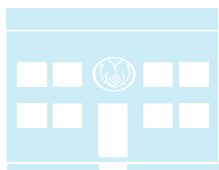




ALL



ways



Allstate®

The Allstate Corporation Notice of 2017 Annual Meeting,
Proxy Statement and 2016 Annual Report



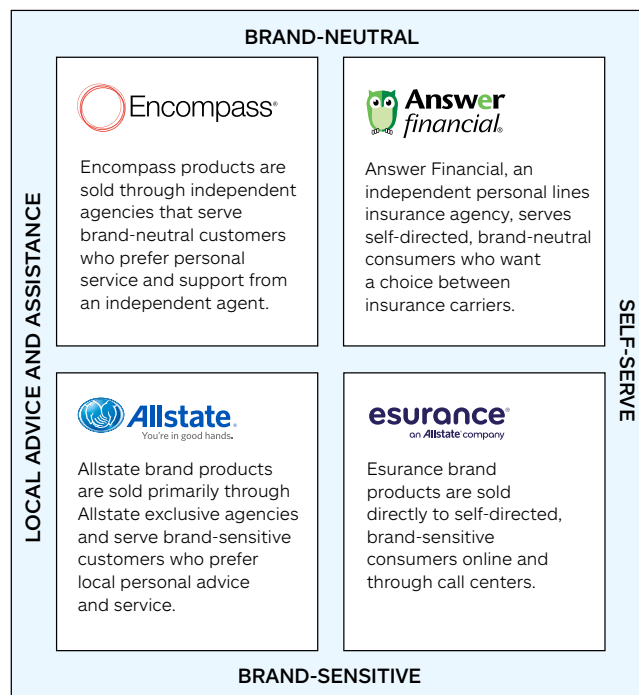
Thomas J. Wilson
Chairman and Chief Executive Officer

Dear Fellow Shareholders

Allstate exists to create more prosperity for customers, shareholders, employees, agency owners and communities. We do this by protecting people from life's uncertainties and preparing them for the future with a talented team of over 79,000 Allstaters making a difference in the world.

Allstate's consumer-focused strategy is working to create a more sustainable business despite dramatic changes in the external environment. The rapid response initiated in 2015 to increased costs associated with auto accidents successfully improved auto profitability in 2016 but did have a negative impact on the number of cars that we insure under the Allstate, Esurance and Encompass brands. Homeowners insurance had good returns despite a significant increase in catastrophes from the prior year. Investment returns on our nearly \$82 billion portfolio were good at 4.4% and the portfolio is positioned for economic growth. Net Income and Operating Income* declined from the prior year to \$1.8 billion (\$4.67 per share) and \$1.8 billion (\$4.87 per share), respectively, as pretax catastrophe losses increased by \$853 million from 2015. Operating Income Return on Equity* was 10.4% in 2016.

Shareholders received \$486 million of dividends (\$1.32 per share) and \$1.3 billion of shares were repurchased, which represents 5.3% of the outstanding shares on January 1. The result of this financial performance is a



“Allstate’s consumer-focused strategy is working to create a more sustainable business despite dramatic changes in the external environment.”

total shareholder return of 21.5% in 2016, which continued our long-term record of outperforming peers and the S&P 500 index. The board also built on an exceptionally strong governance record by formalizing and expanding lead director responsibilities as described in the Report from Independent Directors in the Proxy Statement.

We also made progress on 2016’s five Operating Priorities.

BALANCING OPERATING PRIORITIES

Operationally, the challenge this year was to balance our first three Operating Priorities: Better Serve Our Customers, Achieve Target Economic Returns on Capital and Grow Policies in Force. All of these are important to long-term value creation but in 2016 we had to make trade-offs among them due to the rapid deterioration in auto insurance profitability beginning in 2015. We were able to raise Allstate Brand auto insurance prices an average of 7.2% in 2016 but this had a negative impact on customer satisfaction, and the number of auto insurance policies declined by 2.9%. We made progress in better

serving customers across a broad set of activities from policy service to claims but we experienced a decline in our Net Promoter Score—the ratio of customers who would recommend us to others—largely reflecting auto premium increases. Allstate Benefits continued to have excellent growth with policies in force increasing by 13.4%; they exceeded 3.7 million at the end of the year.

The fourth Operating Priority was to Proactively Manage Investments and we achieved a 4.4% total return on the portfolio despite uneven results throughout the year and implementation of several initiatives to optimize risk and return. The portfolio remains 71% fixed income with 85% of that rated investment grade. The portfolio is positioned for continued economic growth in the U.S. by being overweighted to corporate bonds but defensively positioned for rising interest rates. A shorter-term bond portfolio is a good risk-and-return trade-off even though it results in lower current income. We also made progress increasing performance-based investments, which

* For definition of this term, please see the definitions of Non-GAAP measures on page 89.

include private equity and real estate, and increasing the level of equity investments backing long-term immediate annuity liabilities.

BUILDING STRATEGIC PLATFORMS

The fifth Operating Priority — Build and Acquire Long-term Growth Platforms — is focused on improving our existing businesses and expanding into new areas.

The role of business in society is changing and Allstate is adapting and building a 22nd Century Corporation that:

- Is defined by its strategic platforms and its products and services. Our definition of a strategic platform is shown in the diagram on this page and is more fully explained in last year's Letter to Shareholders.
- Has more integrated relationships with customers, employees, vendors and communities.
- Is a Force For Good creating positive change in society.

The 10,360 Allstate exclusive agencies, which are in virtually every community in America, are a platform that is continually being strengthened. Our Trusted Advisor initiatives to utilize technology to personalize interactions, initiate relationships and reduce the "human modem" aspect of service has yielded tangible results: Over 2 million new personalized insurance proposals were delivered in 2016.

We are building a strategic platform in the connected car space by leveraging our customer relationships, analytical expertise and market presence. Improving the personal transportation system represents one of



the biggest economic opportunities in America today. A 25% improvement in efficiency is achievable with current technologies and could increase household income by as much as 5% or \$3,000 per household per year. Allstate is actively working to capture these benefits for customers. We also need to expand our customer relationships because ultimately there may be fewer car accidents and reduced demand for auto insurance. Arity, a newly formed connected car entity, provides expertise and services to our insurance entities to support the 1 million-plus Drivewise and DriveSense customers.

ALLSTATE INNOVATIONS

Building on Our Legacy

- Customer segmentation strategy utilizing three brands: Allstate, Esurance and Encompass
- Continually Connected Car experience: Drivewise®, DriveSense™
- Your Choice Auto® that provides declining deductibles, accident forgiveness and safe driving bonuses
- Claim Satisfaction Guarantee®
- Digital Connections: Fast Mobile e-PaymentSM, Quick Card Pay and QuickFoto Claim®

Property-Liability Underlying Combined Ratio*	
2016	87.9
2015	88.7
2014	87.2
2013	87.3
2012	87.2

Property-Liability Net Written Premium Growth (%)	
2016	2.4
2015	4.2
2014	5.1
2013	4.2
2012	4.0

Property-Liability Total Policies in Force (thousands)	
2016	33,640
2015	34,625
2014	34,176
2013	33,336
2012	32,855

These telematics products provide insurance customers an accurate price and enhance their driving experience. Arity's plan is to also provide connected car services to third parties, creating additional revenue for Allstate.

The Integrated Digital Enterprise strategy utilizes data, algorithms, advanced technology and process redesign to improve effectiveness and efficiency. Our initial focus is on claim settlements for property damage.

The acquisition of SquareTrade for \$1.4 billion closed January 3, 2017, and expands the ways we protect customers by providing product protection plans sold through major retailers. These plans cover a wide range of consumer goods including personal computers, cell phones, televisions and household appliances. Achieving an acceptable return for shareholders on the capital deployed in the acquisition will require continued expansion of this innovative business model.

BUILDING INTEGRATED RELATIONSHIPS

Integrated relationships with customers improve growth and returns, and create a more sustainable business model. Trusted advice from Allstate agency personnel reduces the probability that customers will switch insurance for a small price difference. Incorporating connected car services into insurance offerings integrates us into customers' daily driving experience. The acquisition of SquareTrade increases our policies in force to over 68 million and provides consumers broad protection options.

A sustainable business also needs integrated relationships with the people who make it a success. We assume employees are "customers" to whom we "sell" an opportunity to make a difference in people's lives, be rewarded financially and grow professionally. This gives us a competitive advantage in attracting, retaining and motivating people who are the key to our success. The Employee Value Proposition includes competitive compensation, open talent-management practices, inclusive diversity as a core company value, employee

resource groups that bring together those with like-minded interests and the opportunity to build a plan to achieve their personal purpose. All in, it is about creating dignity through work. Our 2016 annual employee survey showed employee satisfaction exceeded the industry on 28 of 29 measures.

Similarly, our goal is to make owning an Allstate agency one of the most rewarding small business opportunities in America. The Agency Value Proposition includes great branding and advertising, a broad range of products and services, training and support, advanced technology and loans to agency owners to support their business' growth. Agency satisfaction did decline slightly in 2016 as a result of the challenges associated with increasing auto insurance premiums.

BRINGING OUT THE GOOD

Being a great company goes beyond making a profit—it means making a difference in the world. I am particularly proud that the company was honored for a third consecutive year as one of the world's most ethical corporations. Allstate also is making that difference by supporting youth empowerment, survivors of domestic violence and over 4,800 nonprofit organizations throughout the country. Thousands of Allstate agency owners and employees committed 230,000 hours of volunteer time last year, improving their communities and reinforcing respect for Allstate's brand.

I am privileged and proud to lead Allstate because it is a purpose-driven organization with talented team members who are shaping a better future. In the process, we also are building a more valuable company for you.



Thomas J. Wilson

Chairman and Chief Executive Officer
April 12, 2017

Our Shared Purpose

We are the Good Hands®: We help customers realize their hopes and dreams by providing the best products and services to protect them from life's uncertainties and prepare them for the future.

OUR STRATEGIC VISION

Deliver substantially more value than the competition by reinventing protection and retirement to improve customers' lives.

OUR CORPORATE GOAL

Create long-term value by serving our stakeholders, taking appropriate risks, and leveraging our capabilities and strategic assets.

OUR VALUES

- Honesty, caring and integrity
- Inclusive diversity
- Engagement
- Accountability
- Superior performance

OUR PRIORITIES

- Customer focus
- Operational excellence
- Enterprise risk and return
- Sustainable growth
- Capital management

OUR LEADERSHIP PRINCIPLES

We empower every employee to lead and drive change.

- We're here to serve.
- We win together.
- We drive results.
- We're transparent.
- We continuously get better.
- We develop each other.

OUR OPERATING PRINCIPLES

- Put the customer at the center of all our actions.
- Use consumer insights, data, technology and people to better serve customers and generate growth.
- Execute well-considered decisions with precision and speed.
- Focus relentlessly on those few things that provide the greatest impact.
- Be a learning organization that leverages successes, learns from failures and continuously improves.
- Provide employees, agency owners, financial specialists and licensed sales professionals fulfilling opportunities, personal growth and performance-based rewards.
- Take an enterprise view of our people and processes, and work as a single team to advance Allstate rather than our individual interests.

Notice of 2017 Annual Meeting and Proxy Statement

What's Inside

- Report from Independent Directors to Stockholders
- Information on Eight Voting Issues
 - Election of Directors
 - Advisory Vote on Compensation
 - Frequency of Advisory Votes on Compensation
 - Equity Compensation Plan for Non-Employee Directors
 - Ratification of External Auditor
 - Three Stockholder Proposals
 - Independent Board Chair
 - Lead Director Qualifications
 - Report on Political Contributions

REPORT FROM INDEPENDENT DIRECTORS TO STOCKHOLDERS



The Allstate Corporation
2775 Sanders Road
Northbrook, IL 60062

April 12, 2017

As independent directors we proactively oversee corporate governance, strategy, business performance, executive compensation and succession and capital management. Our objectives are to support Allstate in meeting its obligations to customers, stockholders, employees, business partners and society. This report summarizes our major accomplishments in 2016, which are also discussed in more detail in the proxy statement.

CORPORATE GOVERNANCE

Our governance responsibilities are built on a foundation of interactive dialogue with stockholders and external governance firms, written principles and continuous improvement. Allstate has a long history of proactively reaching out multiple times a year to its largest stockholders to discuss governance trends and issues. In 2016, these discussions included our independent lead director, chair of the nominating and governance committee and our Chairman. Feedback was evaluated by the full Board and several important changes were implemented in 2016.

- *Strengthened the Lead Director Role* – Last year a proposal to prospectively split the role of Chair and CEO received support from less than a majority of shares outstanding, but at a significant enough level to warrant a closer review. Our stockholder discussions made it apparent that we should formalize existing practices and institute additional changes to strengthen the lead director role. As a result, we formalized the lead director's role in approving Board meeting agendas, schedules and meeting materials, and the lead director's ability to call meetings of the independent directors. We also revised our governance guidelines to require that only independent directors elect the lead director and established the expectation that the lead director serve for more than one year. Lead director duties are fully described on page 21 of the proxy statement.
- *Expanded Committee Chair Responsibilities* – We formally extended to the committee chairs the power to approve committee agendas and meeting materials.
- *Strengthened Cybersecurity Oversight* – In 2013, we created a risk and return committee to better oversee enterprise risk and return activities and free up audit committee time for cybersecurity oversight. In 2016, the audit committee engaged its own independent cybersecurity advisor to provide additional independent oversight. While this advisor does not attest to results, as Deloitte & Touche LLP does for our annual audited financial statements, it is another step in adding cybersecurity monitoring capabilities and ensuring independent evaluation and oversight.
- *Enhanced Board Capabilities* – Allstate's 11 member Board includes 10 independent directors who are highly qualified to oversee the business and provide expertise to support management, and have an average tenure of seven years. Half of the nominees bring gender or ethnic diversity, and currently hold four of the five Board leadership roles. We continuously look for opportunities to refresh our Board to augment its skills and expertise and this year added Perry Traquina, the former chair and chief executive officer of Wellington Management Company, one of the nation's largest investors. Our independent directors, as a whole, bring expertise in financial services, technology, data and analytics, customer service, leadership, talent management, investment management and strategic expansions. Directors participated in external training and director forums in 2016.

STRATEGY AND BUSINESS PERFORMANCE

Since the pace of economic change continues to accelerate, a diligent board must simultaneously focus on current performance and long-term strategy. As part of strategic planning, the Board reviews Allstate's relative competitive positioning and alternatives to maximize profitable growth. In 2016, we focused on overseeing management's operating performance, execution of the customer segmented go-to-market strategy and investment activities. In addition, we spent considerable time discussing the strategic options to take advantage of a changing personal transportation system, and a new entity, Arity LLC, was launched to fully leverage and expand automotive telematics offerings. We also approved the acquisition of SquareTrade, a protection plan provider for consumer electronics and connected devices.

EXECUTIVE COMPENSATION AND SUCCESSION

The Board and compensation and succession committee spend a considerable amount of time on executive compensation and succession planning. Executive compensation programs are designed, with assistance from an independent consultant, to be aligned with our strategy, key performance metrics and total shareholder returns. These programs are working effectively, as reflected by the stockholder advisory vote with 95% support for each of the last three years. Several enhancements to these programs were made in 2016.

- *Annual Incentive Plan* – Total return on the investment portfolio was added as a funding measure for the annual incentive compensation pool. This change holds management accountable for both short-term income and the market value of the portfolio on an annual basis.
- *Management Stock Ownership Requirements* – The CEO is required to hold a minimum of 6 times salary but currently holds a multiple of 34 times, reflecting a culture of strong equity ownership. This year, the holding requirement for the President and all executive vice presidents was aligned to a consistent multiple of 3 times salary. Beginning with awards granted in 2014, there is also a one year holding period for a portion of the net shares received from equity grants.
- *Succession Planning* – We expanded our succession planning discussions to four times a year. The processes are designed to ensure sufficient in-house talent is available for all senior management positions by incorporating individual reviews, scenario planning, specific development plans and one-on-one meetings with more than 20 senior leaders and Board members.

SHAREHOLDER RETURNS

Total shareholder return was 21.5%, 43.2% and 196.6% over the last one, three and five years, respectively, which compares favorably to the Company's peers and the S&P 500 Index. The annual dividend was raised by 10% and a \$1.5 billion share repurchase plan was approved in May 2016.

SOCIETAL RESPONSIBILITIES

The Board also ensures that Allstate fulfills its role as a key member of the communities in which it operates. This includes operating with integrity, participating in an appropriate manner in public policy development and being a force for good by supporting youth empowerment and helping victims of domestic violence. Allstate and The Allstate Foundation helped over 4,800 nonprofit social service organizations in 2016. These activities are discussed in detail in Allstate's corporate social responsibility report (<http://corporateresponsibility.allstate.com/>).

Stockholder interaction and dialogue are a key input to effectively executing our fiduciary Board duties, and consequently we value the insights and suggestions of all stockholders. You can reach us at directors@allstate.com.

We want to thank Herb Henkel who will be retiring from the Board in May. We are thankful for his wise counsel and strategic expertise over the last four years.

Thank you for your continued support of Allstate.



Kermit R. Crawford



Michael L. Eskew



Herbert L. Henkel



Siddharth N. (Bobby) Mehta



Jacques P. Perold



Andrea Redmond



John W. Rowe



Judith A. Sprieser



Mary Alice Taylor



Perry M. Traquina

NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS

- When:** Thursday, May 25, 2017, at 11:00 a.m. Central time. Registration begins at 10:00 a.m.
- Where:** Allstate, North Plaza Auditorium
2775 Sanders Road
Northbrook, Illinois 60062
- Items of Business:**
- Proposal 1** – Election of 10 directors.
 - Proposal 2** – Say-on-pay: advisory vote on the compensation of the named executives.
 - Proposal 3** – Advisory vote on the frequency of future advisory votes on the compensation of the named executives.
 - Proposal 4** – Approval of The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors.
 - Proposal 5** – Ratification of appointment of Deloitte & Touche LLP as Allstate's independent registered public accountant for 2017.
 - Proposals 6 through 8** – Three stockholder proposals, if properly presented at the meeting.
- In addition, any other business properly presented may be acted upon at the meeting.
- Who Can Vote:** Holders of Allstate common stock at the close of business on March 27, 2017. Each share of common stock is entitled to one vote for each director position and one vote for each of the other proposals.
- Who Can Attend:** Stockholders who wish to attend the meeting in person should review page 87.
- Date of Mailing:** On or about April 12, 2017, these proxy materials and annual report are being mailed or made available to stockholders and to participants in the Allstate 401(k) Savings Plan.

