing products to address these gaps by providing protection for catastrophic events such as a critical illness, accident or hospital stay. We are expanding our group life capabilities, offering employer paid life to broaden our product portfolio. Originally a provider of voluntary benefits to small and mid-sized businesses, Allstate Benefits now provides benefit solutions to companies of all sizes and industries including the large account voluntary benefits marketplace.

The Allstate Benefits strategy for growth includes expansion in the national accounts market by increasing the number of sales, enrollment technology and account management personnel and expanding independent agent distribution in targeted geographic locations, including Canada, for increased new sales. We are also increasing Allstate exclusive agency engagement to drive cross selling of voluntary benefits products, and developing opportunities for revenue growth through new product and value added service offerings. Allstate Benefits new business written premiums increased 5.6% and 6.0% in 2016 and 2015, respectively.

The financial results for Allstate Benefits for the years ended December 31 are presented in the following table.

(\$ in millions)	2016	2015	2014
Revenues			
Life and annuity premiums and contract charges	\$1,011	\$921	\$869
Net investment income	71	71	72
Realized capital gains and losses	(5)	1	1
Total revenues	1,077	993	942
Costs and expenses			
Life and annuity contract benefits	(509)	(452)	(411)
Interest credited to contractholder funds	(36)	(36)	(36)
Amortization of DAC	(145)	(124)	(112)
Operating costs and expenses	(240)	(222)	(206)
Total costs and expenses	(930)	(834)	(765)
Income tax expense	(51)	(55)	(62)
Net income applicable to common shareholders	\$96	\$104	\$115

Net income applicable to common shareholders was \$96 million in 2016 compared to \$104 million in 2015. The decrease was primarily due to higher contract benefits, amortization of DAC and operating costs and expenses, partially offset by higher premiums and contract charges. Net income applicable to common shareholders was \$104 million in 2015 compared to \$115 million in 2014. The decrease was primarily due to higher contract benefits and operating costs and expenses, partially offset by increased premiums and contract charges.

Premiums and contract charges increased 9.8% or \$90 million in 2016 compared to 2015. The increase primarily relates to growth in critical illness, accident and hospital indemnity products. Policies in force increased 13.4% to 3,758 thousand as of December 31, 2016 compared to 3,315 thousand as of December 31, 2015. Total premiums and contract charges increased 6.0% or \$52 million in 2015 compared to 2014. The increase primarily relates to growth in

accident, critical illness and hospital indemnity products. Policies in force increased 11.1% to 3,315 thousand as of December 31, 2015 compared to 2,983 thousand as of December 31, 2014.

Contract benefits increased 12.6% or \$57 million in 2016 compared to 2015, primarily due to growth and higher claim experience. Contract benefits increased 10.0% or \$41 million in 2015 compared to 2014, primarily due to growth.

Benefit spread increased 6.4% to \$447 million in 2016 compared to \$420 million in 2015, primarily due to growth in business in force, partially offset by higher claim experience. Benefit spread increased 1.4% to \$420 million in 2015 compared to \$414 million in 2014, primarily due to growth in business in force.

Operating costs and expenses increased 8.1% or \$18 million in 2016 compared to 2015, primarily due to increased employee and technology costs related to growth. Operating costs and expenses increased 7.8% or \$16 million in 2015 compared to 2014, primarily due to increased employee related costs.

Allstate Annuities

Strategy We exited the continuing sale of annuities over an eight year period from 2006 to 2014, reflecting our expectations of declining returns. As a result, the declining volume of Allstate Annuities business is managed with a focus on increasing lifetime economic value. While we may choose to selectively issue liabilities in the future, we currently do not expect any issuance to be material. Both the deferred and immediate annuity businesses have been adversely impacted by the historically low interest rate environment. Our immediate annuity business has also been impacted by medical advancements that have resulted in annuitants living longer than anticipated when many of these contracts were originated. Allstate Financial focuses on the distinct risk and return profiles of the specific products outstanding when developing investment and liability management strategies. The level of legacy deferred annuities in force has been significantly reduced and the investment portfolio and annuity crediting rates are proactively managed to improve the profitability of the business while providing appropriate levels of liquidity. The investment portfolio supporting our immediate annuities is managed to ensure the assets match the characteristics of the liabilities and provide the long-term returns needed to support this business. To better match the long-term nature of our immediate annuities, we continue to increase performance-based investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic asset or operating performance.

The financial results for Allstate Annuities for the years ended December 31 are presented in the following table.

(\$ in millions)	2016	2015	2014
Revenues			
Life and annuity premiums and contract charges	\$ 14	\$ 14	\$ 23
Net investment income	1,181	1,323	1,540
Realized capital gains and losses	(38)	264	137
Total revenues	1,157	1,601	1,700
Costs and expenses			
Life and annuity contract benefits	(606)	(602)	(620)
Interest credited to contractholder funds	(405)	(443)	(572)
Amortization of DAC	(7)	(5)	(8)
Operating costs and expenses	(32)	(38)	(28)
Restructuring and related charges	—	1	—
Total costs and expenses	(1,050)	(1,087)	(1,228)
Gain (loss) on disposition of operations	5	4	(50)
Income tax expense	(36)	(188)	(138)
Net income applicable to common shareholders	\$ 76	\$ 330	\$ 284

Net income applicable to common shareholders was \$76 million in 2016 compared to \$330 million in 2015. The decrease was primarily due to net realized capital losses in 2016 compared to net realized capital gains in 2015 and lower net investment income, partially offset by lower interest credited to contractholder funds. Net income applicable to common shareholders was \$330 million in 2015 compared to \$284 million in 2014.

Net realized capital losses in 2016 primarily related to impairment write-downs, partially offset by net gains on sales in connection with ongoing portfolio management. Net realized capital gains in 2015 included gains on sales of longer duration fixed income securities in connection with the maturity profile shortening and equity securities in connection with ongoing portfolio management. Net realized capital gains in 2014 primarily related to sales of equity and fixed income securities in connection with ongoing portfolio management.

Net investment income decreased 10.7% or \$142 million in 2016 compared to 2015, primarily due to lower fixed income portfolio yields and lower average investment balances. The lower fixed income yields relate to duration shortening in 2015 and the repositioning into performance-based investments and equity securities to support our long-term immediate annuities. While we anticipate higher returns on these investments over time, the investment income can vary significantly between periods. Net investment income decreased 14.1% or \$217 million in 2015 compared to 2014, primarily due to lower average investment balances resulting from the sale of LBL on April 1, 2014 and the runoff of the deferred fixed annuity business.

Contract benefits increased 0.7% or \$4 million in 2016 compared to 2015, primarily due to unfavorable immediate annuity mortality experience. Contract benefits decreased 2.9% or \$18 million in 2015 compared to 2014.

Interest credited to contractholder funds decreased 8.6% or \$38 million in 2016 compared to 2015, primarily due to lower average contractholder funds. Interest credited to contractholder funds decreased 22.6% or \$129 million in 2015 compared to 2014, primarily due to the reduction in business due to the sale of LBL on April 1, 2014 and the runoff of the deferred fixed annuity business. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged increased interest credited to contractholder funds by \$3 million in 2016 compared to \$2 million in 2015 and \$22 million in 2014.

Investment spread before valuation changes on embedded derivatives that are not hedged decreased 27.2% to \$268 million in 2016 compared to \$368 million in 2015, primarily due to lower net investment income. Investment spread before valuation changes on embedded derivatives that are not hedged decreased 21.0% to \$368 million in 2015 compared to \$466 million in 2014, primarily due to lower net investment income, partially offset by lower credited interest.

Operating costs and expenses decreased 15.8% or \$6 million in 2016 compared to 2015, primarily due to lower employee related and other operating costs as a result of the runoff of the business. Operating costs and expenses increased 35.7% or \$10 million in 2015 compared to 2014.

Allstate Financial Reinsurance Ceded

In the normal course of business, we seek to limit aggregate and single exposure to losses on large risks by purchasing reinsurance. In addition, Allstate Financial has used reinsurance to effect the disposition of certain blocks of business. We retain primary liability as a direct insurer for all risks ceded to reinsurers. As of December 31, 2016 and 2015, 20% and 21%, respectively, of our face amount of life insurance in force was reinsured. Additionally, we ceded substantially all of the risk associated with our variable annuity business to Prudential Insurance Company of America.

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

(\$ in millions)	S&P financial strength rating ⁽¹⁾	Reinsurance recoverable on paid and unpaid benefits	
		2016	2015
Prudential Insurance Company of America	AA-	\$ 1,406	\$ 1,438
RGA Reinsurance Company	AA-	252	268
Swiss Re Life and Health America, Inc.	AA-	152	153
Munich American Reassurance	AA-	99	103
Scottish Re Group	N/A	90	94
Transamerica Life Group	AA-	85	83
Mutual of Omaha Insurance	AA-	84	85
John Hancock Life & Health Insurance Company	AA-	55	56
Triton Insurance Company	N/A	49	51
American Health & Life Insurance Co.	N/A	41	43
Lincoln National Life Insurance	AA-	32	34
Security Life of Denver	A	30	31
General Re Life Corporation	AA+	24	23
SCOR Global Life	AA-	17	18
Other ⁽²⁾		52	59
Total		\$ 2,468	\$ 2,539
Allstate Life		\$ 934	\$ 971
Allstate Benefits		110	111
Allstate Annuities		1,424	1,457
Total		\$ 2,468	\$ 2,539

(1) N/A reflects no S&P rating available.

(2) As of December 31, 2016 and 2015, the other category includes \$45 million and \$47 million, respectively, of recoverables due from reinsurers with an investment grade credit rating from S&P.

We continuously monitor the creditworthiness of reinsurers in order to determine our risk of recoverability on an individual and aggregate basis, and a provision for uncollectible reinsurance is recorded if needed. No amounts have been deemed unrecoverable in the three-years ended December 31, 2016.

We enter into certain intercompany reinsurance transactions for the Allstate Financial operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

INVESTMENTS 2016 HIGHLIGHTS

Investments totaled \$81.80 billion as of December 31, 2016, increasing from \$77.76 billion as of December 31, 2015. Unrealized net capital gains totaled \$1.77 billion as of December 31, 2016, increasing from \$1.03 billion as of December 31, 2015.

Net investment income was \$3.04 billion in 2016, a decrease of 3.6% from \$3.16 billion in 2015.

Net realized capital losses were \$90 million in 2016 compared to net realized capital gains of \$30 million in 2015.

INVESTMENTS

Overview and strategy The return on our investment portfolios is an important component of our ability to offer good value to customers, fund business improvements and create value for shareholders. Investment portfolios are held for the Property-Liability, Allstate Financial and Corporate and Other operations. While taking into consideration the investment portfolio in aggregate, the management of the underlying portfolios is significantly influenced by the nature of each respective business and its corresponding liability profile. For each operation, we identify a strategic asset allocation which considers both the nature of the liabilities and the risk and return characteristics of the various asset classes in which we invest. This allocation is informed by our long-term and market expectations, as well as other considerations such as risk appetite, portfolio diversification, duration, desired liquidity and capital. Within appropriate ranges relative to strategic allocations, tactical allocations are made in consideration of prevailing and potential future market conditions. We manage risks that involve uncertainty related to interest rates, credit spreads, equity returns and currency exchange rates.

The Property-Liability portfolio emphasizes protection of principal and consistent income generation, within a total return framework. This approach has produced competitive returns over the long term and is designed to ensure financial strength and stability for paying claims, while maximizing economic value and surplus growth. Products with lower liquidity needs, such as auto insurance and discontinued lines and coverages, and capital create capacity to invest in less liquid higher yielding fixed income securities, performance-based investments such as limited partnerships, and equity securities. Products with higher liquidity needs, such as homeowners insurance, are invested primarily in high quality liquid fixed income securities.