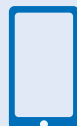
By Order of the Board,



Susan L. Lees
Secretary
April 12, 2017

How To Vote In Advance

Your vote is important. Please vote as soon as possible by one of the methods shown below. **Make sure to have your proxy card, voting instruction form, or notice of Internet availability in hand and follow the instructions.**



By Telephone: In the U.S. or Canada, you can vote your shares toll-free by calling 1-800-690-6903.



By Internet: You can vote your shares online at www.proxyvote.com.



By Mail: You can vote by mail by marking, dating, and signing your proxy card or voting instruction form and returning it in the postage-paid envelope.



By Tablet or Smartphone: You can vote your shares online with your tablet or smartphone by scanning the QR code.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 25, 2017

The Notice of 2017 Annual Meeting, Proxy Statement, and 2016 Annual Report and the means to vote by Internet are available at www.proxyvote.com.

PROXY SUMMARY

This summary highlights selected information about the items to be voted on at the annual meeting. This summary does not contain all of the information that you should consider in deciding how to vote. You should read the entire proxy statement carefully before voting.

Meeting Agenda and Voting Recommendations

Proposal Election of 10 Directors

1



The Board recommends a vote FOR each of the director nominees.

- Diverse slate of directors with broad leadership experience; four of five leadership roles bring gender or ethnic diversity.
- All candidates are highly successful executives with relevant skills and expertise.
- Average director tenure of 7 years with 9 of 10 independent of management.
- Proactive stockholder engagement.
- Exceptional corporate governance ratings.

→ See pages 11-16 for further information

Name	Principal Professional Experience ⁽¹⁾	Years of Tenure	# of Other Public Company Boards	Committee Memberships ⁽²⁾				
				AC	CSC	NGC	RRC	EC
Kermit R. Crawford	President, Pharmacy, Health and Wellness for Walgreen Co.	4	1	●		●		
Michael L. Eskew	Chairman and CEO of United Parcel Service, Inc.	3	3	●	●			
Siddharth N. Mehta	President and CEO of TransUnion	3	2	●			C	●
Jacques P. Perold	President of Fidelity Management & Research Company	1	1			●	●	
Andrea Redmond	Managing Director of Russell Reynolds Associates Inc.	7	0		●	C		●
John W. Rowe	Chairman and CEO of Exelon Corporation	5	3		C	●		●
Judith A. Sprieser <i>Lead Independent Director</i>	CEO of Transora, Inc. and senior executive at Sara Lee Corporation	18	2			●	●	●
Mary Alice Taylor	Senior executive at Citicorp and FedEx Corporation	19	0	C			●	●
Perry M. Traquina ⁽³⁾	Chairman, CEO and Managing Partner of Wellington Management Company, LLP	<1	2					
Thomas J. Wilson	Chair and CEO of The Allstate Corporation	11	1					C

AC = Audit Committee

CSC = Compensation and Succession Committee

NGC = Nominating and Governance Committee

RRC = Risk and Return Committee

EC = Executive Committee

C = Chair of Committee

⁽¹⁾ Except for Mr. Wilson, the professional experiences listed are the nominees' former principal occupations.

⁽²⁾ Committee assignments for 2017 will be made after the annual election of directors.

⁽³⁾ Consistent with Allstate's onboarding practices, committee assignments for Mr. Traquina will be established during his first year of service.

BOARD NOMINEE HIGHLIGHTS

Relevant Skills and Experience

Broad governance experience by serving on other public company boards

Significant corporate leadership experience in relevant industries

Tenure

Mix of seasoned directors who have been with Allstate through different external operating environments and fresh perspectives

Diversity

Diversity of skill set, experience, thought, gender, ethnicity and background

9 / 10 **Nine of our nominees have other public board experience**

8 / 10 **Eight of our nominees have served as a CEO or President**

6 / 10 **Six highly qualified nominees have joined the Board in the last five years**

5 / 10 **Three of our nominees bring gender diversity, and two of our nominees bring ethnic diversity to the Allstate boardroom**

GOVERNANCE HIGHLIGHTS

Allstate has a history of strong corporate governance guided by three primary principles - dialogue, transparency and responsiveness. The Board has adjusted our governance approach over time to align with evolving best practices, drive sustained stockholder value and best serve the interests of stockholders.

Stockholder Rights

- ✓ Annual election of all directors
- ✓ Majority vote standard in uncontested director elections
- ✓ Proxy access rights
- ✓ No stockholder rights plan ("poison pill")
- ✓ No supermajority voting provisions
- ✓ Confidential voting
- ✓ Right to call a special meeting for stockholders with 10% or more of outstanding shares
- ✓ Right to request action by written consent for stockholders with 10% or more of outstanding shares
- ✓ Stockholder engagement with holders of approximately 1/3 of outstanding shares each year

Independent Oversight

- ✓ Strong independent lead director role with clearly articulated responsibilities
→ See pages 20-21 for changes made during 2016
- ✓ Independent Board committees
- ✓ All directors are independent except the Chair
- ✓ Executive sessions at every in-person Board and committee meeting without management present

NEW

Good Governance

- ✓ Extensive Board dialogue with formal processes for stockholder engagement and frequent cross-committee and Board communications
- ✓ Annual report to stockholders from the independent directors on Board accomplishments
- ✓ Ongoing Board and committee self-evaluation process, including at the end of each in-person meeting
→ See page 18 for information about our evaluation processes
- ✓ Strong annual individual director evaluation process
→ See page 18 for further information about the individual director evaluations
- ✓ Comprehensive annual report on corporate involvement with public policy
- ✓ Robust global code of business conduct and ethics training for all directors
- ✓ Effective director education program
- ✓ Strong equity ownership and retention requirements for executives

Proposal 2

Say-on-Pay: Advisory Vote on the Compensation of the Named Executives

✓ The Board recommends a vote FOR this proposal.

- Independent oversight by compensation and succession committee with the assistance of an independent consultant.
- Executive compensation targeted at 50th percentile of peers and is structured to be aligned with total return to shareholders and our strategy.
- Compensation programs are working effectively. Annual incentive compensation funding for our named executives in 2016 was 55.1% of target, from 80.8% of target in the prior year, primarily due to the impact of auto insurance profit improvement actions on the total premium measure.
- Total shareholder return compares favorably to compensation.

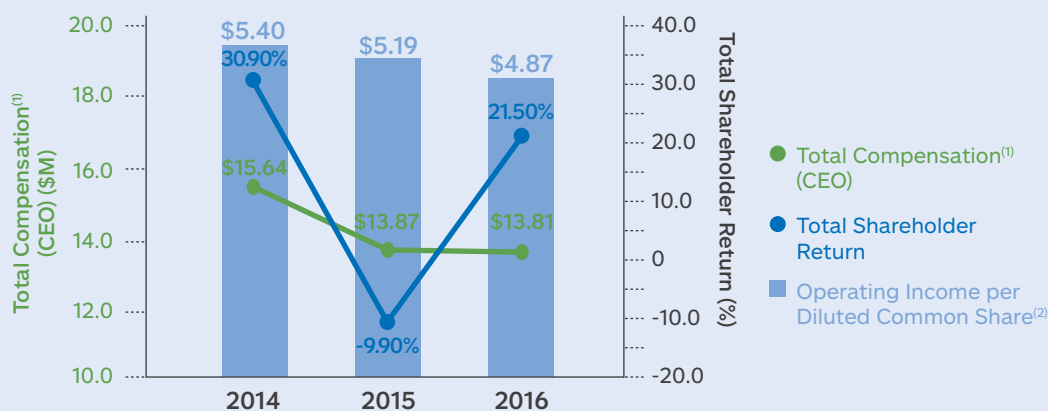
→ See pages 32-66 for further information

EXECUTIVE COMPENSATION HIGHLIGHTS

We compensated our named executives using the following elements for total target direct compensation in 2016:

Targeted at 50th percentile of peers	Element	Description	Further Information (pages)
	Salary	Provides a base level of competitive cash to attract and retain executive talent	37, 42
	Annual Cash Incentive	A funding pool for 2016 of 55.1% of target was based on four performance measures • Amounts awarded to each executive were based on pool funding, established target amounts, and individual performance	37, 42-43
	Long-term Equity Incentive	The mix of equity incentives granted in 2016 was 60% performance stock awards (PSAs) and 40% stock options • Actual PSAs awarded are determined by Average Adjusted Operating Income Return on Equity (ROE) (70%) and Earned Book Value (30%) (both measured over a three-year period)	37, 43-45

Our executive compensation programs have delivered pay which is supported by performance as illustrated by the following chart showing CEO total compensation in comparison to Operating Income per Diluted Common Share and Total Shareholder Return over the last three years.



(1) As reported in the "Total" column of the *Summary Compensation Table*.

(2) The Operating Income per Diluted Common Share measure is not based on accounting principles generally accepted in the United States of America ("non-GAAP") and is defined and reconciled to the most directly comparable GAAP measure (net income applicable to common shareholders per diluted common share) in Appendix A.

Proposal 3

Advisory Vote on the Frequency of Future Advisory Votes on the Compensation of the Named Executives

- ✓ **The Board recommends that you vote to conduct future advisory votes on executive compensation EVERY YEAR.**
 - Our stockholders have expressed interest in annual say-on-pay proposals.
 - The Board values the opportunity to receive annual feedback to respond to changing market conditions.

→ See page 67 for further information

Proposal 4

Approval of The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors

- ✓ **The Board recommends a vote FOR the approval of the Plan.**
 - Director pay is reviewed and benchmarked against our peers annually.
 - The Plan includes a number of provisions that reflect best practice, including an annual limit on equity awards to directors.
 - The director pay program is aligned with stockholder interests as a meaningful portion of director compensation is in the form of equity.
 - Allstate cannot make equity awards to non-employee directors beyond the remaining allotment under the 2006 plan. The new Plan authorizes 400,000 shares for equity grants to Allstate's independent directors.

→ See pages 68-72 for further information

Proposal 5

Ratification of Deloitte & Touche LLP as the Independent Registered Public Accountant for 2017

- ✓ **The Board recommends a vote FOR ratification of Deloitte & Touche LLP for 2017.**
 - Independent firm with few ancillary services and reasonable fees.
 - Significant industry and financial reporting expertise.
 - The audit committee has solicited requests for information from other auditing firms in the last four years and determined that the retention of Deloitte & Touche LLP continues to be in the best interests of Allstate and its stockholders.

→ See pages 73-75 for further information

Proposal 6 Stockholder Proposal on Independent Board Chairman

6

**The Board recommends a vote AGAINST this proposal.**

- Allstate's independent lead director provides meaningful independent leadership of the Board.
- The Board should continue to have flexibility to determine whether to split or combine the Chair and CEO roles and not be required to utilize one approach.
- The Board has split the roles of Chair and CEO in the past.
- The lead director is just one of many structural safeguards that provide effective independent oversight of Allstate.

→ See pages 76-78 for further information

Proposal 7 Stockholder Proposal on Lead Director Qualifications

7

**The Board recommends a vote AGAINST this proposal.**

- This proposal seeks to establish a new independence standard that is inconsistent with public stock exchange listing standards.
- The nominating and governance committee specifically evaluated the impact of Ms. Sprieser's tenure and concluded it had no impact on her independence.
- Allstate's independent lead director is selected through a robust process, and her performance is evaluated annually.
- The Board believes it is important to maintain a mix of director tenures.

→ See pages 79-80 for further information

Proposal 8 Stockholder Proposal on Reporting Political Contributions

8

**The Board recommends a vote AGAINST this proposal.**

- Allstate already provides stockholders with comprehensive disclosures on Allstate's involvement in the public policy arena (found at www.allstate.com/publicpolicyreport).
- Allstate's Board has strong governance and oversight practices over the company's public policy involvement.
- Allstate surpasses all disclosure requirements pertaining to political contributions under federal, state, and local laws.

→ See pages 81-82 for further information

TABLE OF CONTENTS

2	REPORT FROM INDEPENDENT DIRECTORS TO STOCKHOLDERS
4	NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS
4	How To Vote In Advance
5	PROXY SUMMARY
11	CORPORATE GOVERNANCE
11	Proposal 1 – Election of 10 Directors
12	Director Nominees
17	Board Composition and Nominee Considerations
19	Board Leadership Structure and Practices
28	Board Meetings and Committees
30	Director Compensation
32	EXECUTIVE COMPENSATION
32	Proposal 2 – Say-on-Pay: Advisory Vote on the Compensation of the Named Executives
33	Compensation Discussion and Analysis
49	Compensation Committee Report
50	Summary Compensation Table
52	Grants of Plan-Based Awards at Fiscal Year-end 2016
54	Outstanding Equity Awards at Fiscal Year-end 2016
55	Option Exercises and Stock Vested During 2016
56	Retirement Benefits
59	Non-Qualified Deferred Compensation at Fiscal Year-end 2016
60	Potential Payments as a Result of Termination or Change in Control (CIC)
63	Estimate of Potential Payments upon Termination
64	Performance Measures for 2016
67	OTHER COMPENSATION PROPOSALS
67	Proposal 3 – Advisory Vote on the Frequency of Future Advisory Votes on the Compensation of the Named Executives
68	Proposal 4 – Approval of The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors
73	AUDIT COMMITTEE MATTERS
73	Proposal 5 – Ratification of Deloitte & Touche LLP as the Independent Registered Public Accountant for 2017
75	Audit Committee Report
76	STOCKHOLDER PROPOSALS
76	Proposal 6 – Stockholder Proposal on Independent Board Chairman
79	Proposal 7 – Stockholder Proposal on Lead Director Qualifications
81	Proposal 8 – Stockholder Proposal on Reporting Political Contributions
83	Stockholder Proposals or Director Nominations for the 2018 Annual Meeting
84	STOCK OWNERSHIP INFORMATION
84	Security Ownership of Directors and Executive Officers
85	Security Ownership of Certain Beneficial Owners
85	Section 16(a) Beneficial Ownership Reporting Compliance
86	OTHER INFORMATION
86	Proxy and Voting Information
89	Appendix A – Definitions of Non-GAAP Measures
93	Appendix B – Categorical Standards of Independence
93	Appendix C – Executive Officers
94	Appendix D – The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors

About Allstate



We Are
The Good Hands.

The Allstate Corporation is the largest publicly held personal lines property and casualty insurer in America, serving more than 16 million households nationwide. Founded in 1931, Allstate has been dedicated to protecting our customers from life's uncertainties and preparing them for the future for more than 85 years.

Allstate became a publicly-traded company in 1993, and is listed on the New York Stock Exchange under the trading symbol ALL. In 2016, Allstate had over \$36 billion in revenues.

→ See information about our **stockholder engagement** regarding our Board leadership structure in 2016 on page 25

→ See information about our **compensation decisions** for our named executive officers in 2016 on pages 38-40

→ See information about our **proposed director pay limits** on pages 68-69

CORPORATE GOVERNANCE

Proposal

1

Election of 10 Directors



The Board recommends a vote FOR each of the director nominees.

- Diverse slate of directors with broad leadership experience; four of five leadership roles bring gender or ethnic diversity.
- All candidates are highly successful executives with relevant skills and expertise.
- Average director tenure of 7 years with 9 of 10 independent of management.
- Proactive stockholder engagement.
- Exceptional corporate governance ratings.

The Board recommends 10 nominees for election to the Allstate Board for one-year terms beginning in May 2017 and until a successor is duly elected and qualified or his or her earlier resignation or removal. These nominees are talented, both as individuals and as a team. They bring a full array of business and leadership skills to their oversight responsibilities. Most nominees serve on other public company boards, enabling our Board to more quickly adopt best practices from other companies. Their diversity of experience and expertise facilitates robust and thoughtful decision-making on Allstate's Board.

Each nominee, other than Mr. Traquina, was previously elected at Allstate's annual meeting of stockholders on May 24, 2016 for one-year terms. Mr. Traquina was elected by the Board on June 30, 2016. The Board expects all nominees named in this proxy statement to be available for election. If any nominee is not available, then the proxies may vote for a substitute. On the following pages, we list the reasons for nominating each individual. Mr. Henkel is not standing for re-election at the annual meeting.

DIRECTOR NOMINEES SKILLS AND EXPERIENCE

Our Board selected the nominees based on their diverse skills and experiences, which the Board believes will contribute to the effective oversight of Allstate.

Core Competencies

Strategic Oversight	100% of Directors
Stockholder Advocacy	100% of Directors
Corporate Governance	100% of Directors
Leadership	100% of Directors

Additional Capabilities

Financial Services	80% of Directors
Complex, Highly-Regulated Businesses	80% of Directors
Risk Management	80% of Directors
Operational Risk Management	70% of Directors
Accounting and Finance	80% of Directors
Succession Planning	70% of Directors
Technology	80% of Directors
Innovation and Consumer Focus	70% of Directors
Global Perspective	70% of Directors
Government, Public Policy and Regulatory Affairs	60% of Directors

Director Nominees



KERMIT R. CRAWFORD

Age: 57

Allstate Board Service

- Tenure: 4 years (2013)
- Audit committee
- Nominating and governance committee

Independent

Professional Experience

- Former President and Executive Vice President, Pharmacy, Health and Wellness for Walgreen Co., which operates one of the largest drugstore chains in the United States.

Relevant Skills

- Expertise assessing the strategies and performance of a geographically distributed and consumer-focused service business in a highly competitive industry.
- Effectively led operational change, including through the use of technology, and established strong platforms for long-term stockholder value creation.
- Extensive knowledge about analyzing consumer experience and insights.
- Effectively transformed the pharmacy experience from a model focused primarily on drug delivery to a pharmacist-patient centric model.

Committee Expertise Highlights

Audit Committee Member

- As a senior leader at Walgreen Co., he was responsible for all aspects of strategic, operational, and profit and loss management of the largest division of the then-largest drugstore chain in the United States.
- Significant experience overseeing the strategy and transformation of a highly competitive consumer-focused business.
- Current member of the audit and compliance committee at LifePoint Health.

Nominating and Governance Committee Member

- Member of the governing bodies of Northwestern Lake Forest Hospital and the University of Southern California School of Pharmacy.
- Current member of the corporate governance and nominating committee at LifePoint Health.

Other Public Board Service:

- LifePoint Health 2016–present



MICHAEL L. ESKEW

Age: 67

Allstate Board Service

- Tenure: 3 years (2014)
- Audit committee
- Compensation and succession committee

Independent

Professional Experience

- Former Chairman and CEO of United Parcel Service, Inc., a provider of specialty transportation and logistics services.
- Presiding director at International Business Machines Corporation since May 2014 and lead director at 3M Company since 2012.