The Allstate Financial portfolio is comprised of assets chosen to generate returns to support corresponding liabilities, within an asset-liability framework that targets an appropriate return on capital. For longer-term immediate annuity liabilities, we invest primarily in performance-based investments and equity securities. For shorter-term annuity and life insurance liabilities, we invest primarily in interest-bearing investments, such as fixed income securities and commercial mortgage loans.

The Corporate and Other portfolio balances unique liquidity needs related to the overall corporate capital structure with the pursuit of returns.

Within each segment, 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 be moved between strategies.

Market-Based Core strategy seeks to deliver predictable 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 December 31, 2016, 81% of the total portfolio follows this strategy with 83% 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 December 31, 2016, 12% of the total portfolio follows this strategy with 76% in fixed income securities and 14% in equity securities.

Performance-Based Long-Term ("PBLT") strategy seeks to deliver attractive risk-adjusted returns over a longer horizon. The 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 December 31, 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.

Investments outlook

In December 2016, the FOMC tightened monetary policy by setting the new target range for the federal funds rate at 1/2 percent to 3/4 percent and maintained their inflation target of 2 percent. The FOMC noted that monetary policy remains accommodative after the increase, thereby supporting further strengthening in the labor market and a return to 2 percent inflation. The path of the federal funds rate increase will depend on economic conditions and their impact on the economic outlook. We anticipate that interest rates will continue to increase but remain below historic averages and that financial markets may continue to have periods of high volatility and less liquidity.

Invested assets and income are expected to decline in line with reductions in contractholder funds for the Allstate Financial segment. Additionally, investment income will decline as we continue to invest and reinvest investment proceeds at market yields that are below the current portfolio yield. We plan to focus on the following priorities:

• Expanding our capabilities in performance-based investing to increase portfolio returns and capital creation and taking advantage of increased market volatility through allocations to market-based active strategies.

• Continue to shift the portfolio mix to include more performance-based investments. A greater proportion of the return on these investments is derived from idiosyncratic asset or operating performance. While we anticipate higher returns on these investments over time, the investment income can vary significantly between periods.

• Investing for the specific needs and characteristics of Allstate's businesses, including its corresponding liability profile. Portfolio composition by reporting segment The composition of the investment portfolios by reporting segment as of December 31, 2016 is presented in the following table.

(\$ in millions)	Property-Liability Allstate		Corporate		and Other		Total	
	(5)	Financial (5)	(5)	(5)	(5)	(5)	(5)	(5)
		Percent		Percent		Percent		Percent
		to total		to total		to total		to total
Fixed income securities ⁽¹⁾	\$30,302	70.9 %	\$25,578	69.4 %	\$1,959	87.6 %	\$57,839	70.7 %
Equity securities ⁽²⁾	4,074	9.5	1,589	4.3	3	0.1	5,666	6.9
Mortgage loans	280	0.7	4,206	11.4	—	—	4,486	5.5
Limited partnership interests ⁽³⁾	3,042	7.1	2,771	7.5	1	—	5,814	7.1
Short-term investments ⁽⁴⁾	3,405	8.0	609	1.7	274	12.3	4,288	5.3
Other	1,619	3.8	2,087	5.7	—	—	3,706	4.5
Total	\$42,722	100.0 %	\$36,840	100.0 %	\$2,237	100.0 %	\$81,799	100.0 %

Fixed income securities are carried at fair value. Amortized cost basis for these securities was \$30.20 billion,

⁽¹⁾ \$24.42 billion, \$1.95 billion and \$56.58 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 \$3.67 billion, \$1.48 billion, \$3 million and \$5.16 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 \$1.58 billion, \$1.40 billion and \$2.98 billion for Property-Liability, Allstate Financial and in Total, respectively.

Short-term investments are carried at fair value. Amortized cost basis for these investments was \$3.41 billion, \$609

⁽⁴⁾ million, \$274 million and \$4.29 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 \$81.80 billion as of December 31, 2016, increasing from \$77.76 billion as of December 31, 2015, primarily due to positive operating cash flows, proceeds from the issuance of debt, and higher fixed income and equity valuations, partially offset by common share repurchases, net reductions in contractholder funds and dividends paid to shareholders.

The Property-Liability investment portfolio totaled \$42.72 billion as of December 31, 2016, increasing from \$38.48 billion as of December 31, 2015, primarily due to the proceeds from the issuance of debt that were used to fund the acquisition of SquareTrade on January 3, 2017, positive operating cash flows and higher fixed income and equity

valuations, partially offset by dividends paid by Allstate Insurance Company (“AIC”) to The Allstate Corporation (the “Corporation”).

The Allstate Financial investment portfolio totaled \$36.84 billion as of December 31, 2016, increasing from \$36.79 billion as of December 31, 2015, primarily due to positive operating cash flows from life and accident and health insurance products and higher fixed income valuations, partially offset by net reductions in contractholder funds.

The Corporate and Other investment portfolio totaled \$2.24 billion as of December 31, 2016, decreasing from \$2.49 billion as of December 31, 2015, primarily due to common share repurchases and dividends paid to shareholders, partially offset by dividends paid by AIC to the Corporation.

Portfolio composition by investment strategy The following table presents the investment portfolio by strategy as of December 31, 2016.

(\$ in millions)	Total	Market-Based Core	Market-Based Active	Performance-Based Long-Term	Performance-Based Opportunistic	
Fixed income securities	\$57,839	\$ 50,527	\$ 7,246	\$ 66	\$ —	
Equity securities	5,666	4,221	1,346	99	—	
Mortgage loans	4,486	4,486	—	—	—	
Limited partnership interests	5,814	502	—	5,292	20	
Short-term investments	4,288	3,475	813	—	—	
Other	3,706	3,014	160	532	—	
Total	\$81,799	\$ 66,225	\$ 9,565	\$ 5,989	\$ 20	
% of total		81	% 12	% 7	% —	%
Property-Liability	\$42,722	\$ 31,216	\$ 8,313	\$ 3,181	\$ 12	
% of Property-Liability		73	% 20	% 7	% —	%
Allstate Financial	\$36,840	\$ 32,772	\$ 1,252	\$ 2,808	\$ 8	
% of Allstate Financial		89	% 3	% 8	% —	%
Corporate & Other	\$2,237	\$ 2,237	\$ —	\$ —	\$ —	
% of Corporate & Other		100	% —	% —	% —	%
Unrealized net capital gains and losses						
Fixed income securities	\$1,263	\$ 1,236	\$ 27	\$ —	\$ —	
Equity securities	509	447	53	9	—	
Limited partnership interests	(4)	—	—	(4)	—	
Other	2	2	—	—	—	
Total	\$1,770	\$ 1,685	\$ 80	\$ 5	\$ —	

During 2016, strategic actions focused on optimizing portfolio yield, return and risk in the low interest rate environment. In the Property-Liability portfolio, we maintained the shorter maturity profile of our fixed income securities established in 2013. In the Allstate Financial portfolio, we maintained the portfolio's shorter maturity profile established in 2015 and continued to shift the proceeds from the sale of longer duration fixed income securities primarily to performance-based investments. These actions have reduced our exposure to rising interest rates. We continue to increase our performance-based investments in both the Property-Liability and Allstate Financial portfolios, consistent with our ongoing strategy to have a greater proportion of return derived from idiosyncratic asset or operating performance and equity securities. In Allstate Financial's portfolio, performance-based investments and equity securities will continue to be allocated primarily to the longer-term immediate annuity liabilities to improve returns on those products. Shorter-term annuity and life insurance liabilities will continue to be invested primarily in interest-bearing investments, such as fixed income securities and commercial mortgage loans.

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

(\$ in millions)	Fair value as of December 31, 2016	Percent to total investments	Fair value as of December 31, 2015	Percent to total investments
U.S. government and agencies	\$ 3,637	4.5 %	\$ 3,922	5.0 %
Municipal	7,333	9.0	7,401	9.5
Corporate	43,601	53.3	41,827	53.8
Foreign government	1,075	1.3	1,033	1.4
ABS	1,171	1.4	2,327	3.0

Edgar Filing: ALLSTATE CORP - Form 10-K

RMBS	728	0.9	947	1.2
CMBS	270	0.3	466	0.6
Redeemable preferred stock	24	—	25	—
Total fixed income securities	\$ 57,839	70.7 %	\$ 57,948	74.5 %

85

Fixed income securities are rated by third party credit rating agencies and/or are internally rated. As of December 31, 2016, 85.1% 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 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 credit quality as of December 31, 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	\$3,637	\$ 65	\$—	\$ —	\$3,637	\$ 65
Municipal						
Tax exempt	4,943	(38)	39	(5)	4,982	(43)
Taxable	2,297	261	54	(1)	2,351	260
Corporate						
Public	26,806	511	4,686	68	31,492	579
Privately placed	9,053	246	3,056	34	12,109	280
Foreign government	1,070	32	5	—	1,075	32
ABS						
Collateralized debt obligations ("CDO")	624	(4)	53	3	677	(1)
Consumer and other asset-backed securities ("Consumer and other ABS")	490	2	4	1	494	3
RMBS						
U.S. government sponsored entities ("U.S. Agency")	143	4	—	—	143	4
Non-agency	36	1	549	72	585	73
CMBS	94	1	176	7	270	8
Redeemable preferred stock	24	3	—	—	24	3
Total fixed income securities	\$49,217	\$ 1,084	\$8,622	\$ 179	\$57,839	\$ 1,263
Property-Liability	\$25,011	\$ 5	\$5,291	\$ 93	\$30,302	\$ 98
Allstate Financial	22,329	1,069	3,249	85	25,578	1,154
Corporate & Other	1,877	10	82	1	1,959	11
Total fixed income securities	\$49,217	\$ 1,084	\$8,622	\$ 179	\$57,839	\$ 1,263

Municipal bonds, including tax exempt and taxable securities, totaled \$7.33 billion as of December 31, 2016 with an unrealized net capital gain of \$217 million. The municipal bond portfolio includes general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest).

The following table summarizes by state the fair value, amortized cost and credit rating of our municipal bonds, excluding \$282 million of pre-refunded bonds, as of December 31, 2016.

(\$ in millions) State	State general obligation	Local general obligation	Revenue (1)	Fair value	Amortized cost	Average credit rating
Texas	\$ 17	\$ 364	\$ 321	\$ 702	\$ 667	Aa
California	89	186	234	509	465	Aa
New York	9	80	393	482	469	Aa
Florida	94	34	277	405	399	Aa
Washington	248	7	141	396	391	Aa
Michigan	228	8	147	383	383	Aa
Oregon	89	186	46	321	292	Aa
Pennsylvania	85	50	139	274	273	Aa
Illinois	1	46	174	221	208	A
Ohio	97	26	94	217	216	Aa
All others	764	633	1,744	3,141	3,083	Aa
Total	\$ 1,721	\$ 1,620	\$ 3,710	\$ 7,051	\$ 6,846	Aa

(1) The nature of the activities supporting revenue bonds is diversified and includes transportation, health care, industrial development, housing, higher education, utilities, recreation/convention centers and other activities. Our practice for acquiring and monitoring municipal bonds is predominantly based on the underlying credit quality of the primary obligor. We currently rely on the primary obligor to pay all contractual cash flows and are not relying on bond insurers for payments. As a result of downgrades in the insurers' credit ratings, the ratings of the insured municipal bonds generally reflect the underlying ratings of the primary obligor. As of December 31, 2016, 99.7% of our insured municipal bond portfolio is rated investment grade.

Corporate bonds, including publicly traded and privately placed, totaled \$43.60 billion as of December 31, 2016, with an unrealized net capital gain of \$859 million. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

Our \$12.11 billion portfolio of privately placed securities is diversified by issuer, industry sector and country. The portfolio is made up of 432 issuers. Privately placed corporate obligations may contain structural security features such as financial covenants and call protections that provide investors greater protection against credit deterioration, reinvestment risk or fluctuations in interest rates than those typically found in publicly registered debt securities. Additionally, investments in these securities are made after due diligence of the issuer, typically including discussions with senior management and on-site visits to company facilities. Ongoing monitoring includes direct periodic dialog with senior management of the issuer and continuous monitoring of operating performance and financial position. Every issue not rated by an independent rating agency is internally rated with a formal rating affirmation at least once a year.