Relevant Skills

- Effectively re-designed UPS's operational platforms by using digital technologies to more effectively and efficiently deliver a customer-focused worldwide service.
- Expertise in strategy and leadership development.
- Oversight of a highly regulated company as a director of Eli Lilly and Company.

Committee Expertise Highlights

Audit Committee Member

- Chair of the IBM and Eli Lilly audit committees and a past member of the 3M audit committee.
- Successful execution of financial oversight responsibilities as CEO of UPS.

Compensation and Succession Committee Member

- Significant management experience as former Chairman and CEO of UPS from 2002 to 2007 and director of other publicly-traded companies.
- Current chair of the 3M compensation committee.

Other Public Board Service:

- Eli Lilly and Company 2008–present
- IBM 2005–present
- 3M Company 2003–present


**SIDDHARTH N.
(BOBBY) MEHTA**
Age: 58

Allstate Board Service

- Tenure: 3 years (2014)
- Audit committee
- Risk and return committee chair
- Executive committee

Independent
Professional Experience

- Former President, CEO, and current director of TransUnion, a global provider of credit information and risk management solutions.
- Former Chairman and CEO, HSBC North America Holdings, Inc.
- Former Chief Executive Officer, HSBC Finance Corporation.

Relevant Skills

- Successful CEO leadership that increased revenues and global reach through the use of technology and advanced analytics.
- Extensive operational and strategic experience in the financial services industry, including in banking and the credit markets, which provides valuable insights into the highly regulated insurance industry and investment activities.

Committee Expertise Highlights
Audit Committee Member

- Multiple leadership positions with financial oversight responsibility, including President and CEO of TransUnion, CEO of HSBC Finance Corporation, and Chairman and CEO of HSBC North America Holdings, Inc.
- Chair of Allstate risk and return committee.

Risk and Return Committee Chair

- Significant experience in financial markets through multiple executive leadership positions at HSBC Group.

Other Public Board Service:

• TransUnion	2012–present
• Piramal Enterprises Ltd.	2013–present


JACQUES P. PEROLD
Age: 58

Allstate Board Service

- Tenure: 1 year (2015)
- Nominating and governance committee
- Risk and return committee

Independent
Professional Experience

- Former President of Fidelity Management & Research Company, a privately-held investment and asset management company serving clients worldwide with \$1.8 trillion in assets under management.
- Former Chief Operating Officer for Fidelity Asset Management.
- Former Founder, President and Chief Investment Officer of Geode Capital Management, LLC, a global asset manager and independent institutional investment firm and sub-advisor to Fidelity.
- Current trustee of New York Life Insurance Company's MainStay Mutual Funds.

Relevant Skills

- 30 years of successful leadership of strategy and operations and investment expertise in the financial services industry.
- Leader of one of the world's largest asset management firms.
- Oversaw investments and operations for Fidelity's family of mutual funds with over \$1.8 trillion in assets under management.

Committee Expertise Highlights
Nominating and Governance Committee Member

- Investor perspective on corporate governance as a result of asset management expertise.
- Significant governance experience as President of Geode Capital which involved interlocking financial and operating relationships.

Risk and Return Committee Member

- Significant experience in management and oversight of risk for three large asset management firms.
- Current trustee of several mutual funds.

Other Public Board Service:

• MSCI Inc.	2017–present



ANDREA REDMOND

Age: 61

Allstate Board Service

- Tenure: 7 years (2010)
- Compensation and succession committee
- Nominating and governance committee chair
- Executive committee

Independent

Professional Experience

- Former Managing Director, co-head of the CEO/board services practice, founder and leader of global insurance practice, and member of financial services practice at Russell Reynolds Associates Inc., a global executive search firm, with 20 years of experience at the firm.
- Independent consultant providing executive recruiting, succession planning, and talent management services.

Relevant Skills

- Expert in public company succession planning, talent management, and compensation across a wide range of industries.
- Substantial experience in financial services leadership selection and executive development.
- Effectively helped companies identify and recruit leaders capable of building high-performance organizations.
- Extensive experience in assessing required board capabilities and evaluating director candidates.

Committee Expertise Highlights

Compensation and Succession Committee Member

- Experience in executive recruiting, succession planning, and talent management.
- Extensive experience working with numerous publicly-traded companies to recruit and place senior executives.

Nominating and Governance Committee Chair

- Significant expertise recruiting and evaluating directors for a variety of public companies.
- A senior partner at a highly regarded global executive search firm, Russell Reynolds Associates, from 1986 to 2007, including significant tenure as co-head of the CEO/board services practice.



JOHN W. ROWE

Age: 71

Allstate Board Service

- Tenure: 5 years (2012)
- Compensation and succession committee chair
- Nominating and governance committee
- Executive committee

Independent

Professional Experience

- Chairman Emeritus and former Chairman and CEO of Exelon Corporation, one of the country's largest electric utilities.

Relevant Skills

- Extensive leadership and management experience as a CEO.
- Successfully led a company in a highly regulated industry comparable to the complex insurance regulatory system in which Allstate operates.
- Created and implemented a differentiated strategy in a highly regulated industry.
- Financial services and insurance expertise as lead director on the board of Northern Trust Corporation and a former director of Unum Provident.

Committee Expertise Highlights

Compensation and Succession Committee Chair

- Leadership responsibilities as former Chairman and CEO of Exelon Corporation.
- Former member of SunCoke Energy compensation committee.
- Member of Northern Trust Corporation compensation and benefits committee.
- Former director of Sunoco and member of its compensation committee.

Nominating and Governance Committee Member

- Chair of corporate governance committee and lead director of Northern Trust Corporation.
- Lead director and chair of SunCoke Energy governance committee.
- Former director of Sunoco and member of its executive committee.

Other Public Board Service:

• Northern Trust Corporation	2002–present
• SunCoke Energy, Inc.	2012–present
• American DG Energy, Inc.	2013–present

**JUDITH A. SPRIESER**

Lead Director

Age: 63

Allstate Board Service

- Tenure: 18 years (1999)
- Nominating and governance committee
- Risk and return committee
- Executive committee

Independent**Professional Experience**

- Former CEO of Transora, Inc., a technology software and services company.
- Former CFO and other senior executive positions at Sara Lee Corporation, a global manufacturer and marketer of brand-name consumer goods.
- Former director at Jimmy Choo plc, Royal Ahold NV and Experian.

Relevant Skills

- Extensive service on boards of publicly-traded and international companies, including highly regulated companies.
- More than 20 years operational experience in executive positions at Sara Lee Corporation.
- Extensive evaluation of financial statements and supervision of financial executives.

Committee Expertise Highlights**Lead Director**

- Prior chair of audit committee (7 years).
- Board service at Allstate during many different external operating environments and two CEOs.

Nominating and Governance Committee Member

- Significant experience on boards of publicly-traded and international companies, and current member of nominating and governance committee at Intercontinental Exchange, Inc.
- Numerous key leadership positions, including CEO of Transora, Inc., and CFO of Sara Lee Corporation.

Risk and Return Committee Member

- Insight from service as prior chair of Allstate's audit committee and current audit committee chair at Intercontinental Exchange, Inc.
- Significant risk oversight and management experience.
- Tenure as an Allstate director has provided experience through multiple operating environments.

Other Public Board Service:

- Intercontinental Exchange, Inc. 2004–present
- Reckitt Benckiser Group plc 2003–present

**MARY ALICE TAYLOR**

Age: 67

Allstate Board Service

- Tenure: 19 years (1996-1998; 2000-present)
- Audit committee chair
- Risk and return committee
- Executive committee

Independent**Professional Experience**

- Former senior executive with several Fortune 500 companies, including Citicorp and FedEx Corporation.
- Former director at Blue Nile, Inc.

Relevant Skills

- Held senior executive roles in technology, finance, operations, and distribution logistics at large corporations, including Citicorp and FedEx Corporation.
- Developed significant financial experience by serving in financial oversight roles at Cook Industries, Northern Telecom, Homegrocer.com, Citicorp, and FedEx Corporation.
- Prior experience as a lead director at Blue Nile, Inc.
- Certified public accountant (inactive).

Committee Expertise Highlights**Audit Committee Chair**

- Significant financial oversight expertise developed as Chairman and CEO of HomeGrocer.com and in senior executive roles at Citicorp and FedEx Corporation.
- Former member of the audit committee of Blue Nile, Inc.

Risk and Return Committee Member

- Significant senior management experience.
- Expertise in strategy formation, including technology-based business strategies, at both large established companies and start-ups.
- Tenure as an Allstate director has provided experience through multiple operating environments.
- Chair of Allstate audit committee.

NEW



PERRY M. TRAQUINA

Age: 60

Allstate Board Service

- Tenure: <1 year
- Elected to the Board on June 30, 2016

Independent

Professional Experience

- Former Chairman, CEO and Managing Partner of Wellington Management Company, LLP, one of the world's largest global investment management firms.

Relevant Skills

- Extensive leadership and management experience as CEO of one of the largest institutional investors.
- Strong financial services and global investment management expertise through 34 years at Wellington Management Company, LLP.
- Oversaw the globalization of Wellington's investment platform.
- Successfully led company in a highly regulated climate with volatile capital markets.
- Brings valuable market-oriented investor perspective.

Committee Expertise Highlights

Consistent with past practice, committee assignments will be established during first year of service.

- Current audit committee member at Morgan Stanley and member of the audit and corporate governance and nominating committees at eBay.
- Current chair of the risk committee at Morgan Stanley.

Other Public Board Service:

• Morgan Stanley	2015–present
• eBay	2015–present



THOMAS J. WILSON

Board Chair and Chief Executive Officer

Age: 59

Allstate Board Service

- Tenure: 11 years (2006)
- Executive committee chair

Professional Experience

- CEO since January 2007 and Chair of Board since May 2008.
- President from January 2005 to January 2015.
- Held senior executive roles other than CEO, leading all major operating units over a 22-year period.

Relevant Skills

- Key leadership roles throughout Allstate over a 22-year period.
- Thorough and in-depth understanding of Allstate's business, including its employees, agencies, products, investments, customers, and investors.
- Developed Allstate's strategy to provide differentiated customer value propositions to four consumer segments.
- Created and implemented Allstate's risk and return optimization program, allowing Allstate to withstand the 2008 financial market crisis and adapt to increases in severe weather and hurricanes.
- In-depth understanding of the insurance industry.
- Industry and community leadership, including former chair of the Property and Casualty CEO Roundtable and the Financial Services Roundtable, co-chair of a public-private partnership to reduce violence in Chicago, and national and Illinois co-chair for WE Day.

Committee Expertise Highlights

Executive Committee Chair

- Comprehensive knowledge of Allstate's business and industry with 22 years of leadership experience at the company.

Other Public Board Service:

• State Street Corporation	2012–present

Board Composition and Nominee Considerations

The Board and nominating and governance committee believe that **each director should be well-versed in strategic oversight, corporate governance, stockholder advocacy, and leadership in order to be an effective member of the Allstate Board.** In addition to this fundamental expertise, the Board and committee seek directors with corporate operating experience, **financial services expertise**, and compensation and succession experience. The Board and committee also consider experience in the areas listed under the section “Evaluation Process for Current Directors” on page 18.

The Board and committee expect each non-employee director to be free of interests or affiliations that could give rise to a biased approach to directorship responsibilities or a conflict of interest and be free of any significant relationship with Allstate that would interfere with the director’s exercise of independent judgment. The Board and committee also expect each director to devote the time and effort necessary to serve as an effective director and act in a manner consistent with a director’s fiduciary duties of loyalty and care. Allstate executive officers may not serve on boards of other corporations whose executive officers serve on Allstate’s Board.

Board nominees are identified through a retained search firm, suggestions from current directors and stockholders, and through other methods including self-nominations. Our newest director, Mr. Traquina, was identified by our other directors.

The nominating and governance committee will consider director candidates recommended by a stockholder in the same manner as all other candidates recommended by other sources. A stockholder may recommend a candidate at any time of the year by writing to the Office of the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite F7, Northbrook, Illinois 60062-6127.

All candidates are evaluated and considered for their diversity, including gender, ethnic and diversity of background, expertise, and perspective, as well as the criteria described in our *Corporate Governance Guidelines* at www.allstateinvestors.com.

Beginning with the 2017 annual meeting, a stockholder or group of up to 20 stockholders owning 3% or more of Allstate’s outstanding common stock continuously for at least three years can nominate director candidates constituting up to 20% of the Board in the company’s annual meeting proxy materials.

NOMINATION PROCESS FOR BOARD ELECTION

The Board continuously identifies potential director candidates in anticipation of retirements, resignations, or the need for additional capabilities. The graphic below describes the ongoing nominating and governance committee process to identify highly qualified candidates for Board service.

Consider current Board skill sets and needs

Ensure Board is strong in core competencies of strategic oversight, corporate governance, stockholder advocacy and leadership and has diversity of expertise and perspective to meet existing and future business needs

Check conflicts of interest and references

All candidates are screened for conflicts of interest, and all directors are independent, except the CEO

Nominating and governance committee dialogue

Considered 112 candidates since 2011

Meet with qualified candidates

To ensure appropriate personal qualities, such as independence of mind, being a team player, tenacity, and skill set to meet existing or future business needs

Nominating and governance committee dialogue

To consider shortlisted candidates and after deliberations, recommend candidates for election to the Board

Board dialogue and decision

Added seven highly qualified directors in the past five years

EVALUATION PROCESS FOR CURRENT DIRECTORS

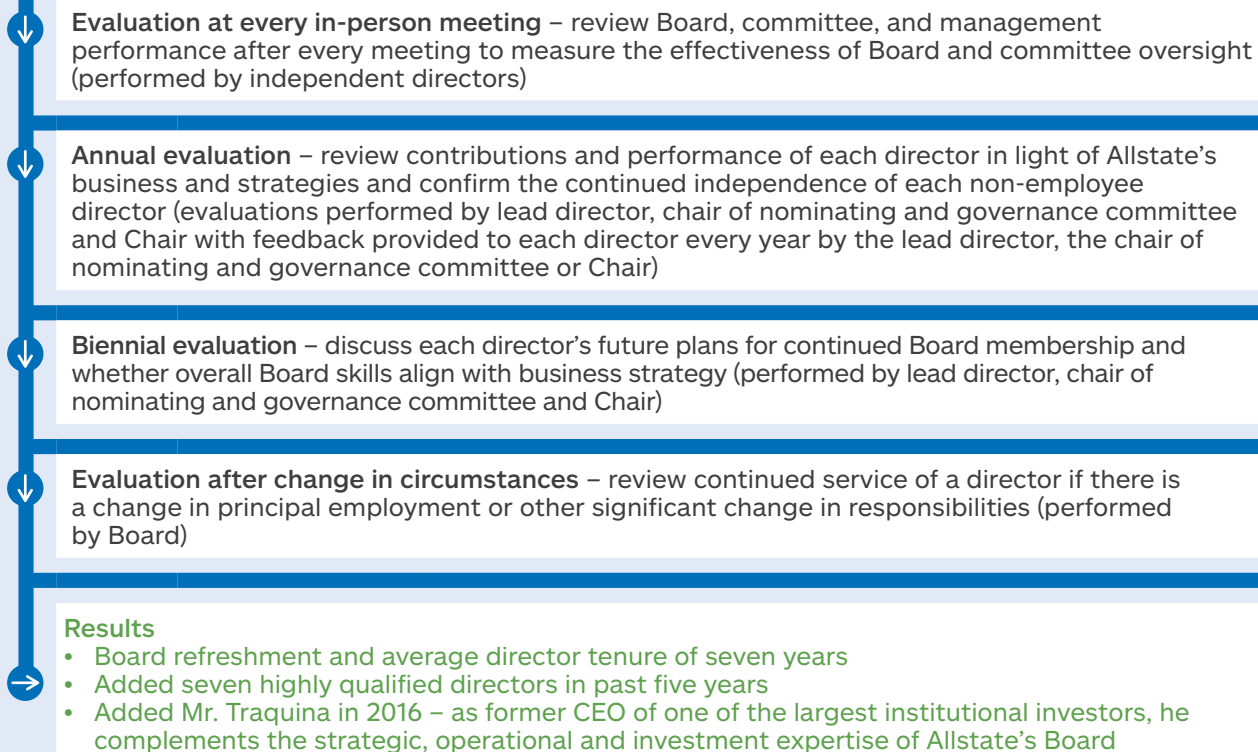
Before recommending the annual slate of director nominees, the nominating and governance committee has a rigorous process to evaluate current directors. In addition to considering the current directors' tenure, the committee's process includes:

- On an **annual** basis, the contributions and performance of each individual director are evaluated, including in the following areas:
 - **Core capabilities** of strategic oversight, corporate governance, stockholder advocacy, and leadership.
 - **Additional capabilities** that provide the appropriate mix of skills and experience that fit Allstate's business and strategies and contribute to the effectiveness of the Board, including capabilities in the following areas: financial services, complex/highly-regulated businesses, risk management, operational risk management, accounting and finance, succession planning,
- technology, innovation and consumer focus, global perspective, and government, public policy and regulatory affairs.
- **Interests and affiliations** that could give rise to a biased approach to directorship responsibilities.
- **Significant relationships** with Allstate that would interfere with the director's exercise of independent judgment.
- **Willingness and ability** to devote the time necessary to serve as an effective director.
- In addition, on a **biennial** basis, each director's future plans for continued Board membership are discussed so that individual circumstances can be appropriately addressed.

Individual directors receive feedback each year from the Chair, the lead director, or chair of the nominating and governance committee.

The outcomes of such evaluations are shared with the nominating and governance committee in connection with the annual nomination process and inform the Board and nominating and governance committee's ongoing process to identify highly qualified candidates for Board service.

STEPS TO ACHIEVE BOARD EFFECTIVENESS – EVALUATION PROCESSES



NOMINEE INDEPENDENCE DETERMINATIONS

The Board has determined that all non-employee directors who served during 2016 and all nominees, other than Mr. Wilson, are independent according to applicable law, the NYSE listing standards, and the Board's *Director Independence Standards* (which are included on www.allstateinvestors.com). In accordance with the *Director Independence Standards*, the Board has determined that the nature of the relationships with the corporation that are set forth in Appendix B do not create a conflict of interest that would impair a director's independence. The Board also determined that the members of the audit, compensation and succession, nominating and governance, and risk and return committees are independent within the meaning of applicable laws, the NYSE listing standards and the *Director Independence Standards*.

When evaluating the independence of director nominees, the Board weighs numerous factors, including tenure. In particular, the Board weighed the potential impact of tenure on the independence of our two longest serving directors, Ms. Sprieser and Ms. Taylor. Both directors have significant experience serving at Allstate under different operating environments and management teams, and both served on the Board under two CEOs and prior to Mr. Wilson's appointment. The Board concluded that both Ms. Sprieser and Ms. Taylor continue to be effective directors who fulfill their responsibilities with integrity and independence of thought. They appropriately challenge management and the status quo, and are reasoned, balanced, and thoughtful in Board deliberations and in communications with management. Therefore, the Board determined that their independence from management has not been diminished by their years of service.