Our corporate bonds portfolio includes \$7.74 billion of below investment grade bonds, \$3.06 billion of which are privately placed. These securities are diversified by issuer and industry sector. The below investment grade corporate bonds portfolio is made up of 276 issuers. We employ fundamental analyses of issuers and sectors along with macro and asset class views to identify investment opportunities. This results in a portfolio with broad exposure to the high yield market, yet with an emphasis on idiosyncratic positions reflective of our views of market conditions and opportunities.

Foreign government securities totaled \$1.08 billion as of December 31, 2016, with 99.5% rated investment grade and an unrealized net capital gain of \$32 million. Of these securities, 69.1% are in Canadian governmental and provincial securities (64.4% of which are held by our Canadian companies), 19.2% are backed by the U.S. government and the remaining 11.7% are highly diversified in other foreign governments.

ABS, RMBS and CMBS are structured securities that are primarily collateralized by consumer or corporate borrowings and residential and commercial real estate loans. The cash flows from the underlying collateral paid to the securitization trust are generally applied in a pre-determined order and are designed so that each security issued by the

trust, typically referred to as a “class”, qualifies for a specific original rating. For example, the “senior” portion or “top” of the capital structure, or rating class, which would originally qualify for a rating of Aaa typically has priority in receiving principal repayments on the underlying collateral and retains this priority until the class is paid in full. In a sequential structure, underlying collateral principal repayments are directed to the most senior rated Aaa class in the structure until paid in full, after which principal repayments are directed to the next most senior Aaa class in the structure until it is paid in full. Senior Aaa classes generally share any losses from the underlying collateral on a pro-rata basis after losses are absorbed by classes with lower original ratings. The payment priority and class subordination included in these securities serves as credit enhancement for holders of the senior or top portions of the

structures. These securities continue to retain the payment priority features that existed at the origination of the securitization trust. Other forms of credit enhancement may include structural features embedded in the securitization trust, such as overcollateralization, excess spread and bond insurance. The underlying collateral may contain fixed interest rates, variable interest rates (such as adjustable rate mortgages), or both fixed and variable rate features.

ABS, including CDO and Consumer and other ABS, totaled \$1.17 billion as of December 31, 2016, with 95.1% rated investment grade and an unrealized net capital gain of \$2 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 \$677 million as of December 31, 2016, with 92.2% rated investment grade and an unrealized net capital loss of \$1 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 \$494 million as of December 31, 2016, with 99.2% rated investment grade.

Consumer and other ABS consists of \$208 million of consumer auto, \$126 million of credit card and \$160 million of other ABS with unrealized net capital gains of zero, zero and \$3 million, respectively.

RMBS totaled \$728 million as of December 31, 2016, with 24.6% rated investment grade and an unrealized net capital gain of \$77 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 \$585 million as of December 31, 2016, with 6.2% rated investment grade and an unrealized net capital gain of \$73 million.

CMBS totaled \$270 million as of December 31, 2016, with 34.8% rated investment grade and an unrealized net capital gain of \$8 million. The CMBS portfolio is subject to credit risk and has a sequential paydown structure. Of the CMBS investments, 91.8% 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 \$5.67 billion as of December 31, 2016, with an unrealized net capital gain of \$509 million.

Mortgage loans, which are primarily held in the Allstate Financial portfolio, totaled \$4.49 billion as of December 31, 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 5 of the 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 December 31, 2016.

(\$ in millions)	Private equity	Real estate	Other	Total
Cost method of accounting ("Cost")	\$ 1,105	\$ 132	\$ 45	\$ 1,282
Equity method of accounting ("EMA")	3,105	970	457	4,532
Total	\$ 4,210	\$ 1,102	\$ 502	\$ 5,814

Number of managers	121	38	14	173
Number of individual investments	226	81	19	326
Largest exposure to single investment	\$ 171	\$ 71	\$ 210	\$ 210

Short-term investments totaled \$4.29 billion as of December 31, 2016. This includes \$1.4 billion that was used to fund the acquisition of SquareTrade on January 3, 2017.

Other investments primarily comprise \$1.67 billion of bank loans, \$904 million of policy loans, \$467 million of agent loans (loans issued to exclusive Allstate agents), \$318 million of real estate and \$111 million of derivatives as of December 31, 2016. For further detail on our use of derivatives, see Note 7 of the consolidated financial statements.

Unrealized net capital gains totaled \$1.77 billion as of December 31, 2016 compared to \$1.03 billion as of December 31, 2015. The increase for fixed income securities was primarily due to a decrease in market yields resulting from tighter credit spreads partially offset by an increase in risk-free interest rates. The increase for equity securities was primarily due to favorable equity market performance, as well as the realization of unrealized net capital losses through write-downs, partially offset by the realization of unrealized net capital gains through sales.

The following table presents unrealized net capital gains and losses as of December 31.

(\$ in millions)	2016	2015
U.S. government and agencies	\$65	\$86
Municipal	217	369
Corporate	859	153
Foreign government	32	50
ABS	2	(32)
RMBS	77	90
CMBS	8	28
Redeemable preferred stock	3	3
Fixed income securities	1,263	747
Equity securities	509	276
Derivatives	2	6
EMA limited partnerships	(4)	(4)
Unrealized net capital gains and losses, pre-tax	\$1,770	\$1,025

Property-Liability	\$500	\$84
Allstate Financial	1,263	929
Corporate & Other	7	12
Unrealized net capital gains and losses, pre-tax	\$1,770	\$1,025

We have a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security that may be other-than-temporarily impaired. The 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 we 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 our 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. All investments in an unrealized loss position as of December 31, 2016 were included in our portfolio monitoring process for determining whether declines in value were other than temporary.

The unrealized net capital gain for the fixed income portfolio totaled \$1.26 billion, comprised of \$1.71 billion of gross unrealized gains and \$447 million of gross unrealized losses as of December 31, 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 December 31, 2016 are provided in the following table.

(\$ in millions)	Amortized cost	Gross unrealized		Fair value
		Gains	Losses	
Corporate:				
Consumer goods (cyclical and non-cyclical)	\$ 13,971	\$263	\$(101)	\$14,133
Utilities	5,048	323	(49)	5,322
Capital goods	4,278	108	(33)	4,353
Banking	3,316	36	(27)	3,325
Communications	3,689	81	(26)	3,744
Transportation	1,672	76	(24)	1,724
Technology	3,504	49	(19)	3,534
Basic industry	2,113	67	(16)	2,164
Financial services	2,747	76	(12)	2,811
Energy	2,055	88	(11)	2,132
Other	349	11	(1)	359
Total corporate fixed income portfolio	42,742	1,178	(319)	43,601
U.S. government and agencies	3,572	74	(9)	3,637
Municipal	7,116	304	(87)	7,333
Foreign government	1,043	36	(4)	1,075
ABS	1,169	13	(11)	1,171
RMBS	651	85	(8)	728
CMBS	262	17	(9)	270
Redeemable preferred stock	21	3	—	24
Total fixed income securities	\$ 56,576	\$1,710	\$(447)	\$57,839

The consumer goods, utilities and capital goods sectors comprise 32%, 12% and 10%, respectively, of the carrying value of our corporate fixed income portfolio as of December 31, 2016. The consumer goods, utilities and capital goods sectors had the highest concentration of gross unrealized losses in our corporate fixed income portfolio as of December 31, 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 declined significantly from 2014 through the first quarter of 2016. We decreased our exposure to the energy sector in first quarter 2016. Our remaining holdings appreciated in value as oil and natural gas values increased over the remainder of the year. In the fixed income and equity securities tables above and below, oil and natural gas exposure is reflected within the energy sector.

Securities that have direct exposure to the energy sector are presented in the following table.

(\$ in millions)	December 31, 2016		December 31, 2015	
	Fair value	Amortized cost or Cost	Fair value	Amortized cost or Cost
Fixed income securities	\$2,132	\$ 2,055	\$4,256	\$ 4,549
Equity securities	330	294	235	255
Total	\$2,462	\$ 2,349	\$4,491	\$ 4,804

The following table summarizes the fair value and gross unrealized losses of fixed income securities in a loss position by type and credit quality as of December 31, 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:						
Consumer goods (cyclical and non-cyclical)	\$4,200	\$ (76)	\$1,051	\$ (25)	\$5,251	\$ (101)
Utilities	1,206	(29)	214	(20)	1,420	(49)
Capital goods	1,364	(31)	147	(2)	1,511	(33)
Banking	858	(26)	11	(1)	869	(27)
Communications	994	(19)	339	(7)	1,333	(26)
Transportation	422	(23)	31	(1)	453	(24)
Technology	1,000	(16)	179	(3)	1,179	(19)
Basic industry	451	(10)	242	(6)	693	(16)
Financial services	764	(11)	45	(1)	809	(12)
Energy	246	(5)	214	(6)	460	(11)
Other	43	(1)	—	—	43	(1)
Total corporate fixed income portfolio	11,548	(247)	2,473	(72)	14,021	(319)
U.S. government and agencies	943	(9)	—	—	943	(9)
Municipal	3,061	(75)	41	(12)	3,102	(87)
Foreign government	225	(4)	—	—	225	(4)
ABS	317	(8)	14	(3)	331	(11)
RMBS	66	(1)	78	(7)	144	(8)
CMBS	11	—	63	(9)	74	(9)
Total fixed income securities	\$16,171	\$ (344)	\$2,669	\$ (103)	\$18,840	\$ (447)
Property-Liability	\$10,260	\$ (185)	\$1,664	\$ (49)	\$11,924	\$ (234)
Allstate Financial	5,129	(152)	981	(53)	6,110	(205)
Corporate & Other	782	(7)	24	(1)	806	(8)
Total fixed income securities	\$16,171	\$ (344)	\$2,669	\$ (103)	\$18,840	\$ (447)

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 December 31, 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:								
Consumer goods (cyclical and non-cyclical)	\$501	\$ (11)	\$451	\$ (9)	\$34	\$ (2)	\$986	\$ (22)
Utilities	53	(4)	102	(4)	10	(7)	165	(15)
Capital goods	57	(1)	79	(1)	—	—	136	(2)
Banking	2	—	—	—	—	—	2	—
Communications	245	(3)	32	—	—	—	277	(3)
Transportation	15	—	16	(1)	—	—	31	(1)
Technology	173	(3)	—	—	—	—	173	(3)
Basic industry	224	(6)	13	—	—	—	237	(6)
Financial services	9	—	1	—	—	—	10	—
Energy	102	(1)	50	(1)	5	—	157	(2)
Subtotal	\$1,381	\$ (29)	\$744	\$ (16)	\$49	\$ (9)	\$2,174	\$ (54)
	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:								
Consumer goods (cyclical and non-cyclical)	\$10	\$ —	\$33	\$ (1)	\$22	\$ (2)	\$65	\$ (3)
Utilities	—	—	32	(2)	17	(3)	49	(5)
Capital goods	—	—	11	—	—	—	11	—
Banking	9	(1)	—	—	—	—	9	(1)
Communications	42	(2)	20	(2)	—	—	62	(4)
Transportation	—	—	—	—	—	—	—	—
Technology	4	—	—	—	2	—	6	—
Basic industry	—	—	—	—	5	—	5	—
Financial services	35	(1)	—	—	—	—	35	(1)
Energy	16	(3)	36	—	5	(1)	57	(4)
Subtotal	\$116	\$ (7)	\$132	\$ (5)	\$51	\$ (6)	\$299	\$ (18)
Total	\$1,497	\$ (36)	\$876	\$ (21)	\$100	\$ (15)	\$2,473	\$ (72)

Of the unrealized losses on below investment grade corporate fixed income securities, 25.0% or \$18 million relate to securities that had been in an unrealized loss position for a period of twelve or more consecutive months as of December 31, 2016.