Board Leadership Structure and Practices

BOARD CHAIR

Allstate's Corporate Governance Guidelines allow the independent directors the flexibility to split or combine the Chair and CEO responsibilities. The independent directors periodically review Allstate's leadership structure and whether separating the roles of Chair and CEO is in the best interests of Allstate and its stockholders. When making this determination, the independent directors consider the recommendation of the nominating and governance committee, the current circumstances at Allstate, the skills and experiences of the individuals involved and the leadership composition of the Board. **The roles of Chair and CEO were split during a transition of leadership in 2007 and 2008.** The independent directors also appoint an independent lead director with robust powers and responsibilities. **A strong lead director role provides an effective independent counterbalance if the independent directors choose to combine the Chair and CEO roles.**

At present, the independent directors have determined Allstate is well-served by having these roles performed by Mr. Wilson, who provides excellent leadership and direction for both management and the Board. This promotes a strong connection between the Board and management and is still subject to strong independent oversight by Allstate's independent lead director and the other independent directors. The Board believes it benefits from the considerable knowledge and perspective that Mr. Wilson has acquired from more than 22 years of insurance industry experience. Given his extensive company knowledge and his ability to effectively fulfill both roles simultaneously, he is uniquely qualified to lead discussions of the Board and is in the best position to facilitate the flow of business information and communications between the Board and management.

INDEPENDENT LEAD DIRECTOR

Allstate's Board places great importance on strong independent Board leadership and has had a strong lead director role in place for over six years. Allstate's Corporate Governance Guidelines describe

the responsibilities of the lead director and the selection process, including the characteristics that the Board considers important in a lead director.

NEW

- ✓ In November 2016, in response to stockholder feedback and to formalize its practices, the Board amended Allstate's Corporate Governance Guidelines to expand the responsibilities of the lead director to include:
 - Approval of meeting agendas, schedules and other materials sent to the Board
 - Authority to call meetings of the independent directors
 - Formal oversight over the Board committee self-evaluation process and committee reports to the Board
 - Responsibility for facilitating the Chair and CEO succession process
- ✓ Other changes to the guidelines included:
 - Formalized change in lead director election process to provide that only the independent directors elect the lead director annually, with the expectation that the lead director serve more than one year
 - Clarified lead director selection process, including selection considerations for nominees, which are reviewed annually in connection with evaluation of the lead director
 - Reduced the number of public company boards that a non-executive director can serve on, in addition to Allstate, from five to four

Judy Sprieser is Allstate's lead director, and has held that role since 2015. The lead director is elected annually by the independent directors, and it is generally expected that the lead director serve more than one year. The lead director's duties include:

Board Meetings and Executive Sessions	✓ Has the authority to call meetings of the independent directors ✓ Approves meeting agendas and schedules and information sent to the Board to ensure there is sufficient time for discussion of all items and that directors have the information necessary to perform their duties ✓ Chairs executive sessions of independent directors at every Board meeting ✓ Presides at all Board meetings when the Chair is not present
Duties to the Board	✓ Has regular communications with the CEO about the strategy and performance of Allstate ✓ Performs additional duties that the independent directors may designate from time to time
Communication Between Chair and Independent Directors	✓ Serves as liaison between the Chair and independent directors ✓ Is available to consult with the Chair about the concerns of the Board and reports on decisions made/suggestions in executive sessions
Communication with Stockholders	✓ Communicates with significant stockholders and other stakeholders on matters involving broad corporate policies and practices
Committee Involvement	✓ Works with the Chair and committee chairs to ensure coordinated coverage of Board responsibilities and ensures effective functioning of all committees ✓ Ensures the implementation of a committee self-evaluation process and regular reports to the Board
Board and Individual Director Evaluations	✓ Facilitates the evaluation of individual director, Board and committee performance in conjunction with the chair of the nominating and governance committee and the Chair
CEO Performance Evaluation	✓ Facilitates and communicates the Board's performance evaluation of the Chair and CEO in conjunction with the chair of the compensation and succession committee
Succession Plans	✓ Ensures that a succession plan is in place for the Chair and CEO



JUDITH A. SPRIESER

- Lead director since 2015
- Member of the nominating and governance, risk and return and executive committees
- Prior chair of audit committee for seven years
- Allstate Board experience in multiple operating environments and under two CEOs

Considerations in Selecting Current Lead Director

When determining the appropriate candidate for lead director, the independent directors consider several factors, including the director's corporate

governance expertise, operational and leadership experience, board service and tenure, integrity, prior Board leadership roles, and ability to meet the required time commitment. It is preferable that the lead director hold a previous position as chair of a Board committee, either at Allstate or another company. Ms. Sprieser was chosen by the independent directors as she exemplified these characteristics. She has devoted significant time fulfilling her duties as lead director since May of 2015. During her tenure on Allstate's Board, she has cultivated an expansive knowledge of Allstate and the trust of the independent directors. She became a director prior to the election of the current Chair and CEO and has been a director through a number of different external operating environments. Her long-term perspective complements the perspectives of newer Board members, seven of whom have joined in the last five years. The independent directors believe that Ms. Sprieser is exceptionally well-qualified to serve as Allstate's independent lead director.

ACTIVE AND ENGAGED BOARD – SELECT ACTIONS OVER LAST FIVE YEARS

Allstate's Board is committed to operating with transparency. The following summary lists select strategic, governance and compensation developments overseen by the Board during the last five years.

2016

- **Governance** Enhanced the independent lead director's powers, responsibilities and election process
- **Governance** Strengthened role of committee chairs in approval of meeting agendas and committee materials
- **Governance** The audit committee engaged an independent advisor to report on cybersecurity risk
- **Strategy** Approved acquisition of SquareTrade, a protection plan provider for consumer electronics and connected devices, which expands Allstate's customer protection offerings
- **Strategy** Launched Arity LLC, a new entity, to fully leverage Allstate's telematics offerings and expand Allstate's current analytical capabilities
- **Compensation** Added a fourth performance measure, total return, to the annual incentive compensation program to capture all investment results on an annual basis

2015

- **Governance** Adopted proxy access (3%, 3 years, 20% of Board, up to 20 stockholders can aggregate)
- **Strategy** Oversight of auto insurance profit improvement plan in response to the historic rise in auto loss costs across the industry
- **Compensation** Made decision to replace time-based restricted stock awards with performance stock awards for all senior vice presidents, starting in 2016
- **Compensation** Added a second performance measure to the performance stock award program, earned book value, to create greater alignment with the increase in performance-based assets in Allstate's investment portfolio, beginning with 2016 awards
- **Compensation** Changed allocation of long-term equity award grants to 60% performance stock awards and 40% stock options, effective for 2016 grants

2014

- **Governance** Increased focus on cybersecurity oversight with audit committee conducting quarterly cybersecurity reviews
- **Compensation** Changed performance goal for performance stock awards to three-year average (instead of three separate one-year periods)
- **Compensation** Adopted a policy prohibiting the pledging of Allstate securities for senior executives and directors

2013

- **Governance** Created a risk and return committee to enhance the Board's oversight of Allstate's risk and return activities
- **Governance** Expanded and formalized the Board's director evaluation practices, and included a biennial review in addition to the annual reviews to discuss each director's future plans for Board service
- **Strategy** Approved the sale of Lincoln Benefit Life to strategically focus Allstate Financial and redeploy capital to earn higher risk-adjusted returns
- **Strategy** Strengthened Allstate's capital position and improved its strategic flexibility by utilizing preferred stock and subordinated debt to refinance higher-cost senior debt
- **Compensation** Added an equity retention requirement for certain senior executives to require that 75% of the net proceeds be held for an additional year past the three-year vesting period in the case of performance stock awards, or for an additional year after exercise in the case of options

2012

- **Governance** Implemented stockholder right to call special meeting - 10% or more of outstanding shares
- **Governance** Implemented stockholder action by written consent - 10% or more of outstanding shares
- **Strategy** Implementation of customer segmented approach to property-liability insurance and aggressive initiation of auto telematics programs
- **Compensation** Replaced time-based restricted stock awards with performance stock awards for senior leaders

BOARD ROLE IN RISK OVERSIGHT

The Board is responsible for the oversight of Allstate's strategy, business results, and management, including risk management. The Board formally reviews Allstate's overall risk position and risk management twice a year and uses external resources when appropriate to assess enterprise risk and return management processes. Material risks, including those affected by climate, are regularly identified, measured, managed, and reported to senior management and the Board.

In 2013, the Board added a risk and return committee as a standing committee of the Board to ensure sufficient expertise and continuity between the Board's biannual reviews. This committee oversees the effectiveness of Allstate's enterprise risk and return management framework, governance structure and decision-making. The key responsibilities of the risk and return committee are further detailed on page 29.

The audit committee provides oversight and guidance on Allstate's controls related to key risks and reviews the major financial risk exposures

and the steps taken to monitor and control those risks. As such, cybersecurity risk oversight was expanded in 2014 to supplement the oversight already provided by the Board and risk and return committee. The audit committee conducts quarterly reviews to:

- Oversee the efficacy of cybersecurity risk initiatives and related policies and procedures.
- Assess regular reports received from the chief risk officer and chief information security officer, who are tasked with monitoring cybersecurity risks, and from outside experts to supplement management reports.

In 2016, the audit committee engaged an independent advisor to assess Allstate's cybersecurity risk. The advisor delivered a detailed report to the audit committee and Board. The chairs of the risk and return and audit committees are members of both committees to enhance cross-committee communication at the Board level.

NEW

RISK MANAGEMENT AND COMPENSATION

The compensation and succession committee reviews executive compensation programs to ensure they appropriately reflect the risk and return principles approved by the Board. Each year, Allstate's chief risk officer conducts a review and assessment of potential compensation-related risks arising from Allstate's executive compensation plans and presents the analysis to the compensation and succession committee for further consideration and dialogue. The chief risk officer reviews the design, performance measures, and ranges in the incentive plans to ensure they are consistent with Allstate's risk and return principles. The committee plays an important role in overseeing the executive compensation risk assessment and understanding any steps taken by management to manage and control executive compensation risks. In addition, the committee employs an independent compensation consultant each year to review and assess Allstate's executive pay levels, practices, and overall program design.

Based on this annual review, we believe our compensation policies and practices are appropriately structured and do not provide incentives for employees to take unnecessary or excessive risks. Compensation plans provide a balanced and appropriate mix of cash and equity

through annual and long-term incentives to align with short and long-term business goals. No one, regardless of eligibility, is guaranteed an award under the annual cash incentive program. We utilize multiple performance measures that correlate with long-term stockholder value creation and that diversify the risk associated with any single performance indicator. In addition, the annual incentive program contains a funding adjustment for senior executives in the event of a net loss, which reduces the corporate pool funding for those officers by 50% of actual performance. Likewise, for the performance stock award program, the committee requires positive net income for our executives to earn awards above target. Equity awards to executive officers after 2009 and annual cash incentive awards beginning in 2010 are subject to clawback in the event of certain financial restatements. Executives are also subject to rigorous stock ownership and retention requirements. Beginning with awards granted in 2014, for senior executives, there is also a one year holding period for a portion of the net after-tax shares received from equity grants.

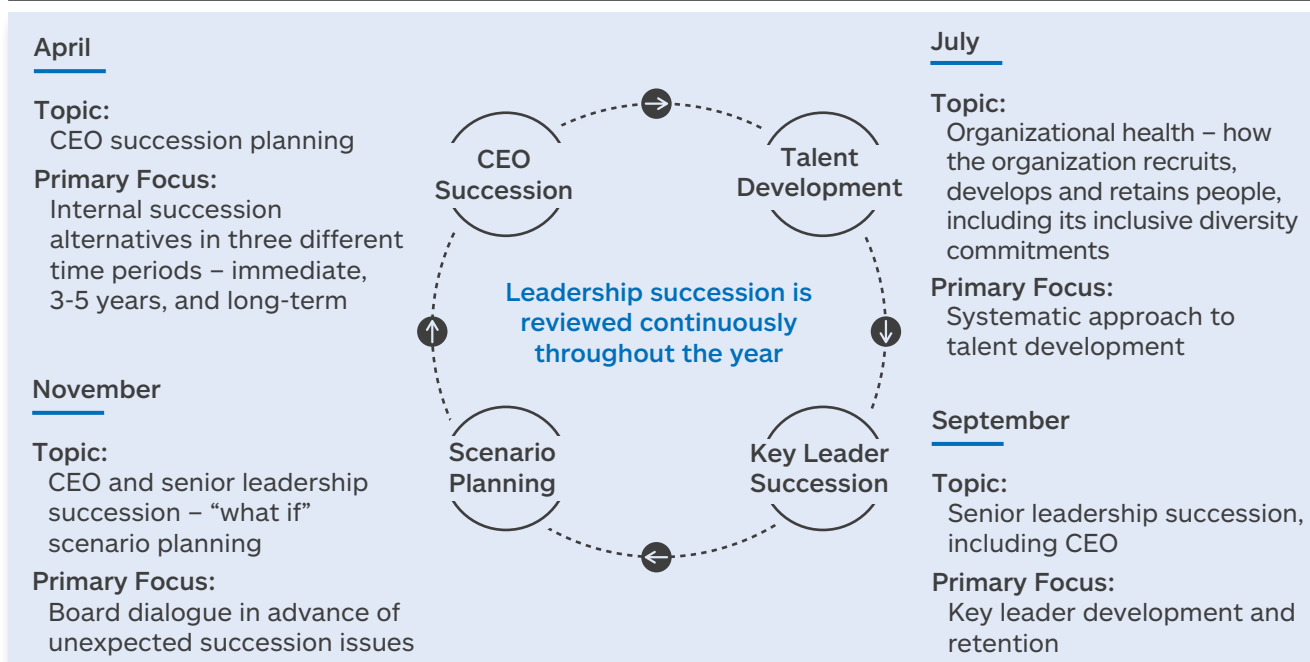
Based on this analysis, we believe Allstate's compensation policies ensure appropriate levels of risk-taking, while avoiding unnecessary risks that could have a material adverse effect on Allstate.

BOARD ROLE IN MANAGEMENT SUCCESSION

The Board oversees the recruitment, development, and retention of executive talent. Management succession is now discussed four times annually. Management succession is discussed in the compensation and succession committee, nominating and governance committee, and Board meetings with the CEO, as well as in executive sessions.

Discussions cover the CEO and other senior executive roles and include a broader discussion on organizational health. The Board also has regular and direct exposure to senior leadership and high-potential officers through one-on-one breakfasts and other informal meetings held throughout the year.

NEW

BOARD REVIEW OF SUCCESSION PLANNING AND TALENT DEVELOPMENT PRACTICES**BOARD ROLE IN SETTING COMPENSATION**

The compensation and succession committee reviews the executive compensation program throughout the year with the assistance of an independent compensation consultant, Compensation Advisory Partners (“CAP”). CAP benchmarks Allstate’s plans and compensation payments to the market and evaluates changes to our executive compensation program. The compensation consultant also assesses Allstate’s executive compensation design, peer group selection, relative pay for performance, and total direct compensation for individual senior executive positions. Representatives of the compensation consultant participated in all six compensation and succession committee meetings in 2016.

The compensation and succession committee annually evaluates the compensation consultant’s performance and independence.

The compensation and succession committee makes recommendations to the Board on compensation for the CEO and executive officers and the structure of plans used for executive officers.

STOCKHOLDER ENGAGEMENT

Allstate has a proactive practice of discussing corporate governance issues with significant stockholders throughout the year. Dialogue, transparency, and responsiveness are the cornerstones of our practice. Such discussions are held before the annual meeting, during stockholder voting, and after the annual meeting and include our lead director, chair of nominating and governance committee, Chair of the Board, and

The compensation and succession committee grants all equity awards to individuals designated as executive officers for purposes of Section 16 of the Securities Exchange Act of 1934 or covered employees as defined in Internal Revenue Code section 162(m). The compensation and succession committee has authority to grant equity awards to eligible employees in accordance with the terms of our 2013 Equity Incentive Plan. The Board has delegated limited authority to the CEO to grant equity awards to non-executive officers. All awards granted between compensation and succession committee meetings are reported at the next meeting.

The compensation consultant also provides to the nominating and governance committee competitive information on director compensation, including updates on practices and emerging trends.

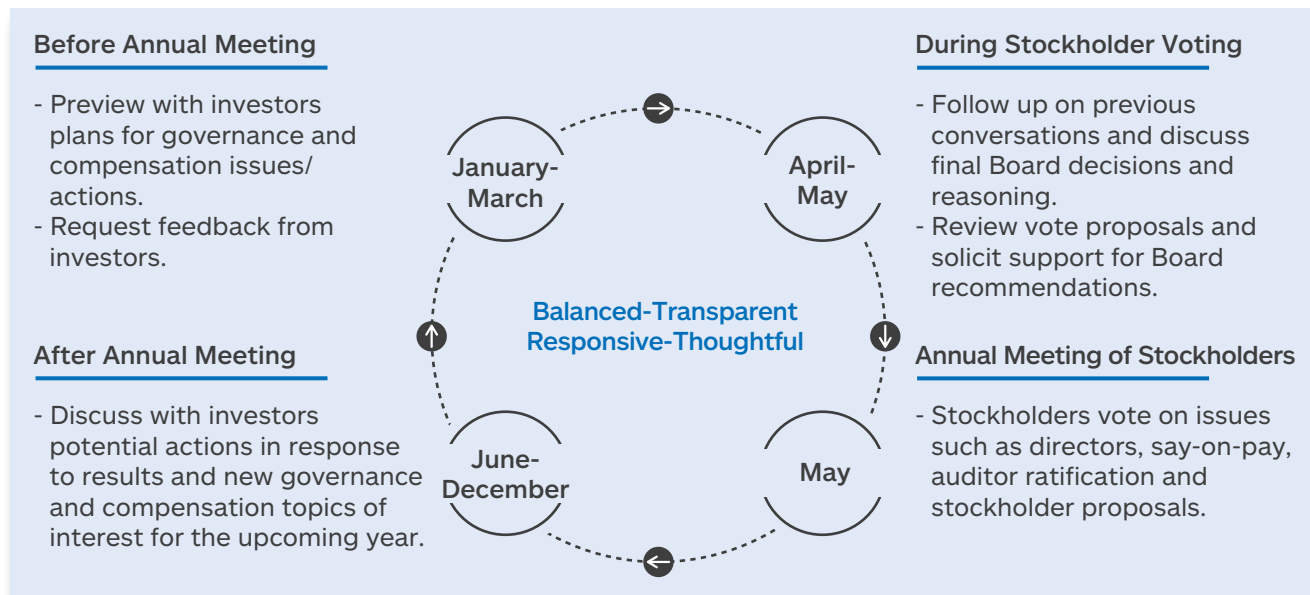
other committee chairs or directors as necessary. **Direct engagement typically involves our largest stockholders representing approximately one-third of our total outstanding shares.** We also engage with proxy and other investor advisory firms that represent the interests of various stockholders. In addition to input on current governance and executive compensation topics specific to Allstate, we invite discussion on any other topics or trends

stockholders may wish to share with us. Their input is reported to the nominating and governance committee, which in turn allocates specific issues to relevant Board committees for further consideration. **Each Board committee reviews relevant feedback and determines if additional discussion or actions are necessary by the respective committee or full Board.** In addition, broader investor surveys provide perspective on investor concerns.

NEW → During 2016, Allstate reached out to stockholders representing approximately 40% of outstanding shares and spent a significant amount of time

discussing Allstate's Board leadership structure, including the appropriate duties, responsibilities and important characteristics for our lead director role. After many investor meetings and focused discussions, the Board amended Allstate's Corporate Governance Guidelines to, among other things, expand and formalize existing practices and responsibilities of the lead director. These amended guidelines can be found at www.allstateinvestors.com.

STOCKHOLDER ENGAGEMENT CYCLE



BOARD ATTENDANCE POLICY

Each incumbent director attended at least 75% of the combined Board meetings and meetings of committees of which he or she was a member.

Attendance at Board and committee meetings during 2016 averaged 99% for the incumbent directors as a group. Directors are expected to

attend Board and committee meetings and the annual meeting of stockholders. All directors who stood for election at the 2016 annual meeting of stockholders attended the annual meeting.

RELATED PERSON TRANSACTIONS

The nominating and governance committee has adopted a written policy on the review, approval, or ratification of transactions with related persons, which is posted on the Corporate Governance section of allstateinvestors.com.

There were no related person transactions identified for 2016.

The committee or committee chair reviews transactions with Allstate in which the amount involved exceeds \$120,000 and in which any related person had, has, or will have a direct or indirect material interest. In general, related persons are

directors, executive officers, their immediate family members, and stockholders beneficially owning 5% or more of our outstanding stock. The committee or committee chair approves or ratifies only those transactions that are in, or not inconsistent with, the best interest of Allstate and its stockholders. Transactions are reviewed and approved or ratified by the committee chair when it is not practicable or desirable to delay review of a transaction until a committee meeting. The committee chair reports any approved transactions to the committee. Any ongoing, previously approved, or ratified related person transactions are reviewed annually.

MANAGEMENT PARTICIPATION IN COMMITTEE MEETINGS

Audit Committee. The CFO, chief audit executive, chief compliance executive, chief risk officer, CEO, general counsel and controller all actively participate in audit committee meetings. Senior business unit and technology executives, including the chief technology officer, are present when appropriate. Executive sessions of the committee are scheduled and held throughout the year, including sessions in which the committee meets exclusively with the independent registered public accountant, chief audit executive, and chief ethics, compliance and privacy officer.

Compensation and Succession Committee. The executive vice president, human resources, general counsel, CFO and CEO regularly participate in compensation and succession committee meetings. The committee regularly meets in executive sessions that include just the independent compensation consultant or executive vice president, human resources, when necessary.

- Our senior human resources executive provides the committee with internal and external analyses of the structure of compensation programs. Throughout the year, the estimated and actual results under our incentive compensation plans are reviewed.
- Our CFO discusses financial results relevant to incentive compensation, other financial measures, and accounting rules.

- Our CEO advises on the alignment of our incentive plan performance measures with our overall strategy and the design of our equity incentive awards. He also provides the committee with performance evaluations of senior executives and recommends merit increases and compensation awards.
- The general counsel is available at meetings to provide input on the legal and regulatory environment and corporate governance best practices and to ensure the proxy materials accurately reflect the committee's actions.
- The chief risk officer reports annually on compensation plan alignment with Board-approved risk and return principles.

Nominating and Governance Committee. The CEO and general counsel participate in nominating and governance committee meetings. The committee regularly meets in executive session without management present.

Risk and Return Committee. The chief risk officer, CFO, general counsel, CEO and operating unit risk officers participate in risk and return committee meetings. The committee regularly meets in executive session, including sessions with the chief risk officer.

COMMUNICATION WITH THE BOARD

The Board has established a process to facilitate communication by stockholders and other interested parties with directors as a group. The general counsel reports regularly to the nominating and governance committee on all correspondence received that, in her opinion, involves functions of the Board or its committees or that she otherwise determines merits Board attention.

In addition, the audit committee has established procedures for the receipt, retention, and treatment of any complaints about accounting, internal accounting controls, or auditing matters. The communication process and the methods to communicate with directors are posted on the "Corporate Governance" and "Management & Directors" sections of www.allstateinvestors.com.

The Allstate Board welcomes your input on compensation, governance, and other matters.



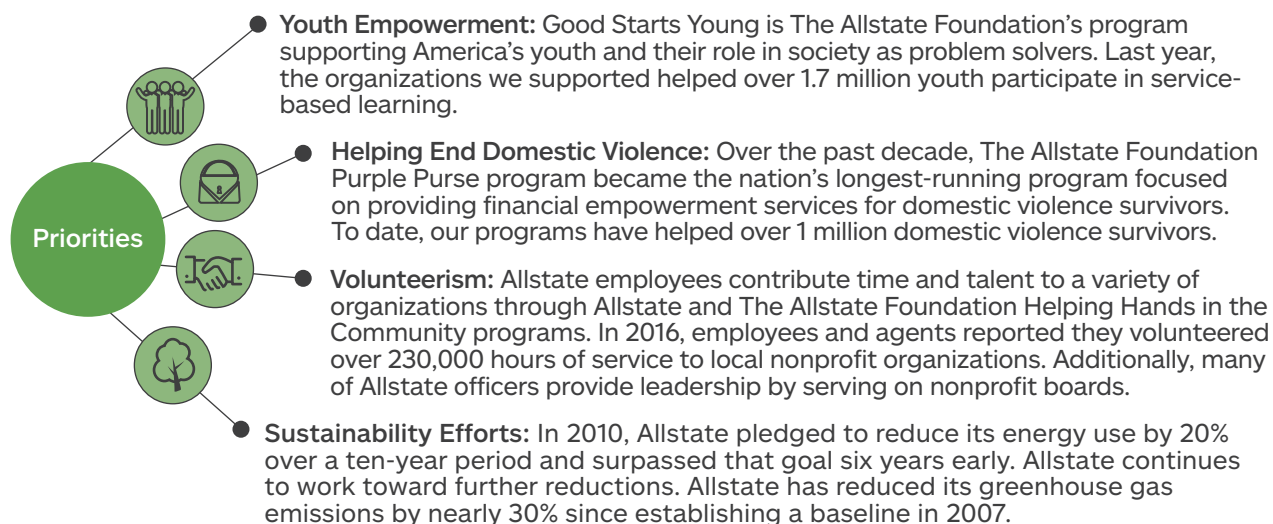
directors@allstate.com



The Allstate Corporation
Nominating & Governance Committee
2775 Sanders Road, Suite F7
Northbrook, IL 60062-6127
c/o General Counsel

CORPORATE RESPONSIBILITY

The Board oversees Allstate's reputation and corporate responsibility initiatives and believes that investing in our communities and operating sustainably benefit Allstate's investors. Allstate and The Allstate Foundation create positive social change through the following priorities and initiatives.



To learn more about our corporate responsibility efforts, please view Allstate's Corporate Responsibility Report at <http://corporateresponsibility.allstate.com/>.

MORE INFORMATION

You can learn more about our corporate governance by visiting www.allstateinvestors.com, where you will find our *Corporate Governance Guidelines*, each standing committee charter, and *Director Independence Standards*. Allstate has adopted a comprehensive Global Code of Business Conduct that applies to the chief executive officer, chief financial officer, controller, and other senior financial

and executive officers, as well as the Board of Directors and other employees. It is also available at www.allstateinvestors.com. Each of the above documents is available in print upon request to the Office of the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite F7, Northbrook, Illinois 60062-6127.

Board Meetings and Committees

THE ALLSTATE CORPORATION BOARD OF DIRECTORS

Meetings in 2016: 7

Independent Lead Director: Judith A. Sprieser

Chair: Thomas J. Wilson

Key Responsibilities:

“The primary role and responsibility of the Board of Directors is to oversee the affairs of the Corporation for the benefit of the stockholders. . . . [including] oversight of the Corporation’s strategy, business performance, capital structure, management selection, compensation programs, shareholder advocacy, corporate reputation,

social responsibility initiatives, ethical business practices, and Board and Committee structure and operations.”

-Allstate’s Corporate Governance Guidelines

10 of 11 Allstate directors are independent

- ✔ Executive sessions without management present at every in-person meeting
- ✔ Strategy discussion at every meeting, including a meeting devoted solely to that topic
- ✔ Succession planning discussed at four meetings annually

AUDIT COMMITTEE⁽¹⁾

Meetings in 2016: 10

Chair: Mary Alice Taylor

Other Members:

- Kermit R. Crawford
- Michael L. Eskew
- Siddharth N. Mehta

Key Responsibilities:

- Oversees integrity of financial statements and other financial information and disclosures
- Oversees the system of internal control over accounting and financial reporting and disclosure controls and procedures
- Reviews the enterprise risk control assessment and guidelines, including cybersecurity risk and the major financial risk exposures and management steps to monitor and control those risks
- Oversees the ethics and compliance program and compliance with legal and regulatory requirements
- Appoints, retains, and oversees the independent registered public accountant, and evaluates its qualifications, performance and independence
- Retains independent cybersecurity advisor
- Oversees Allstate’s internal audit function
- Has authority to engage independent counsel and other advisors to carry out its duties



“We discussed risk at five of our meetings, and engaged an independent advisor to review Allstate’s cybersecurity risks and controls. We anticipate that this will continue to be an area of focus throughout 2017.”

Mary Alice Taylor,
Chair

Report, pg. 75

COMPENSATION AND SUCCESSION COMMITTEE

Meetings in 2016: 6

Chair: John W. Rowe

Other Members:

- Michael L. Eskew
- Herbert L. Henkel
- Andrea Redmond

Key Responsibilities:

- Oversees Allstate’s executive compensation plans
- Has authority to retain the committee’s independent compensation consultant
- Assists the Board in determining all compensation elements of the executive officers, including the CEO
- Reviews the Compensation Discussion and Analysis and prepares the Compensation Committee Report in this proxy statement
- Reviews management succession plans, evaluation processes and organizational strength
- Reviews CEO’s performance in light of approved goals and objectives



“In 2016, we spent a considerable amount of time on the performance metrics in our short- and long-term incentive programs to ensure the programs, as a whole, continued to align with the long-term interests of our stockholders. We also added a fourth discussion on management succession.”

John W. Rowe,
Chair

Report, pg. 49

NEW

⁽¹⁾ The Board determined that all members of the audit committee are independent under the New York Stock Exchange and SEC requirements, and that Mrs. Taylor and Messrs. Eskew and Mehta are each an audit committee financial expert as defined under SEC rules. Ms. Sprieser and Messrs. Rowe and Traquina also have the background and experience to qualify as audit committee financial experts.



Judith A. Sprieser,
Independent Lead Director

"Oversight of Allstate's strategy was an important area of focus for our Board and this was a key part of our meetings in 2016. We also formalized and expanded the responsibilities of the lead director and committee chairs in response to stockholder feedback. We continue to evaluate our directors to ensure the optimal mix of skills, experience and diversity to effectively execute the Board's responsibilities. This Board is well informed, actively engaged and highly collaborative."

NOMINATING AND GOVERNANCE COMMITTEE

Meetings in 2016: 6

Chair: Andrea Redmond

Other Members:

- Kermit R. Crawford
- Jacques P. Perold
- John W. Rowe
- Judith A. Sprieser

Key Responsibilities:

- Recommends candidates for Board election and nominees for Board committees
- Recommends candidates for lead director and Chair
- Recommends criteria for selecting directors and the lead director, and determines director independence
- Reviews the *Corporate Governance Guidelines* and advises the Board on corporate governance issues
- Determines performance criteria and oversees the performance assessment of the Board, Board committees, and lead director
- Reviews Allstate's non-employee director compensation program
- Has authority to retain a director search firm and director compensation consultant



"We spent a considerable amount of time discussing the role of the independent lead director, reflecting on last year's stockholder vote and subsequent dialogue with stockholders and governance firms. As a result, we made additional changes to the responsibilities of this role. Board composition and refreshment were also important areas of focus. We were also thrilled to add Perry Traquina to our Board."

Andrea Redmond,
Chair

RISK AND RETURN COMMITTEE

Meetings in 2016: 5

Chair: Siddharth N. Mehta

Other Members:

- Herbert L. Henkel
- Jacques P. Perold
- Judith A. Sprieser
- Mary Alice Taylor

Key Responsibilities:

- Assists the Board in risk and return governance and oversight
- Reviews risk and return processes, policies, and guidelines used by management to evaluate, monitor, and manage enterprise risk and return (particularly related to Allstate's business strategy, capital structure and operating plans)
- Reviews Allstate's enterprise risk and return management function, including its performance, organization, practices, budgeting, and staffing
- Supports the audit committee in its oversight of risk assessment and management policies
- Has authority to retain outside advisors to assist in its duties



"The committee is focused on building Allstate's exceptional risk management practices and capital and risk allocation processes. Expanding governance of model risk, operational risk management and talent development were key priorities in 2016."

Siddharth N. Mehta,
Chair

EXECUTIVE COMMITTEE

Meetings in 2016: No meetings were necessary

Chair: Thomas J. Wilson

Other Members:

- Siddharth N. Mehta • Judith A. Sprieser
- Andrea Redmond • Mary Alice Taylor
- John W. Rowe

Key Responsibilities:

- Has the powers of the Board in the management of Allstate's business affairs to the extent permitted under the bylaws, excluding any powers granted by the Board to any other committee of the Board
- Provides Board oversight if outside the scope of established committees or if an accelerated process is necessary
- Comprised of lead director, committee chairs and Chair

Each committee operates under a written charter and has the ability to hire third-party advisors. Outside experts such as independent auditors, compensation consultants, governance specialists, cybersecurity experts, board search firm representatives, and financial advisors attend meetings to provide directors with additional information on issues. All committees, other than the executive committee, used independent external consultants in 2016.

Director Compensation

DIRECTOR COMPENSATION PROGRAM

Allstate's non-employee director compensation is reviewed annually. The nominating and governance committee proposes changes to director compensation based on this annual review and benchmark information from peer companies and

relevant compensation surveys. The following table describes each component of our non-employee director compensation program for 2016. No meeting fees or other professional fees were paid to the directors.

Role	Quarterly Cash Retainer ⁽¹⁾	Equity
Non-Employee Director	\$26,250	To create a linkage with corporate performance and stockholder interests, the Board believes that a meaningful portion of a director's compensation should be in the form of equity securities. For that reason, directors are granted restricted stock units on June 1 equal in value to \$150,000 divided by the closing price of a share of Allstate common stock on such grant date, rounded to the nearest whole share. For the 2017 award, the amount was increased to \$155,000.
Lead Director	\$12,500	
Audit Committee Chair	\$6,250	
Other Committee Chair (except Executive Committee)	\$5,000	

⁽¹⁾ Paid in advance on the first day of January, April, July, and October. The retainer is prorated for a director who joins the Board during a quarter.

NEW

Based on peer benchmarking and an evaluation of the increased demands associated with Board service, effective January 1, 2017, the standard retainer was increased to \$31,250, the quarterly chair

fee for the compensation and succession and risk and return committees was increased to \$6,250 and the audit committee chair fee was increased to \$8,750. Director compensation was last increased in 2015.

DIRECTOR STOCK OWNERSHIP GUIDELINES

Each director is expected, within five years of joining the Board or within five years of an increase in annual retainer, if applicable, to accumulate an ownership position in Allstate common stock equal to five times the annual value of the standard retainer.

Each director has met the ownership guideline, except for Messrs. Mehta, Perold, and Traquina, who joined the Board in the last five years.

2016 DIRECTOR COMPENSATION

The following table summarizes the compensation for each of our non-employee directors who served as a member of the Board and its committees in 2016.

Name	Leadership Roles Held During 2016	Fees Earned or Paid in Cash (\$) ⁽¹⁾⁽²⁾	Stock Awards (\$) ⁽³⁾⁽⁴⁾	All Other Compensation (\$) ⁽⁵⁾	Total (\$)
Mr. Beyer	Retired May 2016 Risk and Return Committee Chair (January - May)	62,500	0	10,000	72,500
Mr. Crawford		105,000	150,054	0	255,054
Mr. Eskew		105,000	150,054	0	255,054
Mr. Henkel		105,000	150,054	0	255,054
Mr. Mehta	Risk and Return Committee Chair (May - December)	117,088	150,054	0	267,142
Mr. Perold		105,000	150,054	0	255,054
Ms. Redmond	Nominating and Governance Committee Chair	125,000	150,054	0	275,054
Mr. Rowe	Compensation and Succession Committee Chair	125,000	150,054	0	275,054
Ms. Sprieser	Lead Director	155,000	150,054	0	305,054
Mrs. Taylor	Audit Committee Chair	130,000	150,054	0	280,054
Mr. Traquina		52,788	137,522	0	190,310

⁽¹⁾ Mr. Traquina received a prorated retainer as he joined the Board in June 2016.

- (2) Under the 2006 Equity Compensation Plan for Non-Employee Directors, directors may elect to receive Allstate common stock in lieu of cash compensation. Mr. Traquina elected to receive stock in lieu of cash. Also, under Allstate's Deferred Compensation Plan for Non-Employee Directors, directors may elect to defer their retainers to an account that is credited or debited, as applicable, based on (a) the fair market value of, and dividends paid on, Allstate common shares (common share units); (b) an average interest rate calculated on 90-day dealer commercial paper; (c) Standard & Poor's 500 Index, with dividends reinvested; or (d) a money market fund. No director has voting or investment powers in common share units, which are payable solely in cash. Subject to certain restrictions, amounts deferred under the plan, together with earnings thereon, may be transferred between accounts and are distributed after the director leaves the Board in a lump sum or over a period not in excess of ten years in accordance with the director's instructions. For 2016, Messrs. Eskew and Henkel each elected to defer his cash retainer into common share units.
- (3) Grant date fair value for restricted stock units granted in 2016 is based on the final closing price of Allstate common stock on the grant dates, which in part also reflects the payment of expected future dividend equivalent rights. (See note 18 to our audited financial statements for 2016.) Mr. Traquina received a prorated award when he joined the Board in 2016. The final grant date closing price was \$67.44, except with respect to the prorated award granted to Mr. Traquina, which was \$69.95. The values were computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. Each restricted stock unit entitles the director to receive one share of Allstate common stock on the conversion date (see footnote 4).
- (4) The following table provides outstanding restricted stock units and stock options as of December 31, 2016 for each director.