The unrealized net capital gain for the equity portfolio totaled \$509 million, comprised of \$594 million of gross unrealized gains and \$85 million of gross unrealized losses as of December 31, 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 December 31, 2016 are provided in the table below.

(\$ in millions)	Cost	Gross unrealized		Fair value
		Gains	Losses	
Consumer goods (cyclical and non-cyclical)	\$1,280	\$96	\$(46)	\$1,330
Communications	236	23	(11)	248
Banking	498	94	(6)	586
Financial services	353	37	(5)	385
Real estate	131	6	(4)	133
Energy	294	39	(3)	330
Utilities	116	9	(3)	122
Technology	529	81	(2)	608
Capital goods	450	44	(2)	492
Basic industry	162	18	(2)	178
Transportation	79	13	—	92
Funds	1,029	134	(1)	1,162
Total equity securities	\$5,157	\$594	\$(85)	\$5,666

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

As of December 31, 2016, we have not made the decision to sell and it is not more likely than not we will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis. As of December 31, 2016, we have the intent and ability to hold equity securities with unrealized losses for a period of time sufficient for them to recover.

On June 23, 2016, the United Kingdom (“U.K.”) held a referendum in which they voted to leave the European Union. A formal process of withdrawal under Article 50 of the Lisbon Treaty is expected to be followed and, once invoked, would take place over a period of up to two years. 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’s investment activities to be immaterial.

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

(\$ in millions)	2016	2015	2014
Fixed income securities	\$2,060	\$2,218	\$2,447
Equity securities	137	110	117
Mortgage loans	217	228	265
Limited partnership interests	561	549	614
Short-term investments	16	9	7
Other	222	192	170
Investment income, before expense	3,213	3,306	3,620
Investment expense	(171)	(150)	(161)
Net investment income	\$3,042	\$3,156	\$3,459
Property-Liability	\$1,266	\$1,237	\$1,301
Allstate Financial	1,734	1,884	2,131
Corporate & Other	42	35	27
Net investment income	\$3,042	\$3,156	\$3,459
Market-Based Core	\$2,340	\$2,495	
Market-Based Active	262	213	
Performance-Based Long-Term	606	589	
Performance-Based Opportunistic	5	9	

Investment income, before expense \$3,213 \$3,306

Net investment income decreased 3.6% or \$114 million in 2016 compared to 2015, after decreasing 8.8% or \$303 million in 2015 compared to 2014. The 2016 decrease was primarily due to lower fixed income yields resulting from lower market yields and portfolio repositioning (including both the 2015 maturity profile shortening in Allstate Financial and the shift to performance-based investments). The 2015 decrease was primarily due to lower average investment balances including the sale of LBL on April 1, 2014, lower limited partnership income, lower yields due to maturity profile shortening in the Allstate Financial portfolio, and lower prepayment fee income and litigation proceeds, partially offset by an increased allocation to high yield investments and

lower investment expenses. Net investment income in 2016 includes \$45 million related to prepayment fee income compared to \$65 million in 2015. 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 for the years ended December 31.

(\$ in millions)	2016	2015	2014
Impairment write-downs	\$(234)	\$(195)	\$(32)
Change in intent write-downs	(69)	(221)	(213)
Net other-than-temporary impairment losses recognized in earnings	(303)	(416)	(245)
Sales and other	213	470	975
Valuation and settlements of derivative instruments	—	(24)	(36)
Realized capital gains and losses, pre-tax	(90)	30	694
Income tax benefit (expense)	34	(11)	(243)
Realized capital gains and losses, after-tax	\$(56)	\$19	\$451

Property-Liability	\$—	\$(154)	\$357
Allstate Financial	(54)	173	94
Corporate & Other	(2)	—	—
Realized capital gains and losses, after-tax	\$(56)	\$19	\$451

Market-Based Core	\$(42)	\$70	
Market-Based Active	21	9	
Performance-Based Long-Term	(76)	(46)	
Performance-Based Opportunistic	7	(3)	
Realized capital gains and losses, pre-tax	\$(90)	\$30	

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

(\$ in millions)	2016	2015	2014
Fixed income securities	\$(44)	\$(75)	\$(24)
Equity securities	(125)	(59)	(6)
Mortgage loans	—	4	5
Limited partnership interests	(56)	(51)	(7)
Other investments	(9)	(14)	—
Impairment write-downs	\$(234)	\$(195)	\$(32)

Impairment write-downs on fixed income securities in 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, partially offset by the recovery in value of a limited partnership that was previously written-down. Impairment write-downs in 2016 included \$108 million related to investments with exposure to the energy sector.

Impairment write-downs on fixed income securities in 2015 were primarily driven by corporate fixed income securities impacted by issuer specific circumstances including exposure to oil and natural gas, defaulted special assessment municipal bonds, and collateralized loan obligations that experienced deterioration in expected cash flows. 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 two investments that have been impacted by the decline in natural gas prices. Impairment write-downs in 2015 included \$97 million and \$18 million of investments with exposure to the energy sector and metals and mining exposure in the basic industry sector, respectively.

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

Change in intent write-downs totaled \$69 million, \$221 million and \$213 million in 2016, 2015 and 2014, respectively. The change in intent write-downs primarily relate to equity securities 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. As of December 31, 2016, these holdings totaled \$1.7 billion. 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 December 31, 2016, these holdings totaled \$49 million and we recognized change in intent write-downs of \$3 million in 2016. Sales and other generated \$213 million, \$470 million and \$975 million of net realized capital gains in 2016, 2015 and 2014, respectively. Sales and other in 2016 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. Sales and other in 2015 included sales of longer duration fixed income securities in connection with the maturity profile shortening in Allstate Financial and equity securities in connection with ongoing portfolio management, as well as losses from valuation changes in public securities held in certain limited partnerships. Sales and other in 2014 primarily related to equity and fixed income securities in connection with ongoing portfolio management.

Valuation and settlements of derivative instruments net realized capital gains netted to zero in 2016 and net realized capital losses were \$24 million and \$36 million in 2015 and 2014, respectively. 2016 primarily comprised gains on foreign currency contracts due to the strengthening of the U.S. Dollar, offset by losses on equity futures used for risk management due to increases in equity indices and losses on credit default swaps due to the tightening of credit spreads on the underlying credit names. The net realized capital losses in 2015 primarily comprised losses on foreign currency contracts due to the weakening of the Canadian Dollar. The net realized capital losses in 2014 primarily comprised 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 Canadian 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 for the years ended December 31.

(\$ in millions)	2016	2015	2014
Limited partnerships			
Private equity ⁽¹⁾	\$455	\$402	\$391
Real estate	103	158	211
Timber and agriculture-related	3	(1)	—
PBLT - limited partnerships ⁽²⁾	561	559	602
Other			
Private equity	4	1	—
Real estate	33	22	14
Timber and agriculture-related	8	7	9
PBLT - other	45	30	23
Total			
Private equity	459	403	391
Real estate	136	180	225
Timber and agriculture-related	11	6	9
Total PBLT	\$606	\$589	\$625
Asset level operating expenses ⁽³⁾	\$(32)	\$(19)	\$(14)
Property-Liability	\$297	\$294	\$354
Allstate Financial	309	295	271

Total PBLT \$606 \$589 \$625

(1) Includes infrastructure.

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 (loss) was zero, \$(10) million and \$12 million in 2016, 2015 and 2014, respectively, for these limited partnership interests.

Asset level operating expenses include depreciation and direct expenses of the assets reported in investment expense. When calculating the pre-tax yields, asset level operating expenses are netted against income for directly held real estate, timber and other consolidated investments.

95

PBLT investments produced investment income of \$606 million in 2016 compared to \$589 million in 2015. The increase primarily related to income realization on direct real estate investments and higher valuations, including private equity investments with exposure to the energy sector, partially offset by lower distributions from cost method funds due to a decrease in realizations on the underlying investments.

PBLT investments produced investment income of \$589 million in 2015 compared to \$625 million in 2014. The decrease primarily related to lower income on real estate investments due to modest returns compared to significant returns in 2014. Partially offsetting the decrease was higher income on private equity investments due to net returns from the diversified portfolio along with strong distributions as acquirer access to financing and an active global merger and acquisition market facilitated the sales of underlying investments, which more than offset a decline in valuations of investments with exposure to the energy sector.

The following table presents realized capital gains and losses for PBLT investments for the years ended December 31.

(\$ in millions)	2016	2015	2014
Limited partnerships			
Private equity	\$(57)	\$(46)	\$(40)
Real estate	5	(4)	53
Timber and agriculture-related	—	—	—
PBLT - limited partnerships ⁽¹⁾	(52)	(50)	13
Other			
Private equity	(26)	6	—
Real estate	2	(3)	7
Timber and agriculture-related	—	1	—
PBLT - other	(24)	4	7
Total			
Private equity	(83)	(40)	(40)
Real estate	7	(7)	60
Timber and agriculture-related	—	1	—
Total PBLT	\$(76)	\$(46)	\$20
Property-Liability			
Allstate Financial	(30)	(12)	(2)
Total PBLT	\$(76)	\$(46)	\$20

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 \$31 million, \$(43) million and zero in 2016, 2015 and 2014, respectively, for these limited partnership interests.

Realized capital losses on PBLT investments were \$76 million and \$46 million in 2016 and 2015, respectively, compared to realized capital gains of \$20 million in 2014. 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. 2015 included impairment write-downs primarily related to two energy related investments that had been impacted by a decline in natural gas prices.

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

MARKET RISK

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

The active management of market risk is integral to our results of operations. We may use the following approaches to manage exposure to market risk within defined tolerance ranges: 1) rebalancing existing asset or liability portfolios, 2) changing the type of investments purchased in the future and 3) using derivative instruments to modify the market risk characteristics of existing assets and liabilities or assets expected to be purchased. For a more detailed discussion of our use of derivative financial instruments, see Note 7 of the consolidated financial statements.

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

Investment policies define the overall framework for managing market and other investment risks, including accountability and controls over risk management activities. Subsidiaries that conduct investment activities follow policies that have been approved by their respective boards of directors. These investment policies specify the investment limits and strategies that are appropriate given the liquidity, surplus, product profile and regulatory requirements of the subsidiary. Executive oversight of investment activities is conducted primarily through subsidiaries' boards of directors and investment committees. For Allstate Financial, its asset-liability management ("ALM") policies further define the overall framework for managing market and investment risks. ALM focuses on strategies to enhance yields, mitigate market risks and optimize capital to improve profitability and returns for Allstate Financial while factoring in future expected cash requirements to repay liabilities. Allstate Financial ALM activities follow asset-liability policies that have been approved by their respective boards of directors. These ALM policies specify limits, ranges and/or targets for investments that best meet Allstate Financial's business objectives in light of its product liabilities.

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

Interest rate risk is the risk that we will incur a loss due to adverse changes in interest rates relative to the characteristics of our interest bearing assets and liabilities. This risk arises from many of our primary activities, as we

invest substantial funds in interest-sensitive assets and issue interest-sensitive liabilities. Interest rate risk includes risks related to changes in U.S. Treasury yields and other key risk-free reference yields.