OUTSTANDING AWARDS AT FISCAL YEAR-END 2016

Name	Restricted Stock Units (#)	Stock Options (#)
Mr. Beyer	4,000	0
Mr. Crawford	11,283	0
Mr. Eskew	6,622	0
Mr. Henkel	10,962	0
Mr. Mehta	7,761	0
Mr. Perold	3,407	0
Ms. Redmond	26,755	0
Mr. Rowe	15,904	0
Ms. Sprieser	40,413	0
Mrs. Taylor	40,413	8,000
Mr. Traquina	1,966	0

Restricted stock unit awards granted before September 15, 2008, convert into common stock one year after termination of Board service. Restricted stock unit awards granted on or after September 15, 2008 and before June 1, 2016, convert into common stock upon termination of Board service. Restricted stock units granted on or after June 1, 2016, convert into common stock on the earlier of the third anniversary of the date of grant or upon termination of Board service. Directors had the option to defer the conversion of the restricted stock units granted on June 1, 2016, for ten years from the date of grant or the later of termination of Board service or June 1, 2024. The conversion of restricted stock units granted after June 1, 2016, may be deferred for ten years or until termination of Board service. In addition to the conversion periods described above, restricted stock units will convert upon death or disability. Each restricted stock unit includes a dividend equivalent right that entitles the director to receive a payment equal to regular cash dividends paid on Allstate common stock. Under the terms of the restricted stock unit awards, directors have only the rights of general unsecured creditors of Allstate and no rights as stockholders until delivery of the underlying shares.

Non-employee directors do not receive stock options as part of their compensation as a result of a policy change effective on June 1, 2009. All outstanding stock options were exercisable as of December 31, 2016.

All outstanding options were awarded under the terms of the 2006 Equity Compensation Plan for Non-Employee Directors, which specifies that the exercise price for the option awards is equal to the fair market value of Allstate common stock on the grant date. For options granted in 2007 and 2008, the fair market value is equal to the closing sale price on the date of the grant. If there was no such sale on the grant date, then on the last previous day on which there was a sale. The options became exercisable in three substantially equal annual installments and expire ten years after grant. Stock option repricing is not permitted. An outstanding stock option will not be amended to reduce the option exercise price. However, the plan permits repricing in the event of an equity restructuring (such as a split) or a change in corporate capitalization (such as a merger).

- (5) This amount represents a charitable contribution made by Allstate to an entity selected by Mr. Beyer upon his retirement from the Board.

EXECUTIVE COMPENSATION

Proposal

2

Say-on-Pay: Advisory Vote on the Compensation of the Named Executives



The Board recommends a vote FOR this proposal.

- Independent oversight by compensation and succession committee with the assistance of an independent consultant.
- Executive compensation targeted at 50th percentile of peers and is structured to be aligned with total return to shareholders and our strategy.
- Compensation programs are working effectively. Annual incentive compensation funding for our named executives in 2016 was 55.1% of target, from 80.8% of target in the prior year, primarily due to the impact of auto insurance profit improvement actions on the total premium measure.
- Total shareholder return compares favorably to compensation.

We conduct a say-on-pay vote every year at the annual meeting. While the vote is non-binding, the Board and the compensation and succession committee (the "committee" as referenced throughout the Compensation Discussion and Analysis and Executive Compensation sections) consider the results as part of their annual evaluation of our executive compensation program.

You may vote to approve or not approve the following advisory resolution on the executive compensation of the named executives:

RESOLVED, on an advisory basis, the stockholders of The Allstate Corporation approve the compensation of the named executives, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis and accompanying tables and narrative on pages 33-66 of the Notice of 2017 Annual Meeting and Proxy Statement.

- ✓ Allstate continued to execute operational improvements in a challenging external environment. These operational improvements, however, led to a modest decline in insurance policies in force and, in part, led to results below threshold on the total premiums performance measure in the annual incentive program. Operating income was below target due to catastrophe losses in excess of plan. Net investment income was close to target levels and total return on our investment portfolio was well above target.
- ✓ Total shareholder return was 21.5% for 2016 in comparison to 16.5% for the compensation peer group.
- ✓ Total 2016 compensation for the CEO decreased from 2015 by \$1.1 million to \$12.2 million excluding the change in pension value, as shown in the Summary Compensation Table.
- ✓ The annual incentive compensation plan was funded for the named executives at 55.1% of target in 2016. Based on company and individual performance, the named executives received the following annual incentive payments, which were significantly lower than the prior two years' awards:

Named Executive	2014 Annual Incentive (\$)	2015 Annual Incentive (\$)	2016 Annual Incentive (\$)
Mr. Wilson	4,073,075	2,888,136	1,982,880
Mr. Shebik	883,619	850,000	600,000
Mr. Civgin	1,000,000	768,629	535,066
Ms. Fortin ⁽¹⁾	—	—	291,774
Mr. Winter	1,500,000	1,600,000	1,017,513

⁽¹⁾ For Ms. Fortin, only the last fiscal year is shown since this is the first year she is a named executive officer.

Compensation Discussion and Analysis

EXECUTIVE OVERVIEW

Our Compensation Discussion and Analysis describes Allstate's executive compensation program, including total 2016 compensation for our named executives listed below:

Thomas J. Wilson — Chair and Chief Executive Officer (CEO)
Steven E. Shebik — Executive Vice President and Chief Financial Officer (CFO)
Don Civgin — President, Emerging Businesses
Mary Jane Fortin — President, Allstate Financial
Matthew E. Winter — President

See Appendix C for a list of Allstate's other executive officers.

Business Highlights

In 2016, Allstate successfully executed its strategy to serve the four customer segments with unique value propositions, met near-term financial commitments and invested in long-term growth platforms. Stockholders received \$1.8 billion in cash in 2016 through a combination of stock repurchases and common stock dividends. Our management team continued to advance all five of our 2016 operating priorities:

Operating Priorities

Better serve our customers through innovation, effectiveness, and efficiency



Results

- Advanced the Allstate brand trusted advisor transformation by introducing new customer relationship initiation practices, including providing personalized insurance proposals to prospective customers.
- Effectively utilized a "net promoter score" to focus efforts to better serve customers.

Achieve target economic returns on capital



- Operating income* of \$1.8 billion despite a 49.6% increase in catastrophe losses in 2016, generating an operating income return on capital* of 10.4%.
- Delivered a property-liability underlying combined ratio* of 87.9 for 2016, at the favorable end of the annual outlook range provided to investors.

Grow insurance policies in force



- Overall insurance policies in force declined modestly as increases in auto insurance pricing reduced both new business and customer retention.
- Strong growth at Allstate Benefits.

Proactively manage investments



- Net investment income of \$3 billion was essentially on plan.
- Achieved 4.4% total return on the \$82 billion investment portfolio in 2016.
- Performance-based investments, including private equity and real estate, grew 17.2% in 2016 to \$6 billion.

Build and acquire long-term growth platforms

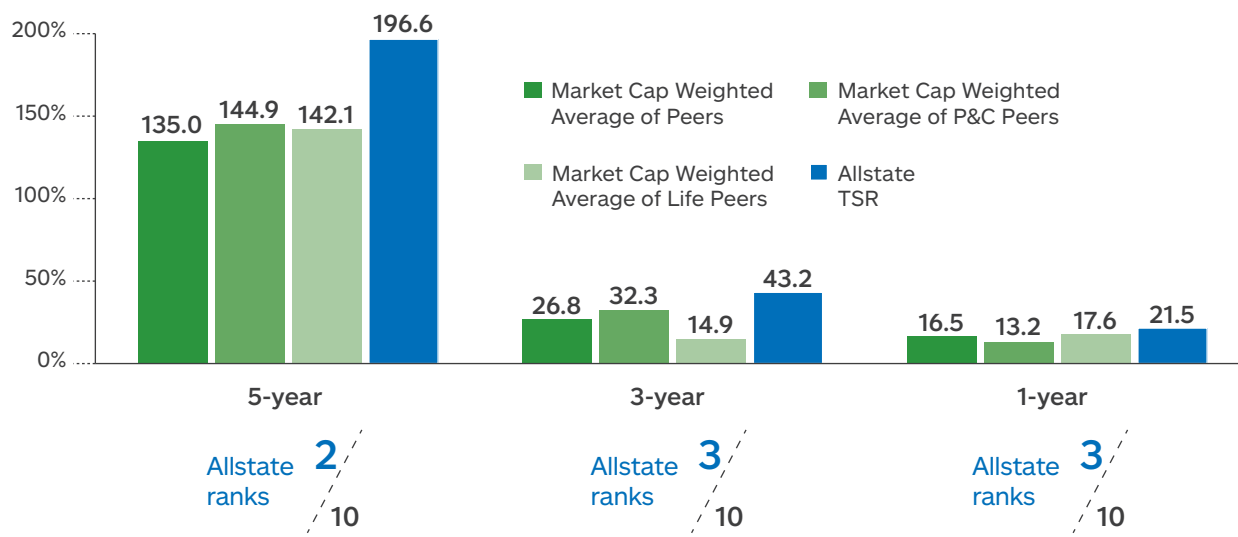


- Launched Arity, our telematics company, to provide software, data and analytics services.
- Agreed to acquire SquareTrade to expand Allstate's protection offerings (closed in January 2017).
- Allstate Benefits achieved \$1 billion in premiums and contract charges in 2016.

* The operating income and underlying combined ratio measures are not based on accounting principles generally accepted in the United States of America ("non-GAAP") and are defined and reconciled to the most directly comparable GAAP measures in Appendix A.

Allstate's one-year total shareholder return was 21.5%. The following chart shows Allstate's total shareholder return over one, three and five years relative to the market cap weighted average of the peer group used for 2016 compensation benchmarking (identified on page 46).

COMPARISON OF TOTAL SHAREHOLDER RETURN

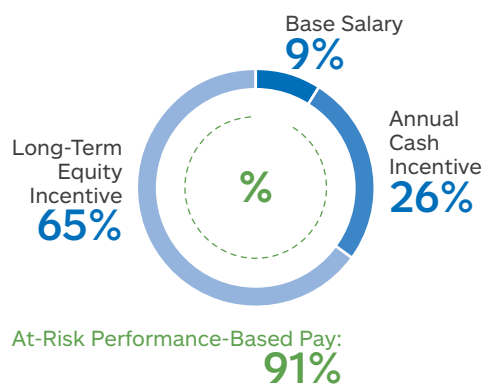


Alignment of Pay with Performance

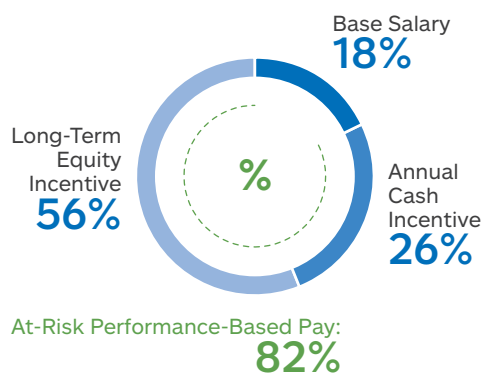
The committee designs the executive compensation program to deliver pay in accordance with corporate, business unit and individual performance. A large percentage of total target compensation is at risk through long-term equity awards and annual cash incentive awards. These awards are linked to

performance measures that correlate with long-term stockholder value creation. The mix of target total direct compensation for 2016 for our CEO and the average of our other named executives is shown in the chart below.

CHIEF EXECUTIVE OFFICER



AVERAGE OF OTHER NAMED EXECUTIVE OFFICERS



In addition to the compensation structure at target, the 2016 compensation paid to our named executives reflects strong pay for performance alignment.

- **Annual cash incentive.** For our annual cash incentive award, we set performance ranges to align with our operating plan and strategy. The annual incentive plan was funded for the named executives at 55.1% of target. Allstate continued to execute operational improvements

The following table shows the annual cash incentive award paid to each named executive as a percentage of target in the last three years.

AIP % OF TARGET

Name	2014	2015	2016
Mr. Wilson	118.9%	80.8%	55.1%
Mr. Shebik	118.9%	90.7%	62.3%
Mr. Civgin	114.3%	80.8%	55.1%
Ms. Fortin	—	—	51.2%
Mr. Winter	130.4%	89.3%	55.1%

- **Long-term incentive awards.** Senior executives received equity grants in 2016 composed of 60% performance stock awards (“PSAs”) and 40% stock options. The committee selected Average Adjusted Operating Income ROE and Earned

Book Value as the performance measures for PSAs since those measures were deemed to be best correlated to long-term stockholder value. See pages 43-45. The 2014-2016 PSAs paid out at 87.1% of target.

CONSIDERATION OF 2016 STOCKHOLDER VOTE

Stockholders approved the 2016 say-on-pay resolution with approximately 95% of the votes cast in favor. The committee, with input from the independent compensation consultant, considered the vote results, investor input, and current market practices as it evaluated whether changes to the compensation program were warranted.

NEW → As we strive to continuously improve our practices, we made the following modifications to our program in 2016:

- **Annual Incentive Plan.** Our annual incentive plan for 2016 included total return as a fourth performance measure, further aligning our short-term incentive program with our long-term investments strategy.
- **Stock Ownership Guidelines.** The President and all executive vice presidents are now required to own Allstate common stock worth a multiple of three times their base salary.

ALLSTATE'S EXECUTIVE COMPENSATION PRINCIPLES

Allstate's executive compensation program includes industry best practices.

What We Do

- ✓ **Pay for Performance.** A significant percentage of total target direct compensation is pay at-risk and is based on measurable performance goals.
- ✓ **Strong Link between Performance Measures and Strategic Objectives.** Performance measures for incentive compensation are linked to operating priorities designed to create long-term stockholder value.
- ✓ **Independent Compensation Consultant.** The committee retains an independent compensation consultant to review the executive compensation programs and practices.
- ✓ **Targeted Pay at 50th Percentile of Peers.** The committee targets total direct compensation at the 50th percentile of peers.
- ✓ **Benchmark Peers of Similar Revenues and Business Complexity.** The committee benchmarks our executive compensation program and reviews the composition of the peer group annually with the assistance of the independent compensation consultant.
- ✓ **Moderate Change-in-Control Benefits.** Change-in-control severance benefits are three times target cash compensation for the CEO and two times target cash compensation for other executive officers.
- ✓ **Double Trigger in the Event of a Change in Control.** Beginning with grants made in 2012, equity incentive awards have a double trigger; that is, they will not vest in the event of a change in control unless also accompanied by a qualifying termination of employment.
- ✓ **Maximum Payout Caps for Annual Cash Incentive Compensation and Performance Stock Awards ("PSAs").** The committee establishes a maximum limit on the number of PSAs and the amount of annual cash incentive that can be earned. The respective compensation plans also limit awards for certain executives.
- ✓ **Robust Equity Ownership and Retention Requirements.** In addition to executive stock ownership guidelines, we extended holding requirements beginning with awards granted in 2014. Senior executives must hold a portion of their equity for one additional year after vesting of the PSAs or restricted stock units or exercise of options.
- ✓ **Clawback of Certain Compensation if Restatement or Covenant Breach.** Certain awards made to executive officers are subject to clawback in specified circumstances.

What We Don't Do

- ✗ **No Employment Agreements for Executive Officers.** Our executive officers are at-will employees with no employment contracts.
- ✗ **No Guaranteed Annual Salary Increases or Bonuses.** For the named executives, annual salary increases are based on evaluations of individual performance, while their annual cash incentives are tied to corporate and individual performance.
- ✗ **No Special Tax Gross Ups.** No tax gross ups are provided beyond limited items which are generally available to all full-time employees.
- ✗ **No Repricing or Exchange of Underwater Stock Options.** Our equity incentive plan does not permit repricing or exchange of underwater stock options or stock appreciation rights without stockholder approval, except in connection with certain transactions involving Allstate or a change in control.
- ✗ **No Plans that Encourage Excessive Risk-Taking.** Based on the annual review, it was determined that the company's compensation practices are appropriately structured and avoid incenting employees to engage in unnecessary and excessive risk-taking.
- ✗ **No Hedging or Pledging of Allstate Securities.** Officers, directors, and employees are prohibited from hedging Allstate securities. Directors, executive officers and other senior executives are prohibited from pledging Allstate securities as collateral or holding securities in a margin account, unless an exception is granted by the Chair or lead director.
- ✗ **No Inclusion of Equity Awards in Pension Calculations.** Compensation realized from the exercise of stock options or the settlement of PSAs is not used in the calculation of an employee's pension benefit.
- ✗ **No Dividends Paid on Unvested PSAs.** Dividend equivalents are accrued but not paid on PSAs until the performance conditions are satisfied and the PSAs vest after the performance measurement period.
- ✗ **No Excessive Perks.** We offer only limited benefits as required to remain competitive and to attract and retain highly talented executives.

ELEMENTS OF 2016 EXECUTIVE COMPENSATION PROGRAM DESIGN

The following table lists the elements of target direct compensation for our 2016 executive compensation program. The committee uses the 50th percentile of our peer companies as a guideline when setting total target direct compensation. The program uses a mix of fixed and variable compensation elements and provides alignment with both short- and long-term business goals through annual and long-term incentives. Our incentives are designed to drive overall corporate performance, specific business unit strategies, and individual performance using measures that correlate to stockholder value and align with our long-term strategic vision and operating priorities.