We manage the interest rate risk in our assets relative to the interest rate risk in our liabilities and our assessment of overall economic and capital risk. One of the measures used to quantify this exposure is duration. The difference in the duration of our assets relative to our liabilities is our duration gap. To calculate the duration gap between assets and liabilities, we project asset and liability cash flows and calculate their net present value using a risk-free market interest rate adjusted for credit quality, sector attributes, liquidity and other specific risks. Duration is calculated by revaluing these cash flows at alternative interest rates and determining the percentage change in aggregate fair value. The cash flows used in this calculation include the expected maturity

and repricing characteristics of our derivative financial instruments, all other financial instruments, and certain other items including unearned premiums, property-liability insurance claims and claims expense reserves, annuity liabilities and other interest-sensitive liabilities. The projections include assumptions (based upon historical market experience and our experience) that reflect the effect of changing interest rates on the prepayment, lapse, leverage and/or option features of instruments, where applicable. The preceding assumptions relate primarily to callable municipal and corporate bonds, fixed rate single and flexible premium deferred annuities, mortgage-backed securities and municipal housing bonds. Additionally, the calculations include assumptions regarding the renewal of property-liability policies.

As of December 31, 2016, the difference between our asset and liability duration was a (2.02) gap compared to a (1.25) gap as of December 31, 2015. A negative duration gap indicates that the fair value of our liabilities is more sensitive to interest rate movements than the fair value of our assets, while a positive duration gap indicates that the fair value of our assets is more sensitive to interest rate movements than the fair value of our liabilities. The Property-Liability segment generally maintains a positive duration gap between its assets and liabilities due to the relatively short duration of auto and homeowners claims, which are its primary liabilities. The Allstate Financial segment may have a positive or negative duration gap, as the duration of its assets and liabilities vary with its product mix and investing activity. As of December 31, 2016, Property-Liability had a positive duration gap while Allstate Financial had a negative duration gap.

In the management of investments supporting the Property-Liability business, we adhere to an objective of emphasizing safety of principal and consistency of income within a total return framework. This approach is designed to ensure our financial strength and stability for paying claims, while maximizing economic value and surplus growth. For the Allstate Financial business, we seek to invest premiums, contract charges and deposits to generate future cash flows that will fund future claims, benefits and expenses, and that will earn stable returns across a wide variety of interest rate and economic scenarios. To achieve this objective and limit interest rate risk for Allstate Financial, we adhere to a philosophy of managing the duration of assets and related liabilities within predetermined tolerance levels. This philosophy is executed using duration targets for fixed income investments and may also include interest rate swaps, futures, forwards, caps, floors and swaptions to reduce the interest rate risk resulting from mismatches between existing assets and liabilities, and financial futures and other derivative instruments to hedge the interest rate risk of anticipated purchases and sales of investments.

Based upon the information and assumptions used in the duration calculation, and interest rates in effect as of December 31, 2016, we estimate that a 100 basis point immediate, parallel increase in interest rates (“rate shock”) would increase the net fair value of the assets and liabilities by \$1.50 billion, compared to an increase of \$963 million as of December 31, 2015, reflecting year to year changes in duration and the amount of assets and liabilities. The selection of a 100 basis point immediate, parallel change in interest rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event. The estimate excludes traditional and interest-sensitive life insurance and other products that are not considered financial instruments and the \$10.85 billion of assets supporting them and the associated liabilities. The \$10.85 billion of assets excluded from the calculation increased from \$9.86 billion as of December 31, 2015. Based on assumptions described above, in the event of a 100 basis point immediate increase in interest rates, the assets supporting life insurance and other products that are not considered financial instruments would decrease in value by \$560 million compared to a decrease of \$558 million as of December 31, 2015.

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

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

fixed income assets.

We manage the spread risk in our assets. One of the measures used to quantify this exposure is spread duration. Spread duration measures the price sensitivity of the assets to changes in spreads. For example, if spreads increase 100 basis points, the fair value of an asset exhibiting a spread duration of 5 is expected to decrease in value by 5%. Spread duration is calculated similarly to interest rate duration. As of December 31, 2016, the spread duration of Property-Liability assets was 3.20, compared to 3.38 as of December 31, 2015, and the spread duration of Allstate Financial assets was 4.83, compared to 4.91 as of December 31, 2015. Based upon the information and assumptions we use in this spread duration calculation, and spreads in effect as of December 31, 2016, we estimate that a 100 basis point immediate, parallel increase in spreads across all asset classes, industry sectors and credit ratings (“spread shock”) would decrease the net fair value of the assets by \$2.40 billion compared to \$2.52 billion as of December 31, 2015. Reflected in the spread duration calculation are the effects of our tactical

actions that use credit default swaps to manage spread risk. The selection of a 100 basis point immediate parallel change in spreads should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

Equity price risk is the risk that we will incur losses due to adverse changes in the general levels of the equity markets. As of December 31, 2016, we held \$5.48 billion in common stocks and exchange traded and mutual funds and \$6.00 billion in other securities with equity risk (including primarily limited partnership interests and non-redeemable preferred securities), compared to \$4.98 billion and \$4.98 billion, respectively, as of December 31, 2015. 71.3% of the common stocks and exchange traded and mutual funds and 53.5% of the other securities with equity risk are in Property-Liability as of December 31, 2016, compared to 68.3% and 53.4%, respectively, as of December 31, 2015. As of December 31, 2016, our portfolio of common stocks and other securities with equity risk had a cash market portfolio beta of 1.04, compared to a beta of 1.17 as of December 31, 2015. Beta represents a widely used methodology to describe, quantitatively, an investment's market risk characteristics relative to an index such as the Standard & Poor's 500 Composite Price Index ("S&P 500"). Based on the beta analysis, we estimate that if the S&P 500 increases or decreases by 10%, the fair value of our equity investments will increase or decrease by 10.4%, respectively. Based upon the information and assumptions we used to calculate beta as of December 31, 2016, we estimate that an immediate increase or decrease in the S&P 500 of 10% would increase or decrease the net fair value of our equity investments by \$1.20 billion, compared to \$1.17 billion as of December 31, 2015. The selection of a 10% immediate increase or decrease in the S&P 500 should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

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

As of December 31, 2016 and 2015, we had separate account assets related to variable annuity and variable life contracts with account values totaling \$3.39 billion and \$3.66 billion, respectively. Equity risk exists for contract charges based on separate account balances and guarantees for death and/or income benefits provided by our variable products. In 2006, we disposed of substantially all of the variable annuity business through reinsurance agreements with The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc. and therefore mitigated this aspect of our risk. Equity risk for our variable life business relates to contract charges and policyholder benefits. Total variable life contract charges for both 2016 and 2015 were \$40 million. Separate account liabilities related to variable life contracts were \$66 million and \$69 million as of December 31, 2016 and 2015, respectively.

As of both December 31, 2016 and 2015, we had \$1.81 billion in equity-indexed life and annuity liabilities that provide customers with interest crediting rates based on the performance of the S&P 500. We hedge the majority of the risk associated with these liabilities using equity-indexed options and futures and eurodollar futures, maintaining risk within specified value-at-risk limits.

Foreign currency exchange rate risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. This risk primarily arises from our foreign equity investments, including common stocks, limited partnership interests, and our Canadian, Northern Ireland and Indian operations. We also have investments in certain fixed income securities and emerging market fixed income funds that are denominated in foreign currencies and derivatives are used to hedge approximately 48% of this foreign currency risk.

As of December 31, 2016, we had \$1.86 billion in foreign currency denominated equity investments, \$901 million net investment in our foreign subsidiaries, primarily related to our Canadian operations, and \$97 million in unhedged non-dollar fixed income securities. These amounts were \$1.97 billion, \$780 million, and \$17 million, respectively, as of December 31, 2015. 65% of the foreign currency exposure is in the Property-Liability business.

Based upon the information and assumptions used as of December 31, 2016, we estimate that a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we are exposed would decrease the value of our foreign currency denominated instruments by \$269 million, compared with an estimated \$278 million decrease as of December 31, 2015. The selection of a 10% immediate decrease in all currency exchange rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

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

PENSION AND OTHER POSTRETIREMENT PLANS

We have defined benefit pension plans, which cover most full-time employees, certain part-time employees and employee-agents. Benefits are based primarily on a cash balance formula; however, certain participants have a significant portion of their benefits attributable to a former final average pay formula. 89% of the projected benefit obligation of our primary qualified employee plan is related to the former final average pay formula. See Note 17 of the consolidated financial statements for a complete discussion of these plans and their effect on the consolidated financial statements. The pension and other postretirement plans may be amended or terminated at any time. Any revisions could result in significant changes to our obligations and our obligation to fund the plans.

We report unrecognized pension and other postretirement benefit cost in the Consolidated Statements of Financial Position as a component of accumulated other comprehensive income in shareholders' equity. It represents the after-tax differences between the fair value of plan assets and the projected benefit obligation ("PBO") for pension plans and the accumulated postretirement benefit obligation for other postretirement plans that have not yet been recognized as a component of net periodic cost. As of December 31, 2016, unrecognized pension and other postretirement benefit cost totaled \$1.42 billion comprising \$1.62 billion of unrecognized costs related to pension benefits and \$204 million of unrecognized benefits related to other postretirement benefits. The unrecognized pension and other postretirement benefit cost increased by \$104 million as of December 31, 2016 from \$1.32 billion as of December 31, 2015. The measurement of the unrecognized pension and other postretirement benefit cost can vary based upon the fluctuations in the fair value of plan assets and the actuarial assumptions used for the plans as discussed below. The increase in the unrecognized pension and other postretirement benefit cost is primarily related to actuarial assumptions and census data updates, including decreases in the discount rate assumptions and lump sums paid at interest rates lower than the actuarially assumed rates, partially offset by asset returns that were greater than expected.

The components of net periodic pension cost for all pension plans for the years ended December 31 are as follows:

(\$ in millions)	2016	2015	2014
Service cost	\$113	\$114	\$96
Interest cost	286	258	262
Expected return on plan assets	(398)	(424)	(398)
Amortization of:			
Prior service credit	(56)	(56)	(58)
Net actuarial loss	174	190	127
Settlement loss	27	31	54
Net periodic cost	\$146	\$113	\$83

The service cost component is the actuarial present value of the benefits attributed by the plans benefit formula to services rendered by the employees during the period. Interest cost is the increase in the PBO in the period due to the passage of time at the discount rate. Interest cost fluctuates as the discount rate changes and is also impacted by the related change in the size of the PBO. The decrease or increase in the PBO due to an increase or decrease in the discount rate is deferred and decreases or increases the net actuarial loss. It is recorded in accumulated other comprehensive income as unrecognized pension benefit cost and may be amortized.

The expected return on plan assets is determined as the product of the expected long-term rate of return on plan assets and the adjusted fair value of plan assets, referred to as the market-related value of plan assets. To determine the market-related value, the fair value of plan assets is adjusted annually so that differences between changes in the fair value of equity securities and hedge fund limited partnerships and the expected long-term rate of return on these securities are recognized into the market-related value of plan assets over a five year period. We believe this is consistent with the long-term nature of pension obligations.

When the actual return on plan assets exceeds the expected return on plan assets it reduces the net actuarial loss; when the expected return exceeds the actual return it increases the net actuarial loss. It is recorded in accumulated other comprehensive income as unrecognized pension benefit cost and may be amortized. The market-related value adjustment represents the current difference between actual returns and expected returns on equity securities and hedge fund limited partnerships recognized over a five year period. The market-related value adjustment is a deferred net loss of \$23 million as of December 31, 2016. The expected return on plan assets fluctuates when the market-related value of plan assets changes and when the expected long-term rate of return on plan assets assumption

changes.

Amortization of net actuarial loss in pension cost is recorded when the net actuarial loss excluding the unamortized market-related value adjustment exceeds 10% of the greater of the PBO or the market-related value of plan assets. The amount of amortization is equal to the excess divided by the average remaining service period for active employees for each plan, which approximates 10 years for Allstate's largest plan. As a result, the effect of changes in the PBO due to changes in the discount rate and changes in the fair value of plan assets may be experienced in our net periodic pension cost in periods subsequent to those in which the fluctuations actually occur.

100

Net actuarial loss fluctuates as the discount rate fluctuates, as the actual return on plan assets differ from the expected long-term rate of return on plans assets, and as actual plan experience differs from other actuarial assumptions. Net actuarial loss related to changes in the discount rate will change when interest rates change and from amortization of net actuarial loss when there is an excess sufficient to qualify for amortization. Net actuarial loss related to changes in the fair value of plan assets will change when plan assets change in fair value and when there is an excess sufficient to qualify for amortization. Other net actuarial loss will change over time due to changes in other valuation assumptions and the plan participants or when there is an excess sufficient to qualify for amortization.

A decrease in the discount rate increased the net actuarial loss by \$389 million in 2016, an increase in the discount rate decreased the net actuarial loss by \$465 million in 2015, and a decrease in the discount rate increased the net actuarial loss by \$576 million in 2014. The difference between actual and expected returns on plan assets decreased the net actuarial loss by \$93 million in 2016, increased the loss by \$466 million in 2015 and decreased the loss by \$144 million in 2014.

Settlement charges are non-cash charges that accelerate the recognition of unrecognized pension benefit cost, that would have been incurred in subsequent periods, when plan payments, primarily lump sums from qualified pension plans, exceed a threshold of service plus interest cost for the period. The value of lump sums paid in 2016 was lower than in 2015, in the primary employee plan, and did not exceed the settlement charge threshold. The value of lump sums paid in 2015 was higher than 2014, in the primary employee plan, but did not exceed the settlement charge threshold.

Net periodic pension cost in 2017 is estimated to be \$135 million including expected settlement charges of \$33 million primarily for lump sum payments under the employee-agent plan. Expected returns on plan assets and amortization of prior service credits partially offset the other components of pension cost. The decrease is primarily due to lower interest costs as a result of decreases in discount rates. Pension expense is reported consistent with other types of employee compensation and as a result is included in claims expense, operating costs and expenses and investment expense. Net periodic pension cost increased in 2016 to \$146 million compared to \$113 million in 2015 due to higher interest costs as a result of increases in discount rates. Net periodic pension cost increased in 2015 to \$113 million compared to \$83 million in 2014 due to higher amortization of net actuarial loss offset by a higher expected return on assets. In 2016, 2015 and 2014, net pension cost included non-cash settlement charges resulting from lump sum distributions. Settlement charges are likely to continue for some period in the future as we settle our remaining pension obligations from the employee-agent plan by making lump sum distributions. The settlement charge threshold for our primary employee plan is lower beginning in 2014 due to the new benefit formula and low interest rates and as a result a lower amount of lump sum benefits may trigger settlement charges in the future. If interest rates increase in 2017, there may be an increase in employees electing retirement, which could trigger settlement charges in 2017.

We anticipate that the net actuarial loss for our pension plans will exceed 10% of the greater of the PBO or the market-related value of assets in 2017 and into the foreseeable future, resulting in additional amortization and net periodic pension cost. The net actuarial loss will be amortized over the remaining service life of active employees (approximately 10 years) or will reverse with increases in the discount rate or better than expected returns on plan assets.

Amounts recorded for net periodic pension cost and accumulated other comprehensive income are significantly affected by changes in the assumptions, particularly the discount rate and the expected long-term rate of return on plan assets. The discount rate is based on rates at which expected pension benefits attributable to past employee service could effectively be settled on a present value basis at the measurement date. We develop the assumed discount rate by utilizing the weighted average yield of a theoretical dedicated portfolio derived from non-callable bonds and bonds with a make-whole provision available in the Bloomberg corporate bond universe having ratings of at least "AA" by S&P or at least "Aa" by Moody's on the measurement date with cash flows that match expected plan benefit requirements. Significant changes in discount rates, such as those caused by changes in the credit spreads, yield curve, the mix of bonds available in the market, the duration of selected bonds and expected benefit payments, may result in volatility in pension cost and accumulated other comprehensive income.

Holding other assumptions constant, a hypothetical decrease of 100 basis points in the discount rate would result in an increase of \$28 million, pre-tax, in net periodic pension cost and a \$446 million, after-tax, increase in the

unrecognized pension cost liability recorded as accumulated other comprehensive income as of December 31, 2016, compared to an increase of \$33 million, pre-tax, in net periodic pension cost and a \$426 million, after-tax, increase in the unrecognized pension cost liability as of December 31, 2015. A hypothetical increase of 100 basis points in the discount rate would decrease net periodic pension cost by \$25 million, pre-tax, and would decrease the unrecognized pension cost liability recorded as accumulated other comprehensive income by \$375 million, after-tax, as of December 31, 2016, compared to a decrease in net periodic pension cost of \$30 million, pre-tax, and a \$360 million, after-tax, decrease in the unrecognized pension cost liability recorded as accumulated other comprehensive income as of December 31, 2015. This non-symmetrical range results from the non-linear relationship between discount rates and pension obligations, and changes in the amortization of unrealized net actuarial gains and losses. The expected long-term rate of return on plan assets reflects the average rate of earnings expected on plan assets. While this rate reflects long-term assumptions and is consistent with long-term historical returns, sustained changes in the market or changes in the mix of plan assets may lead to revisions in the assumed long-term rate of return on plan assets that may result in variability

of pension cost. Differences between the actual return on plan assets and the expected long-term rate of return on plan assets are a component of net actuarial loss and are recorded in accumulated other comprehensive income.

Holding other assumptions constant, a hypothetical decrease of 100 basis points in the expected long-term rate of return on plan assets would result in an increase of \$56 million in net periodic pension cost as of December 31, 2016, compared to \$54 million as of December 31, 2015. A hypothetical increase of 100 basis points in the expected long-term rate of return on plan assets would result in a decrease in net periodic pension cost of \$56 million as of December 31, 2016, compared to \$54 million as of December 31, 2015.

The primary qualified plans have unrealized net gains as of December 31, 2016 of \$525 million, an increase of \$306 million from the prior year. \$523 million of unrealized gains are related to equity securities as of December 31, 2016 compared to \$283 million as of December 31, 2015. During 2016, the two primary qualified plans realized capital gains of \$82 million. Given the Plan's exposure to an increase in interest rates, the plans continue to maintain a shortened duration in the fixed income portfolio.

We target funding levels in accordance with applicable regulations, including those under the Internal Revenue Code ("IRC") for the U.S. pension plans, and generally accepted actuarial principles. Our funding levels were within our targeted range as of December 31, 2016. In 2016, we contributed \$131 million to our pension plans. We expect to contribute \$136 million for the 2017 fiscal year to maintain the plans' funded status. This estimate could change significantly following either an improvement or decline in investment markets.

Participating subsidiaries fund the Plans' contributions under our master services cost sharing agreement. In addition, as a result of joint and several pension liability rules under the IRC and the Employee Retirement Income Security Act of 1974, as amended, many liabilities that arise in connection with pension plans are joint and several across all members of a controlled group of entities.

GOODWILL

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired. The goodwill balances were \$823 million and \$396 million as of December 31, 2016 for the Allstate Protection segment and the Allstate Financial segment, respectively. Our reporting units are equivalent to our reporting segments, Allstate Protection and Allstate Financial. Goodwill is allocated to reporting units based on which unit is expected to benefit from the synergies of the business combination.

Goodwill is not amortized but is tested for impairment at least annually. We perform our annual goodwill impairment testing during the fourth quarter of each year based upon data as of the close of the third quarter. We also review goodwill for impairment whenever events or changes in circumstances, such as deteriorating or adverse market conditions, indicate that it is more likely than not that the carrying amount of goodwill may exceed its implied fair value.

Impairment testing requires the use of estimates and judgments. For purposes of goodwill impairment testing, if the carrying value of a reporting unit exceeds its estimated fair value, the second step of the goodwill test is required. In such instances, the implied fair value of the goodwill is determined in the same manner as the amount of goodwill that would be determined in a business acquisition. The excess of the carrying value of goodwill over the implied fair value of goodwill would be recognized as an impairment and recorded as a charge against net income.

To estimate the fair value of our reporting units for our annual impairment test, we initially utilize a stock price and market capitalization analysis and apportion the value between our reporting units using peer company price to book multiples. If the stock price and market capitalization analysis does not result in the fair value of the reporting unit exceeding its carrying value, we may also utilize a peer company price to earnings multiples analysis and/or a discounted cash flow analysis to supplement the stock price and market capitalization analysis. If a combination of valuation techniques are utilized, the analyses would be weighted based on management's judgment of their relevance given current facts and circumstances.

The stock price and market capitalization analysis takes into consideration the quoted market price of our outstanding common stock and includes a control premium, derived from historical insurance industry acquisition activity, in determining the estimated fair value of the consolidated entity before allocating that fair value to individual reporting units. The total market capitalization of the consolidated entity is allocated to the individual reporting units using book value multiples derived from peer company data for the respective reporting units. The peer company price to earnings multiples analysis takes into consideration the price earnings multiples of peer companies for each reporting unit and

estimated income from our strategic plan. The discounted cash flow analysis utilizes long term assumptions for revenue growth, capital growth, earnings projections including those used in our strategic plan, and an appropriate discount rate. We apply significant judgment when determining the fair value of our reporting units and when assessing the relationship of market capitalization to the estimated fair value of our reporting units. The valuation analyses described above are subject to critical judgments and assumptions and may be potentially sensitive to variability. Estimates of fair value are inherently uncertain and represent management's reasonable expectation regarding future developments. These estimates and the judgments and assumptions utilized may differ from future actual results. Declines in the estimated fair value

of our reporting units could result in goodwill impairments in future periods which may be material to our results of operations but not our financial position.

During fourth quarter 2016, we completed our annual goodwill impairment test using information as of September 30, 2016. The stock price and market capitalization analysis resulted in the fair value of our reporting units exceeding their respective carrying values. The results of this analysis are supported by the operating performance of the individual reporting units as well as their respective industry sector's performance. Goodwill impairment evaluations indicated no impairment as of December 31, 2016 and no reporting unit was at risk of having its carrying value including goodwill exceed its fair value.

CAPITAL RESOURCES AND LIQUIDITY 2016 HIGHLIGHTS

Shareholders' equity as of December 31, 2016 was \$20.57 billion, an increase of 2.7% from \$20.03 billion as of December 31, 2015.

On January 4, 2016, April 1, 2016, July 1, 2016, and October 3, 2016, we paid common shareholder dividends of \$0.30, \$0.33, \$0.33 and \$0.33, respectively. On November 18, 2016, we declared a common shareholder dividend of \$0.33 payable on January 3, 2017. On February 10, 2017, we declared a common shareholder dividend of \$0.37 payable on April 3, 2017.

In 2016, we returned \$1.8 billion to shareholders through a combination of common stock dividends and repurchasing 5.3% of our beginning-of-year outstanding shares. As of December 31, 2016, there was \$691 million remaining on the \$1.5 billion common share repurchase program.

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 as of December 31.

(\$ in millions)	2016	2015	2014	
Preferred stock, common stock, treasury stock, retained income and other shareholders' equity items	\$20,989	\$20,780	\$21,743	
Accumulated other comprehensive (loss) income	(416)	(755)	561	
Total shareholders' equity	20,573	20,025	22,304	
Debt	6,347	5,124	5,140	
Total capital resources	\$26,920	\$25,149	\$27,444	
Ratio of debt to shareholders' equity	30.9	% 25.6	% 23.0	%
Ratio of debt to capital resources	23.6	% 20.4	% 18.7	%

Shareholders' equity increased in 2016, primarily due to net income and increased unrealized net capital gains on investments, partially offset by common share repurchases and dividends paid to shareholders. In 2016, we paid dividends of \$486 million and \$116 million related to our common and preferred shares, respectively. Shareholders' equity decreased in 2015, primarily due to common share repurchases, decreased unrealized net capital gains on investments and dividends paid to shareholders, partially offset by net income.

Debt On December 8, 2016, we issued \$550 million of 3.28% Senior Notes due 2026 and \$700 million of 4.20% Senior Notes due 2046. The proceeds of this issuance were used for general corporate purposes, including in part to fund the purchase price for the acquisition of SquareTrade that closed on January 3, 2017.