	Fixed	Variable		
	Base Salary	Annual Cash Incentive Awards	Performance Stock Awards ("PSAs")	Stock Options
Key Characteristics	- Fixed compensation component payable in cash. - Reviewed annually and adjusted when appropriate.	- Variable compensation component payable annually in cash. - Actual performance against annually established goals determines overall corporate pool, which is allocated based on individual performance.	- Equity award based on achieving performance goals. - PSAs vest on the day before the third anniversary of the grant date based on actual performance against goals established at the beginning of the performance period. - See page 45 for the retention requirements for PSAs.	- Non-qualified stock options to purchase shares at the market price when awarded. Vest ratably over three years.⁽¹⁾ - Expire in ten years or in the event of retirement, the earlier of five years or normal expiration. - See page 45 for the retention requirements for stock options.
Why We Pay This Element	Provide a base level of competitive cash compensation for executive talent.	Motivate and reward executives for performance on key strategic, operational, and financial measures during the year.	- Motivate and reward executives for performance on key long-term measures. - Align the interests of executives with long-term stockholder value and retain executive talent.	Align the interests of executives with long-term stockholder value and retain executive talent.
How We Determine Amount	- Experience, job scope, market data, and individual performance. - Senior executive payments are approved by the compensation and succession committee.	- A corporate-wide funding pool is based on performance on four measures: - Adjusted Operating Income⁽²⁾ - Total Premiums⁽²⁾ - Net Investment Income⁽²⁾ - Total Return⁽²⁾ - Individual awards are based on job scope, market data, and individual performance.	- Target awards based on job scope, market data, and individual performance. - Vested awards based on performance on Adjusted Operating Income Return on Equity⁽²⁾ and Earned Book Value⁽²⁾ with a requirement of positive Net Income for any payout above target.	Target awards based on job scope, market data, and individual performance.

⁽¹⁾ Stock options granted prior to February 18, 2014 vested over four years with 50% exercisable on the second anniversary of the grant date, and 25% exercisable on each of the third and fourth anniversary dates. The change to a three-year vesting schedule with one-third exercisable on each anniversary was made in 2014 to reflect current market practice.

⁽²⁾ For a description of how these measures are determined, see pages 64-66.

COMPENSATION DECISIONS FOR 2016

Chief Executive Officer

Mr. Wilson, Chair and Chief Executive Officer

- Mr. Wilson's total compensation and the amount of each compensation element are driven by the design of our compensation program, his experience, his responsibility for Allstate's overall strategic direction, performance and operations, and the committee's analysis of peer company CEO compensation. In conjunction with the committee's independent compensation consultant, the committee conducts an annual review of Mr. Wilson's total target direct compensation and determines if any changes are warranted.
- Mr. Wilson's performance as Chair and CEO is evaluated under the following categories which are determined by the committee: operating results, total shareholder return, developing and implementing long-term strategy, maintaining and motivating a high performance team, corporate stewardship and Board effectiveness. Performance is assessed over one- and three-year time periods.
 - **Operating Results.** Allstate made substantial progress in executing the profit improvement plan for auto insurance. However, the auto insurance profit improvement plan negatively impacted the total premiums measure in the annual incentive plan. Operating profit was below plan due to a substantial increase in catastrophe losses in 2016.
 - **Total Shareholder Returns.** Total shareholder returns of 21.5% and 43.2% over one and three years are substantially higher than the compensation peer group (see page 34).
 - **Long-term Strategy.** Successful execution of the customer segmentation strategy and building long-term growth platforms such as Arity and Allstate Benefits, and the acquisition of SquareTrade.
 - **High Performance Team.** Allstate has a strong performance based culture, exceptional employee engagement and an excellent leadership team.
 - **Board Effectiveness.** The Board is highly collaborative, transparent and fully engaged. Mr. Traquina joined the Board in 2016.
- During the 2016 annual review, the committee determined that Mr. Wilson's target direct compensation was appropriately aligned with the median of the compensation peer group. Furthermore, Mr. Wilson's annual cash incentive target of 300% of salary and long-term equity incentive target of 750% of salary remained unchanged.
 - **Salary.** In 2016, the Board did not adjust Mr. Wilson's salary of \$1,200,000. Mr. Wilson's last salary increase was in March 2015.
 - **Annual Cash Incentive Award.** Mr. Wilson's target annual incentive payment of 300% of base salary with a maximum funding opportunity for the award pool of 200% of target was unchanged in 2016. The committee approved an annual cash incentive award of \$1,982,880, which was 55.1% of target and equal to the funding level as determined by the actual results for the four performance measures. This was 19.8% of the maximum payment established by the Board.
 - **Equity Incentive Awards.** In February 2016, based on its assessment of Mr. Wilson's performance in delivering strong business results in 2015, the committee granted him equity awards of stock options with a grant date fair value of \$3,600,000 and performance stock awards with a grant date fair value of \$5,400,028, which was Mr. Wilson's target equity incentive award opportunity of 750% of salary.
 - **Other.** The change in pension value for Mr. Wilson in 2016 of \$1,574,760 was \$3,907,387 lower than the change would have been had management not recommended a change in pension benefits beginning in 2014, as discussed on page 47. The total value of Mr. Wilson's pension benefit as of December 31, 2016 is \$13.4 million less than it would have been without the 2014 pension change.

Other Named Executives

Mr. Wilson and the Board evaluate the performance and contributions of each member of the senior leadership team, including each other named executive. Based on his review, Mr. Wilson recommended specific adjustments to salary as well as actual incentive awards. The recommendations were considered and approved by the committee.

Mr. Shebik, Executive Vice President and Chief Financial Officer

- **Salary.** The committee approved an increase from \$750,000 to \$775,000 during 2016, based on an evaluation of his performance, level of responsibility, and target compensation as compared to the peer group.
- **Incentive Targets.** No changes were made to Mr. Shebik's incentive targets during 2016. Mr. Shebik's annual incentive target was 125% of salary and his target equity incentive opportunity was 300% of salary.
- **Annual Cash Incentive Award.** The committee approved an annual cash incentive award of \$600,000 for Mr. Shebik. This award was slightly above pool funding based on excellent performance in 2016. This was 11.1% of the maximum payment established by the Board.
- **Equity Incentive Awards.** In February 2016, based on a review of Mr. Shebik's performance during 2015, the committee granted him equity awards with a grant date fair value of \$2,749,985, which is approximately \$500,000 above his target equity incentive award opportunity.
- **2016 Performance.** Mr. Shebik had exceptional performance in 2016. As Chief Financial Officer he was integral to all of the operational and strategic accomplishments across Allstate. He also served as Interim Chief Investment Officer beginning in April 2016 and delivered strong investment results.

Mr. Civgin, President, Emerging Businesses

- **Salary.** The committee approved an increase from \$762,000 to \$780,000 during 2016, based on an evaluation of his performance, level of responsibility, and target compensation as compared to the peer group.
- **Incentive Targets.** No changes were made to Mr. Civgin's incentive targets during 2016. Mr. Civgin's annual incentive target was 125% of salary and his target equity incentive opportunity was 300% of salary.
- **Annual Cash Incentive Award.** The committee approved an annual cash incentive award of \$535,066 for Mr. Civgin, which was at the calculated pool funding and 9.9% of the maximum payment established by the Board.
- **Equity Incentive Awards.** In February 2016, based on a review of Mr. Civgin's performance during 2015, the committee granted him equity awards with a grant date fair value of \$2,400,027, which is approximately \$114,000 above his target equity incentive award opportunity.
- **2016 Performance.** Mr. Civgin's business results were slightly below plan as profit improvement initiatives were more complicated than expected. Excellent progress was made in building two long-term growth opportunities, Arity and Allstate Benefits.

Ms. Fortin, President, Allstate Financial

- **Salary.** The committee approved an increase from \$625,000 to \$634,375 during 2016, based on an evaluation of her performance, level of responsibility, and target compensation as compared to the peer group.
- **Incentive Targets.** No changes were made to Ms. Fortin's incentive targets during 2016. Ms. Fortin's annual incentive target was 90% of salary and her target equity incentive opportunity was 250% of salary.
- **Annual Cash Incentive Award.** The committee approved an annual cash incentive award of \$291,774 for Ms. Fortin, which was slightly below calculated pool funding and 5.4% of the maximum payment established by the Board.
- **Equity Incentive Awards.** In February 2016, based on a review of Ms. Fortin's performance during 2015, the committee granted her equity awards with a grant date fair value of \$1,562,486, which was Ms. Fortin's target equity incentive award opportunity of 250% of salary.
- **2016 Performance.** Allstate Life and Retirement operating income was above plan, but sales were below the prior year. Substantial long-term economic value should be created by the repositioning of the investment portfolio for the payout annuity liabilities.

Mr. Winter, President

- **Salary.** The committee approved an increase from \$800,000 to \$825,000 during 2016, based on an evaluation of his performance, level of responsibility, and target compensation as compared to the peer group.
- **Incentive Targets.** No changes were made to Mr. Winter's incentive targets during 2016. Mr. Winter's annual incentive target was 225% of salary and his target equity incentive opportunity was 375% of salary.
- **Annual Cash Incentive Award.** The committee approved an annual cash incentive award of \$1,017,513 for Mr. Winter, which was at calculated pool funding and 14.1% of the maximum payment established by the Board.
- **Equity Incentive Awards.** In February 2016, based on a review of Mr. Winter's performance during 2015, the committee granted him equity awards with a grant date fair value of \$3,200,016, which is approximately \$200,000 above his target equity incentive award opportunity.
- **2016 Performance.**
 - Operating income was below plan despite a 49.6% increase in catastrophe losses from the prior year. Excellent execution of the auto insurance profit improvement plan while maintaining attractive margins from homeowners insurance. Successfully utilized continuous improvement processes and operational oversight to reduce expenses.
 - Enhanced long-term competitive position of Allstate agencies by implementing the trusted advisor strategy.
 - Developed and recruited a strong senior leadership team.

INCENTIVE DESIGN AND GOAL SETTING

For the annual and long-term incentive programs, the committee oversees a rigorous and comprehensive goal-setting process. The committee works to identify performance measures and ranges of performance in the annual and long-term programs that (1) align with the company's strategy,

operating principles and priorities, and stockholder interests, (2) support the achievement of corporate goals, and (3) reflect the company's overall performance. The following timeline of key events reflects the committee's process:

INCENTIVE DESIGN, PAYOUT, AND GOAL-SETTING PROCESS

March-April

- Evaluate peer group to determine if any changes are required for the next performance cycle
- Compare actual compensation paid, operating results and stockholder returns from previous year to peer group as provided by the independent compensation consultant
- Review feedback from stockholders and governance firms



July-October

- Independent compensation consultant provides advice on incentive design and overall executive compensation program
- The consultant provides compensation data from the peer group and information on current market practices and industry trends



November-January

- Establish plan design, performance measures and ranges (target, threshold, and maximum) for upcoming year for annual incentive plan and long-term incentive awards
- Review plans and measures for alignment with enterprise risk and return principles



January-February

- Calculate the corporate pool for the annual incentive award based on actual performance
- Allocate the calculated corporate pool amongst Market Facing Businesses and Areas of Responsibility based on their operating performance in relationship to target amounts. Allocate these pools based on individual performance
- Determine the number of performance stock awards that vested for the applicable measurement period based on actual performance
- Approve specific measurable goals for current year for annual incentive plan and 3-year performance stock awards
- Review and approve salary adjustments and annual incentive and equity targets for executive officers



Ongoing

- Review compensation philosophy and objectives in light of company performance, company goals and strategy, stockholder feedback, and external benchmarking
- Monitor compensation estimates in comparison to actual and relative performance

Salary

- Executive salaries are set by the Board based on the committee's recommendations. **In recommending executive salary levels, the committee uses the 50th percentile of total target direct compensation of our peer companies as a guideline**, which supports Allstate's ability to compete effectively for and to retain executive talent. Annual merit increases for named executives are based on evaluations of their performance, using the enterprise-wide merit increase budget as a guideline.

Annual Cash Incentive Awards

- At the beginning of the year, after extensive review, the committee sets performance measure goals based on the operating plan. Target performance is equal to the operating plan. Threshold and maximum measures are informed by probability testing, historical results, and operational performance scenarios. To further test the appropriateness of the ranges, the committee's independent consultant provides advice based on peer performance, market expectations and industry trends. The chief risk officer reviews the performance measures and ranges to ensure they are consistent with Allstate's risk and return principles.
- Actual performance on the performance measures determines the overall funding level of the corporate pool and the aggregate total award budget for eligible employees. In 2016, the pool was funded based on the collective results of four measures: Adjusted Operating Income, Total Premiums, Net Investment Income, and Total Return. Funding for each measure is equal to 0% below threshold, 50% at threshold, 100% at target and 200% at maximum, and results between threshold, target and maximum are subject to interpolation.
- In the event of a net loss, the corporate pool funding is reduced by 50% of actual performance for senior executives. For example, if performance measures ordinarily would fund the corporate pool at 60% and there was a net loss, then the corporate pool would be funded at 30% for senior executives. This mechanism ensures alignment of pay and performance in the event of a natural catastrophe or extreme financial market conditions.
- **Target annual incentive compensation percentages for each named executive are based on market data pay levels of peer companies and our benchmark target for total direct compensation at the 50th percentile.**
- Individual awards are based on individual performance in comparison to position-specific compensation targets and overall company performance.
- In order to qualify annual cash incentive awards as deductible performance-based compensation under Internal Revenue Code section 162(m), Allstate has established the maximum awards that could be paid to any of the named executives as the lesser of the stockholder approved maximum of \$10 million under the Annual Executive Incentive Plan or a percentage of an award pool. For 2016, the award pool is equal to 1.0% of Adjusted Operating Income (defined on pages 64-65), and the percentage of the award pool for Mr. Wilson is 35%, Mr. Winter, 20%, and for each other named executive, 15%. Although section 162(m) does not apply to the compensation of the CFO, the CFO was included in the award pool consistent with the award opportunity available to the other named executives. The committee retains complete discretion to pay less than the maximums established by the Annual Executive Incentive Plan and the award pool.

- We paid the 2016 cash incentive awards in March 2017. The following table shows how the corporate pool was funded and distributed to individual participants:

Formulaic Calculation of Corporate Funding Pool	Annual Corporate Pool Distribution
<i>Actual performance is determined after the end of the performance period. The pool available for distribution is calculated in accordance with a formula based on four performance measures.</i> Adjusted Operating Income (aligns with stockholders' expectations of current performance)⁽¹⁾ Total Premiums (captures growth and competitive position of the businesses)⁽¹⁾ Net Investment Income (a significant component of profitability)⁽¹⁾ Total Return (captures all investment results for the business)⁽¹⁾	1. Committee approves corporate pool based on review of actual performance in comparison to goals 2. CEO allocates portion of corporate pool for participants other than senior executives between business units and Areas of Responsibility based on relative performance against annual operating goals • CEO did not exercise discretion in allocating pool funding between the Market Facing Businesses or Areas of Responsibility for 2015 • In 2016, the CEO applied positive discretion equal to 25% additional funding for the participants within the Investments group due to their strong results for the 2016 performance year. The positive discretion in Investments resulted in negative discretion of 5% for all other Market Facing Businesses and Areas of Responsibility 3. Committee's compensation recommendations for the CEO are reviewed and approved by the independent directors of our Board in executive session 4. Committee reviews and approves CEO recommendations for executive officers based on individual performance and position-specific compensation targets 5. Individual awards for other employees are determined by senior leaders of Market Facing Businesses and Areas of Responsibility and are subject to approval by CEO – senior leaders are required to ensure the appropriate pay for performance by ensuring that high performing participants earn awards (as a percent of funding) that are at least 1.5 times the awards earned by lower performing participants for the annual incentive plan. The ratio must be at least 2.0 times for the equity components of compensation

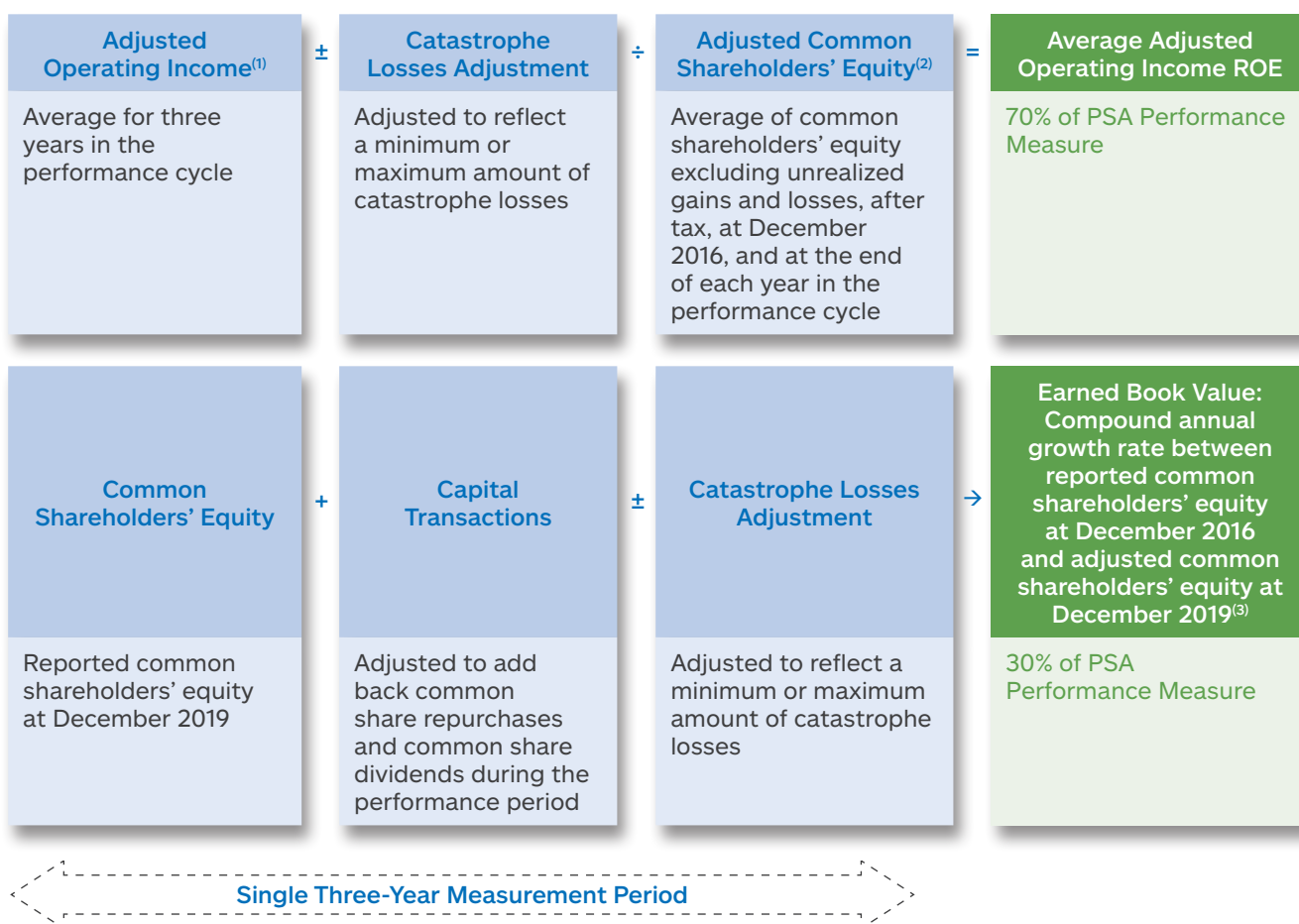
⁽¹⁾ The committee has discretion to determine the amount of the awards paid from the corporate pool to the named executives. For treatment of catastrophe losses and performance-based long-term income in the funding calculation, see discussion of performance measures on pages 64-66.