We have no debt maturities until May 2018. As of December 31, 2016 and 2015, there were no outstanding commercial paper borrowings. For further information on outstanding debt, see Note 12 of the consolidated financial statements.

Common share repurchases As of December 31, 2016, there was \$691 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.

During 2016, we repurchased 20.2 million common shares for \$1.34 billion. The common share repurchases were completed through open market transactions and two accelerated share repurchase agreements.

Since 1995, we have acquired 666 million shares of our common stock at a cost of \$29.61 billion, primarily as part of various stock repurchase programs. We have reissued 133 million common shares since 1995, primarily associated with our equity incentive plans, the 1999 acquisition of American Heritage Life Investment Corporation and the 2001 redemption of certain mandatorily redeemable preferred securities. Since 1995, total common shares outstanding has decreased by 533 million shares or 59.3%, primarily due to our repurchase programs.

103

Financial ratings and strength The following table summarizes our senior long-term debt, commercial paper and insurance financial strength ratings as of December 31, 2016.

	Moody's S&P Global Ratings		A.M. Best
The Allstate Corporation (debt)	A3	A-	a-
The Allstate Corporation (short-term issuer)	P-2	A-2	AMB-1
Allstate Insurance Company (insurance financial strength)	Aa3	AA-	A+
Allstate Life Insurance Company (insurance financial strength)	A1	A+	A+
Allstate Assurance Company (insurance financial strength)	A1	N/A	A+

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 ALIC. The outlook for the ratings remained stable. The insurance financial strength rating of Allstate Assurance Company was upgraded to A+ from A. The outlook for the rating was revised to stable from positive. In November 2016, S&P updated The Allstate Corporation's short-term issuer rating to A-2 from A-1 due to criteria misapplication. In December 2016, S&P affirmed The Allstate Corporation's debt and short-term issuer ratings of A- and A-2, respectively, and the insurance financial strength ratings of AA- for AIC and A+ for ALIC. The outlook for the ratings remained stable. There was no change to our ratings from Moody's in 2016.

We have distinct and separately capitalized groups of subsidiaries licensed to sell property and casualty insurance that maintain separate group ratings. The ratings of these groups are influenced by the risks that relate specifically to each group. Many mortgage companies require property owners to have insurance from an insurance carrier with a secure financial strength rating from an accredited rating agency. In April 2016, A.M. Best affirmed the Allstate New Jersey Insurance Company, which writes auto and homeowners insurance, rating of A-, and North Light Specialty Insurance Company, our excess and surplus lines carrier, rating of A+. The outlook for these ratings are stable. Allstate New Jersey Insurance Company also has a Financial Stability Rating® of A" from Demotech, which was affirmed in November 2016. In October 2016, A.M. Best affirmed the Castle Key Insurance Company, which underwrites personal lines property insurance in Florida, rating of B-. Castle Key Insurance Company also has a Financial Stability Rating® of A' from Demotech, which was affirmed in November 2016.

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. Allstate's domestic property-liability and life insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Statutory surplus is a measure that is often used as a basis for determining dividend paying capacity, operating leverage and premium growth capacity, and it is also reviewed by rating agencies in determining their ratings. Property-Liability is comprised of 29 insurance companies, each of which has individual company dividend

limitations. As of December 31, 2016, total statutory surplus is \$16.82 billion compared to \$16.49 billion as of December 31, 2015. Property-Liability surplus was \$13.44 billion as of December 31, 2016, compared to \$13.33 billion as of December 31, 2015. Allstate Financial surplus was \$3.38 billion as of December 31, 2016, compared to \$3.16 billion as of December 31, 2015. In 2016, we completed a mortality study for our structured settlement annuities with life contingencies. The study indicated that annuitants are living longer and receiving benefits for a longer period than originally estimated. The final results of the study were incorporated in the statutory reserving process and led to an additional \$143 million increase in statutory reserves as of December 31, 2016. This decreased Allstate Financial's surplus by approximately \$105 million, after-tax.

The ratio of net premiums written to statutory surplus is a common measure of operating leverage used in the property-casualty insurance industry and serves as an indicator of a company's premium growth capacity. Ratios in excess of 3 to 1 are typically considered outside the usual range by insurance regulators and rating agencies, and for homeowners and related coverages that have significant net exposure to natural catastrophes, a ratio of 1 to 1 is typically within the usual range. AIC's combined premium to surplus ratio was 1.9x as of both December 31, 2016 and December 31, 2015.

The National Association of Insurance Commissioners ("NAIC") has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System to assist state insurance regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or actions by state insurance regulators. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with defined "usual ranges". Additional regulatory scrutiny may occur if a company's ratios fall outside the usual ranges for four or more of the ratios. Our domestic insurance companies have no significant departure from these ranges.

Liquidity sources and uses Our potential sources of funds principally include activities shown in the following table.

	Property- Liability	Allstate Financial	Corporate and Other
Receipt of insurance premiums	X	X	
Contractholder fund deposits		X	
Reinsurance recoveries	X	X	
Receipts of principal, interest and dividends on investments	X	X	X
Sales of investments	X	X	X
Funds from securities lending, commercial paper and line of credit agreements	X	X	X
Intercompany loans	X	X	X
Capital contributions from parent	X	X	
Dividends or return of capital from subsidiaries	X		X
Tax refunds/settlements	X	X	X
Funds from periodic issuance of additional securities			X
Receipt of intercompany settlements related to employee benefit plans			X

Our potential uses of funds principally include activities shown in the following table.

	Property- Liability	Allstate Financial	Corporate and Other
Payment of claims and related expenses	X		
Payment of contract benefits, maturities, surrenders and withdrawals		X	
Reinsurance cessions and payments	X	X	
Operating costs and expenses	X	X	X
Purchase of investments	X	X	X
Repayment of securities lending, commercial paper and line of credit agreements	X	X	X
Payment or repayment of intercompany loans	X	X	X
Capital contributions to subsidiaries	X		X
Dividends or return of capital to shareholders/parent company	X	X	X
Tax payments/settlements	X	X	
Common share repurchases			X
Debt service expenses and repayment	X	X	X
Payments related to employee and employee-agent benefit plans	X	X	X
Payments for acquisitions	X	X	X

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.

As of December 31, 2016, we held \$7.75 billion of cash, U.S. government and agencies fixed income securities, and public equity securities (excluding non-redeemable preferred stocks and foreign equities) which, under normal market conditions, we would expect to be able to liquidate within one week. In addition, we regularly estimate how much of the total portfolio, which includes high quality corporate fixed income and municipal holdings, can be reasonably liquidated within one quarter. These estimates are subject to considerable uncertainty associated with evolving market conditions. As of December 31, 2016, estimated liquidity available within one quarter without generating significant net realized capital losses was \$20.82 billion. As of December 31, 2016, gross unrealized losses related to fixed income and equity securities totaled \$532 million.

Parent company capital capacity At the parent holding company level, we have deployable assets totaling \$2.43 billion as of December 31, 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. In 2017, AIC will have the capacity to pay dividends currently estimated at \$1.56 billion without prior regulatory approval. This provides funds for the parent company's fixed charges and other corporate purposes. In addition, we have access to \$1.00 billion of funds from either commercial paper issuance or an unsecured revolving credit facility.

In 2016, AIC paid dividends totaling \$1.90 billion to its parent, Allstate Insurance Holdings, LLC ("AIH"), which then paid \$1.87 billion of dividends to the Corporation. In 2015, AIC paid dividends totaling \$2.31 billion to AIH, which then paid \$2.30 billion of dividends to the Corporation. In 2014, AIC paid dividends totaling \$2.47 billion to AIH, which then paid \$2.46 billion of dividends to the Corporation. In December 2014, AIC repurchased 2,967 common shares held by AIH for an aggregate cash price of \$1.20 billion, pursuant to the Stock Repurchase Agreement between AIC and AIH entered into as of December 9, 2014. A subsequent return of capital totaling \$1.20 billion was paid by AIH to the Corporation in December 2014. In 2016, 2015 and 2014, ALIC paid zero, \$103 million and \$700 million, respectively, of returns of capital, repayments of surplus notes and dividends to AIC. In 2016, 2015 and 2014, American Heritage Life Insurance Company paid dividends totaling \$55 million, \$80 million and \$106 million, respectively, to Allstate Financial Insurance Holdings Corporation, which then paid zero, zero and \$42 million, respectively, of dividends to the Corporation. There were no capital contributions paid by the Corporation to AIC in 2016, 2015 or 2014. There were no capital contributions by AIC to ALIC in 2016, 2015 or 2014. In 2016, the Corporation paid a capital contribution of \$1.50 billion to Allstate Non-Insurance Holdings, Inc. that was used to fund the acquisition of SquareTrade on January 3, 2017.

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 December 31, 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 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. As of December 31, 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 15.8% as of December 31, 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 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 534 million shares of treasury stock as of December 31, 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 \$20.26 billion as of December 31, 2016. The following table summarizes contractholder funds by their contractual withdrawal provisions as of December 31, 2016.

(\$ in millions)		Percent to total
Not subject to discretionary withdrawal	\$3,132	15.4 %
Subject to discretionary withdrawal with adjustments:		
Specified surrender charges ⁽¹⁾	5,138	25.4
Market value adjustments ⁽²⁾	1,617	8.0
Subject to discretionary withdrawal without adjustments ⁽³⁾	10,373	51.2
Total contractholder funds ⁽⁴⁾	\$20,260	100.0%

- ⁽¹⁾ Includes \$1.32 billion of liabilities with a contractual surrender charge of less than 5% of the account balance. \$1.04 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 1, 5, 7 or 10 years) during which there is no surrender charge or market value adjustment. \$279 million of these contracts have their 30-45 day window period in 2017.
- ⁽²⁾ 89% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.
- ⁽³⁾ Includes \$775 million of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc., in 2006.

Retail life and annuity products may be surrendered by customers for a variety of reasons. Reasons unique to individual customers include a current or unexpected need for cash or a change in life insurance coverage needs. Other key factors that may impact the likelihood of customer surrender include the level of the contract surrender charge, the length of time the contract has been in force, distribution channel, market interest rates, equity market conditions and potential tax implications. In addition, the propensity for retail life insurance policies to lapse is lower than it is for fixed annuities because of the need for the insured to be re-underwritten upon policy replacement. The surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 6.2% and 7.1% in 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. Certain remote events and circumstances could constrain our liquidity. Those events and circumstances include, for example, a catastrophe resulting in extraordinary losses, a downgrade in our senior long-term debt ratings to non-investment grade status, a downgrade in AIC's financial strength ratings, or a downgrade in ALIC's financial strength ratings. The rating agencies also consider the interdependence of our individually rated entities; therefore, a rating change in one entity could potentially affect the ratings of other related entities.

The following table summarizes consolidated cash flow activities by segment.

(\$ in millions)	Property-Liability ⁽¹⁾			Allstate Financial ⁽¹⁾			Corporate and Other ⁽¹⁾			Consolidated		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Net cash provided by (used in):												
Operating activities	\$3,604	\$3,198	\$2,765	\$398	\$383	\$720	\$(9)	\$35	\$(249)	\$3,993	\$3,616	\$3,236
Investing activities	(3,579)	(839)	99	595	867	2,315	458	714	(793)	(2,526)	742	1,621
Financing activities	55	52	(3)	(1,025)	(1,275)	(2,274)	(556)	(3,297)	(2,598)	(1,526)	(4,520)	(4,875)
Net decrease in consolidated cash										\$(59)	\$(162)	\$(18)

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

Property-Liability Higher cash provided by operating activities in 2016 compared to 2015 was primarily due to increased premiums and lower tax payments, partially offset by higher claim payments. Higher cash provided by operating activities in 2015 compared to 2014 was primarily due to increased premiums partially offset by higher claims payments, higher contributions to benefit plans, lower net investment income and higher income tax payments. Higher cash used in investing activities in 2016 compared to 2015 was primarily the result of the purchase of short-term investments using the debt issuance proceeds in advance of the closing of the acquisition of SquareTrade. Cash used in investing activities in 2015 compared to cash provided by investing activities in 2014 was primarily the result of decreased sales of securities, partially offset by decreased purchases of securities.

Allstate Financial Higher cash provided by operating activities in 2016 compared to 2015 was primarily due to lower tax payments and higher premiums on accident and health and traditional life insurance products, partially offset by lower net investment income and higher contract benefits. Lower cash provided by operating activities in 2015 compared to 2014 was primarily due

to lower net investment income and higher income tax payments, partially offset by higher premiums on accident and health and traditional life insurance products.

Lower cash provided by investing activities in 2016 compared to 2015 was the result of less cash used in financing activities due to decreased payments for contractholder fund disbursements. Lower cash provided by investing activities in 2015 compared to 2014 was the result of lower cash used in financing activities due to lower contractholder fund disbursements.

Lower cash used in financing activities in 2016 compared to 2015 was primarily due to decreased payments for contractholder benefits and withdrawals on fixed annuities. Lower cash used in financing activities in 2015 compared to 2014 was primarily due to lower contractholder benefits and withdrawals on fixed annuities and interest-sensitive life insurance, partially offset by lower deposits. For quantification of the changes in contractholder funds, see the Allstate Financial Segment section of the MD&A.

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.

Contractual obligations and commitments Our contractual obligations as of December 31, 2016 and the payments due by period are shown in the following table.

(\$ in millions)	Total	Less than 1 year	1 to 3 years	Over 3 years to 5 years	Over 5 years
Liabilities for collateral ⁽¹⁾	\$ 1,129	\$ 1,129	\$—	\$—	\$—
Contractholder funds ⁽²⁾	39,012	2,441	4,595	4,010	27,966
Reserve for life-contingent contract benefits ⁽²⁾	39,988	1,389	2,654	2,484	33,461
Long-term debt ⁽³⁾	14,217	334	1,131	597	12,155
Operating leases ⁽⁴⁾	606	122	191	124	169
Unconditional purchase obligations ⁽⁴⁾	663	244	293	120	6
Defined benefit pension plans and other postretirement benefit plans ⁽⁴⁾⁽⁵⁾	990	45	113	117	715
Reserve for property-liability insurance claims and claims expense ⁽⁶⁾	25,250	11,047	8,285	3,034	2,884
Other liabilities and accrued expenses ⁽⁷⁾⁽⁸⁾	5,132	5,000	104	12	16
Net unrecognized tax benefits ⁽⁹⁾	10	10	—	—	—
Total contractual cash obligations	\$ 126,997	\$ 21,761	\$ 17,366	\$ 10,498	\$ 77,372

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

(2) Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life and fixed annuities, including immediate annuities without life contingencies. The reserve for life-contingent contract benefits relates primarily to traditional life insurance, immediate annuities with life contingencies and voluntary accident and health insurance. These amounts reflect the present value of estimated cash payments to be made to contractholders and policyholders. Certain of these contracts, such as immediate annuities without life contingencies, involve payment obligations where the amount and timing of the payment is essentially fixed and determinable. These amounts relate to (i) policies or contracts where we are currently making payments and will continue to do so and (ii) contracts where the timing of a portion or all of the payments has been determined by the contract. Other contracts, such as interest-sensitive life, fixed deferred annuities, traditional life insurance and voluntary accident and health insurance, involve payment obligations where a portion or all of the amount and timing of future payments is uncertain. For these contracts, we are not currently making payments and

will not make payments until (i) the occurrence of an insurable event such as death or illness or (ii) the occurrence of a payment triggering event such as the surrender or partial withdrawal on a policy or deposit contract, which is outside of our control. For immediate annuities with life contingencies, the amount of future payments is uncertain since payments will continue as long as the annuitant lives. We have estimated the timing of payments related to these contracts based on historical experience and our expectation of future payment patterns. Uncertainties relating to these liabilities include mortality, morbidity, expenses, customer lapse and withdrawal activity, estimated additional deposits for interest-sensitive life contracts, and renewal premium for life policies, which may significantly impact both the timing and amount of future payments. Such cash outflows reflect adjustments for the estimated timing of mortality, retirement, and other appropriate factors, but are undiscounted with respect to interest. As a result, the sum of the cash outflows shown for all years in the table exceeds the corresponding liabilities of \$20.26 billion for contractholder funds and \$12.24 billion for reserve for life-contingent contract benefits as included in the Consolidated Statements of Financial Position as of December 31, 2016. The liability amount in the Consolidated Statements of Financial Position reflects the discounting for interest as well as adjustments for the timing of other factors as described above.

- (3) Amount differs from the balance presented on the Consolidated Statements of Financial Position as of December 31, 2016 because the long-term debt amount above includes interest and excludes debt issuance costs. Our payment obligations relating to operating leases, unconditional purchase obligations and pension and other
- (4) postretirement benefits (“OPEB”) contributions are managed within the structure of our intermediate to long-term liquidity management program.

The pension plans' obligations in the next 12 months represent our planned contributions to certain unfunded non-qualified plans where the benefit obligation exceeds the assets, and the remaining years' contributions are projected based on the average remaining service period using the current underfunded status of the plans. The (5) OPEB plans' obligations are estimated based on the expected benefits to be paid. These liabilities are discounted with respect to interest, and as a result the sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount of \$514 million included in other liabilities and accrued expenses on the Consolidated Statements of Financial Position.

Reserve for property-liability insurance claims and claims expense is an estimate of amounts necessary to settle all outstanding claims, including claims that have been IBNR as of the balance sheet date. We have estimated the timing of these payments based on our historical experience and our expectation of future payment patterns.

(6) However, the timing of these payments may vary significantly from the amounts shown above, especially for IBNR claims. The ultimate cost of losses may vary materially from recorded amounts which are our best estimates. The reserve for property-liability insurance claims and claims expense includes loss reserves related to asbestos and environmental claims as of December 31, 2016, of \$1.36 billion and \$219 million respectively.

(7) Other liabilities primarily include accrued expenses and certain benefit obligations and claim payments and other checks outstanding. Certain of these long-term liabilities are discounted with respect to interest, as a result the sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount by \$8 million.

(8) Balance sheet liabilities not included in the table above include unearned and advance premiums of \$13.33 billion and gross deferred tax liabilities of \$2.25 billion. These items were excluded as they do not meet the definition of a contractual liability as we are not contractually obligated to pay these amounts to third parties. Rather, they represent an accounting mechanism that allows us to present our financial statements on an accrual basis. In addition, other liabilities of \$227 million were not included in the table above because they did not represent a contractual obligation or the amount and timing of their eventual payment was sufficiently uncertain.

(9) Net unrecognized tax benefits represent our potential future obligation to the taxing authority for a tax position that was not recognized in the consolidated financial statements. We believe it is reasonably possible that the liability balance will not significantly increase within the next twelve months. The resolution of this obligation may be for an amount different than what we have accrued.

Our contractual commitments as of December 31, 2016 and the periods in which the commitments expire are shown in the following table.

(\$ in millions)	Total	Over			
		Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years
Other commitments – conditional	\$144	\$89	\$—	\$4	\$51
Other commitments – unconditional	\$2,987	133	129	390	2,335
Total commitments	\$3,131	\$222	\$129	\$394	\$2,386

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

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

For a more detailed discussion of our off-balance sheet arrangements, see Note 7 of the consolidated financial statements.

ENTERPRISE RISK AND RETURN MANAGEMENT

In addition to the normal risks of the business, Allstate is subject to significant risks as an insurer and a provider of other products and financial services. These risks are discussed in more detail in the Risk Factors section of this document. We regularly measure, monitor and report on all significant risks, but the major categories of enterprise risks are insurance, financial, investment, operational and strategic risks. Allstate manages these risks through Enterprise Risk and Return Management (“ERRM”) governance practices, culture, and activities that are performed on an integrated, enterprise-wide basis, following our risk and return principles. Our legal and capital structures are designed to manage capital and solvency on a legal entity basis. Our risk-return principles define how we operate and guide decision-making around risk and return. These principles state that our priority is to protect solvency, comply with laws and act with integrity. Building upon this foundation, we strive to build strategic value and optimize risk and return.

Governance ERRM governance includes board oversight, an executive management committee structure, as well as enterprise and business unit chief risk officers (“CROs”). The Allstate Corporation Board of Directors (“Allstate Board”) has overall responsibility for oversight of management’s design and implementation of ERRM. The Risk and Return Committee (“RRC”) of the Allstate Board oversees effectiveness of the ERRM framework, governance structure and decision-making, while focusing on the Company’s overall risk profile. The Audit Committee oversees effectiveness of management’s control framework for risks. The Enterprise Risk and Return Council (“ERRC”) is Allstate’s senior risk management committee that directs ERRM by establishing risk-return targets, determining economic capital levels and directing integrated strategies and actions from an enterprise perspective. The ERRC consists of Allstate’s chief executive officer, president, business unit presidents, chief investment officer, enterprise and business unit chief risk officers and chief financial officers, general counsel and treasurer. Other key committees work with the ERRC to direct ERRM activities including the Strategy & Reinvention Committee (“S&RC”), legal entity liability governance committees, and legal entity investment committees.

Key risks are assessed and reported quarterly through a comprehensive ERM risk dashboard prepared for senior management and the RRC. The risk dashboard communicates key risk and return conditions, provides an overall perspective of Allstate's risk profile, and promotes active discussion and engagement with management and the RRC. Internal controls over key risks are managed and reported to senior management and the Audit Committee of the Company through a semiannual risk control dashboard. Annually, we communicate with both the Company's board of directors and RRC about economic capital and risks related to the strategic plan, operating plan, and incentive compensation program.

Framework We apply these principles using an integrated ERM framework that focuses on measurement, transparency and dialogue. Our framework provides a comprehensive view of risks and is used by senior management and business managers to drive strategic and business decisions. We continually validate and improve our ERM practices by benchmarking and obtaining external perspectives.

Allstate's risk appetite is integrated in planning through our economic capital framework. Management and the ERRC rely on internal and external perspectives to determine an appropriate level of target economic capital. Internal perspectives include enterprise solvency and volatility measures, stress scenarios, model assumptions, and management judgment. External considerations include NAIC risk-based capital as well as S&P's, Moody's, and A.M. Best's capital adequacy measurement. Our economic capital reflects senior management's view of the aggregate level of capital necessary to satisfy stakeholder interests, manage Allstate's risk profile and maintain financial strength over a multiple year time horizon. The impact of strategic initiatives on enterprise risk is evaluated through the economic capital risk-return framework.

The enterprise risk appetite is cascaded into individual risk limits which set boundaries on the amount of risk we are willing to accept from one specific risk category before escalating for further management discussion and action. Risk limits are established based upon expected returns, volatility, tail/stress losses, and impact on the enterprise portfolio. To effectively operate within risk limits and for risk-return optimization, business units establish risk limits and capital targets specific to their businesses. Allstate's risk management strategies adapt to changes in business and market environments.

Process Our shared ERM framework establishes a basis for transparency and dialogue across the enterprise and for continuous learning by embedding our risk and return management culture of identifying, measuring, managing, monitoring and reporting risks within the organization. Allstate designs business and enterprise strategies that seek to optimize risk-adjusted returns on capital. Risks are managed at both the legal entity and enterprise level. A summary of our process to manage each of our major risk categories follows:

Insurance risk management addresses fluctuations in the timing, frequency, and severity of benefits, expenses, and premiums relative to the return expectations at the time of pricing inclusive of systemic risk, concentration of insurance exposures, policy terms, reinsurance coverage, and claims handling practices. This includes credit risk that arises when an external party fails to meet a contractual obligation such as reinsurance for ceded claims.

Insurance risk exposures include our operating re