Performance Stock Awards and Stock Options

- We grant equity awards to executives based on scope of responsibility, consistent with our philosophy that a significant amount of compensation should be in the form of equity. Additionally, from time to time, equity awards are granted to attract new executives and to retain existing executives.
- In 2016 and 2017, the mix of equity incentives for senior executives was 60% PSAs and 40% stock options. We believe both PSAs and stock options are forms of performance-based incentive compensation because PSAs are earned based on achieving established performance goals and stock options require stock price appreciation to deliver value to an executive. The PSAs are awarded based on results over a three-year period with the actual number of PSAs vesting between 0% to 200% of that period's target PSAs based on Adjusted Operating Income ROE (70%) and Earned Book Value (30%) for the measurement period.
- The committee selected Adjusted Operating Income ROE as a performance measure because it:
 - Measures performance in a way that is tracked and understood by investors.
 - Captures both income and balance sheet impacts, including capital management actions.
 - Provides a useful gauge of overall performance while limiting the effects of factors management cannot influence, such as extreme weather conditions.
 - Correlates to changes in long-term stockholder value.
- Earned Book Value was selected to create greater alignment with the increase in performance-based assets in the investment portfolio.
- Both measures are further described on pages 64-66. For both measures, the committee considered historical and expected performance, market expectations and industry trends when approving the range of performance.
- For awards in 2014 and 2015, the number of PSAs that vest depends on the three-year Average Adjusted Operating Income ROE. Adjusted Operating Income ROE for those years is defined on pages 64-66.

- For all PSA awards, Adjusted Operating Income and Earned Book Value include a minimum or maximum amount of after-tax catastrophe losses if actual catastrophe losses are less than or exceed those amounts, respectively, which serves to decrease volatility and stabilize the measure.
- The committee requires positive net income in order for our executives to earn PSAs based on Adjusted Operating Income ROE above target. If Allstate has a net loss in a measurement period, the number of PSAs vested would not exceed target, regardless of the Adjusted Operating Income ROE. This hurdle is included to prevent misalignment between Allstate reported net income and the PSAs vested based on the Adjusted Operating Income ROE result. This situation could occur if, for example, catastrophe losses or capital losses that are not included in Adjusted Operating Income ROE caused Allstate to report a net loss for the period.
- At the end of each measurement period, the committee certifies the level of our Adjusted Operating Income ROE and Earned Book Value achievement. The committee does not have the discretion to adjust the performance achievement for any measurement period. PSAs will vest following the end of the three-year performance cycle if the performance conditions are met, subject to continued employment (other than in the event of death, disability, retirement, or a qualifying termination following a change in control).

For the 2017-2019 award, the Average Adjusted Operating Income ROE and Earned Book Value measures are calculated, respectively, as follows:



⁽¹⁾ Adjusted Operating Income for the 2017-2019 PSA award is defined on pages 64-66.

⁽²⁾ Adjusted Common Shareholders' Equity for the 2017-2019 PSA award is defined on page 66.

⁽³⁾ Earned Book Value is defined on page 66.

2017-2019 PERFORMANCE STOCK AWARD RANGE OF PERFORMANCE

	Performance Measures		
	Threshold	Target	Maximum
Average Adjusted Operating Income ROE (70%) ⁽¹⁾	6.0%	11.0%	13.0%
Earned Book Value (Compound Annual Growth) (30%)	6.0%	9.0%	11.0%
Payout	0%	100%	200%

⁽¹⁾ Subject to positive Net Income hurdle

EQUITY OWNERSHIP AND RETENTION REQUIREMENTS

Instituted in 1996, stock ownership guidelines require each of the named executives to own Allstate common stock worth a multiple of base salary to link management and stockholders' interests. The following chart shows the salary multiple guidelines and the equity holdings that count towards the requirement.

The current stock ownership guidelines apply to 93 of our 192 senior executives and other officers as of December 31, 2016 and require these executives to hold 75% of net shares received as a result of equity compensation awards until their salary multiple guidelines are met.

STOCK OWNERSHIP AS MULTIPLE OF BASE SALARY AS OF DECEMBER 31, 2016

Named Executive	Guideline	Actual	Vested In The Money Option Value (after-tax)
Mr. Wilson	6	34	35
Mr. Shebik	3	9	6
Mr. Civgin	3	10	1
Ms. Fortin	3	6	0
Mr. Winter	3	11	9

What Counts Toward the Guideline

- Allstate shares owned personally and beneficially
- Shares held in the Allstate 401(k) Savings Plan
- Restricted stock units

Retention Requirements

Beginning with awards granted in 2014, Allstate added a requirement that, **regardless of a senior executive's stock ownership level, senior executives must retain at least 75% of net shares received as a result of equity compensation awards for one year.** In the case of PSAs and restricted stock units, senior executives must retain 75% of net after-tax shares after the three or four-year vesting period for one year. In the case of stock options, senior executives must retain 75% of all shares remaining after covering the exercise price of the shares and taxes. This retention requirement applies to approximately 9% of officers in 2016.

Policies on Hedging and Pledging Securities

We have a policy that prohibits all officers, directors, and employees from engaging in transactions in securities issued by Allstate or any of its subsidiaries that might be considered speculative or hedging, such as selling short or buying or selling options. We instituted a policy in 2014 that prohibits senior

What Does Not Count Toward the Guideline

- Unexercised stock options
- Unvested performance stock awards

executives and directors from pledging Allstate securities as collateral for a loan or holding such securities in a margin account, unless an exception is granted by the Chair or lead director.

Timing of Equity Awards and Grant Practices

Typically, the committee approves grants of equity awards during a meeting in the first fiscal quarter. The timing allows the committee to align awards with our annual performance and business goals.

Throughout the year, the committee may grant equity incentive awards to newly hired or promoted executives or to retain or recognize executives. The grant date for these awards was fixed as the third business day of a month following the later of committee action or the date of hire or promotion, or for recognition grants, such other date specified by the committee.

For additional information on the committee's practices, see portions of the Board Leadership Structure and Practices section of this proxy statement on pages 23-24, and 26.

PEER BENCHMARKING

The committee monitors performance toward goals throughout the year and reviews executive compensation program design and executive pay levels annually. As part of that evaluation, Compensation Advisory Partners, the committee's independent compensation consultant, provided executive compensation data, information on current market practices, and alternatives to consider when determining compensation for our named executives. The committee benchmarks executive compensation program design, executive pay, and performance against a group of peer companies that are publicly-traded. Product mix, market segment, annual revenues, premiums,

assets, and market value were considered when identifying peer companies. The committee believes Allstate competes against these companies for executive talent, business and stockholder investment. The committee reviews the composition of the peer group annually with the assistance of its compensation consultant. In 2016, the committee made one change to the peer group. The Chubb Corporation and Ace Ltd. merged and the resulting entity (Chubb Limited) is now included in the peer group. CNA Financial Corporation will be included as a peer company for 2017 compensation benchmarking. The following table reflects the peer group used for 2016 compensation benchmarking.

PEER COMPANIES⁽¹⁾

Company Name	Revenue (\$ in billions)	Market Cap (\$ in billions)	Assets (\$ in billions)	Premiums (\$ in billions)	Total Shareholder Return (%)		
					One Year	Three Years	Five Years
AFLAC Inc.	22.6	28.2	129.8	19.2	19.0	12.2	81.4
American International Group, Inc.	52.4	65.0	498.3	37.1	7.5	33.3	194.5
Chubb Limited	31.7	61.6	159.8	28.7	15.4	36.9	111.3
The Hartford Financial Services Group, Inc.	18.3	17.8	223.4	14.8	11.6	38.5	218.5
Manulife Financial Corporation	29.1	26.3	400.5	15.6	22.7	-1.0	95.9
MetLife, Inc.	63.5	59.0	898.8	48.4	15.0	8.6	95.6
The Progressive Corporation	23.4	20.6	33.4	22.5	14.4	43.9	116.7
Prudential Financial, Inc.	58.8	44.7	784.0	36.9	31.3	22.2	136.0
The Travelers Companies, Inc.	27.6	34.2	100.2	24.5	10.8	43.9	130.5
Allstate	36.5	27.1	108.6	33.6	21.5	43.2	196.6
Allstate Ranking Relative to Peers:							
— Property and Casualty Insurance Products	3 of 7	5 of 7	5 of 7	3 of 7	1 of 7	3 of 7	2 of 7
— Life Insurance and Financial Products	4 of 7	5 of 7	7 of 7	4 of 7	3 of 7	1 of 7	2 of 7
— All Peer Companies	4 of 10	7 of 10	8 of 10	4 of 10	3 of 10	3 of 10	2 of 10

⁽¹⁾ Information as of year-end 2016.

In its executive pay discussions, the committee also considered compensation information for 19 general industry companies in the S&P 100 with fiscal year 2015 revenues between \$24 billion and \$53 billion. The committee uses compensation surveys for certain executives that provide information on companies of similar size and business mix as Allstate, as well as companies with a broader market context.

The committee uses the 50th percentile of our peer group as a guideline in setting the target total direct compensation of our named executives. Within the guideline, the committee balances the various elements of compensation based on individual experience, job scope and responsibilities, performance, and market practices.

OTHER ELEMENTS OF COMPENSATION

To remain competitive with other employers and to attract, retain, and motivate highly talented executives and other employees, we offer the benefits listed in the following table.

Benefit or Perquisite	Named Executives	Other Officers and Certain Managers	All Full-time and Regular Part-time Employees
401(k) ⁽¹⁾ and defined benefit pension	●	●	●
Supplemental retirement benefit	●	●	
Health and welfare benefits ⁽²⁾	●	●	●
Supplemental long-term disability	●	●	
Deferred compensation	●	●	
Tax preparation and financial planning services ⁽³⁾	●	●	
Personal use of aircraft, ground transportation, and mobile devices ⁽⁴⁾	●	●	
Tickets to Allstate events ⁽⁵⁾	●	●	●

⁽¹⁾ Allstate contributed \$0.80 for every dollar of matchable pre-tax or Roth 401(k) deposits made in 2016 (up to 5% of eligible pay).

⁽²⁾ Including medical, dental, vision, life, accidental death and dismemberment, long-term disability, and group legal insurance. For named executives and other senior officers, Allstate offers an executive physical program.

⁽³⁾ All officers are eligible for tax preparation services. Financial planning services were provided only to senior executives.

⁽⁴⁾ The Board encourages the CEO to use our corporate aircraft when it improves his efficiency in managing the company, even if it is for personal purposes. Personal usage is counted as taxable compensation. The committee also approved the President's usage of corporate aircraft for personal use up to 40 hours annually. In limited circumstances approved by the CEO, other senior executives are permitted to use our corporate aircraft for personal purposes. Ground transportation is available to senior executives. Mobile devices are available to senior executives, other officers, and certain managers and employees depending on their job responsibilities.

⁽⁵⁾ Tickets to Allstate sponsored events or the Allstate Arena are offered as recognition for service.

Retirement Benefits

Each named executive participates in two different defined benefit pension plans. The Allstate Retirement Plan (ARP) is a tax qualified defined benefit pension plan available to all of our regular full-time and regular part-time employees who meet certain age and service requirements. The ARP provides an assured retirement income based on an employee's level of compensation and length of service at no cost to the employee. As the ARP is a tax qualified plan, federal tax law limits (1) the amount of an individual's compensation that can be used to calculate plan benefits and (2) the total amount of benefits payable to a plan participant on an annual basis. For certain employees, these limits may result in a lower benefit under the ARP than would have been payable otherwise. Therefore, the Supplemental Retirement Income Plan (SRIP) is used to provide ARP-eligible employees whose compensation or benefit amount exceeds the federal limits with an additional defined benefit in an amount equal to what would have been payable under the ARP if the federal limits did not exist. Effective January 1, 2014, Allstate modified its defined benefit pension plans so that all eligible employees earn future pension benefits under a new cash balance formula.

Change-in-Control and Post-Termination Benefits

Consistent with our compensation objectives, we offer these benefits to attract, motivate, and retain executives. A change in control of Allstate could have a disruptive impact on both Allstate and our executives. Change-in-control benefits and post-termination benefits are designed to mitigate that impact and to maintain alignment between the interests of our executives and our stockholders.

The following summarizes Allstate's change-in-control benefits for the executive officers:

- The change-in-control severance plan (CIC Plan) does not include excise tax gross ups or a lump sum cash pension enhancement.
- For the CEO, the amount of cash severance payable is three times the sum of base salary and target annual incentive. For the other executive officers, the amount of cash severance payable is two times the sum of base salary and target annual incentive.
- In order to receive the cash severance benefits under the CIC Plan, a participant must have been terminated (other than for cause, death, or disability) or the participant must have terminated employment for good reason (such

as adverse changes in the terms or conditions of employment, including a material reduction in base compensation, a material change in authority, duties, or responsibilities, or a material change in job location) within two years following a change in control.

- Long-term equity incentive awards vest on an accelerated basis due to a change in control only if the participant has been terminated (other than for cause, death, or disability) or the participant terminated employment for good reason (as defined above) within two years following a change in control.

The change-in-control and post-termination arrangements which are described in the *Potential Payments as a Result of Termination or Change in Control* section on pages 60-62 are not provided exclusively to the named executives. A larger group of management employees is eligible to receive many of the post-termination benefits described in that section.

Clawback of Compensation

Awards made to executive officers after May 19, 2009, under short- and long-term incentive compensation plans, are subject to clawback in the event of certain financial restatements. Annual cash incentive and equity awards granted after May 19, 2009 are also subject to cancellation or recovery

in certain circumstances if the recipient violates non-solicitation covenants. Equity awards granted after February 21, 2012, are subject to cancellation in certain circumstances if the recipient violates non-competition covenants.

Impact of Tax Considerations on Compensation

We may take a tax deduction of no more than \$1 million per executive for compensation paid in any year to our CEO and the three other most highly compensated executives, excluding any individual that served as CFO during the year, as of the last day of the fiscal year in which the compensation is paid, unless the compensation meets specific standards. We may deduct more than \$1 million in compensation if the compensation is performance-based and paid under a plan that meets certain requirements. The committee considers the impact of this Internal Revenue Code rule in developing, implementing, and administering our compensation programs. However, the committee balances this consideration with our primary goal of structuring compensation programs to attract, motivate, and retain highly talented executives. In light of this balance and the need to maintain flexibility in administering compensation programs, the committee may authorize compensation in any year that exceeds \$1 million and does not meet the required standards for deductibility.

EARNED ANNUAL CASH INCENTIVE AWARDS

In 2016, the total corporate pool was based on four measures: Adjusted Operating Income, Total Premiums, Net Investment Income, and Total Return. The 2016 annual incentive plan targets for Adjusted Operating Income and Net Investment Income were lower than actual 2015 performance to reflect the fact that 2015 catastrophe losses were below expected levels and continued low interest rates negatively impact net investment income. The 2016 targets did factor in improved auto insurance profitability, maintenance of attractive returns from homeowners insurance and continued strong expense controls. Modest adjustments were made

to the range between threshold and maximum for Total Premiums in alignment with the operating plan and the probability of achieving the results.

The 2017 annual incentive plan targets are not included since those targets do not relate to 2016 pay, and because target performance is set at the 2017 operating plan, which is proprietary information.

For a description of how the 2016 measures are determined, see pages 64-65. The ranges of performance and 2016 actual results are shown in the following table.

2016 ANNUAL CASH INCENTIVE AWARD RANGES OF PERFORMANCE

Measure	Threshold	Target	Maximum	Actual Results	%Target
Adjusted Operating Income (<i>in millions</i>)	\$1,500	\$2,000	\$2,500	\$1,928	92.8%
Total Premiums (<i>in millions</i>)	\$34,200	\$34,700	\$35,200	\$33,872	0.0%
Net Investment Income (<i>in millions</i>)	\$2,850	\$3,050	\$3,250	\$3,042	98.0%
Total Return	0%	3.5%	6.5%	4.4%	130.0%
Payout Percentages					
Named Executives ⁽¹⁾	50% ⁽²⁾	100%	200%		55.1%

⁽¹⁾ Payout percentages reflect contribution to incentive compensation pool. Actual awards are fully discretionary and vary depending on individual performance.

⁽²⁾ Actual performance below threshold results in a 0% payout.

PERFORMANCE STOCK AWARDS (“PSAs”)

For the last four PSA grants, the performance measures and levels of performance needed to earn the threshold, target and maximum number of PSAs, as well as actual results and payout percentages, are set forth in the table below. The total shareholder returns for Allstate and its peers are also shown.

PERFORMANCE STOCK AWARDS RANGES OF PERFORMANCE

Performance Cycle ⁽¹⁾	Threshold	Target	Maximum	Actual Results	Payout Percentage	Total Shareholder Returns	
						Allstate	Peers
Vested Awards							
2013-2015 ⁽²⁾	6.0%	12.0%	13.5%	12.8%	154.8%	63.0%	63.1%
2014-2016	6.0%	13.0%	14.5%	12.1%	87.1%	43.2%	26.8%
Outstanding Awards							
2015-2017	6.0%	13.5%	14.5%	Two year results are currently below target ⁽³⁾		9.5%	16.5%
2016-2018							
-Adjusted Operating Income ROE (70%)	6.0%	13.0%	14.0%	One year results are currently below target for both measures ⁽³⁾			
-Earned Book Value (30%)	6.0%	12.0%	15.0%			21.5%	16.5%
Payout	0%	100%	200%				

Subject to positive Net Income hurdle
For Adjusted Operating Income ROE

⁽¹⁾ For the performance cycles prior to 2016, Average Adjusted Operating Income ROE was the performance measure. In 2016, Earned Book Value was added as a second performance measure.

⁽²⁾ Represents the average of the separate 1-year performance goals and payouts. Actual results are 13.4%, 13.2%, 11.9% with payout percentage of 200.0%, 180.0% and 84.3% for 2013, 2014 and 2015, respectively.

⁽³⁾ Payouts under the PSAs are based on performance over the three-year period, and actual results will not be known until the end of the performance period.

The following table shows the target number of PSAs granted to each of our named executives for the 2014-2016, 2015-2017 and 2016-2018 performance cycles.

PERFORMANCE CYCLE⁽¹⁾

Named Executive	Target Number of PSAs for 2014-2016 Performance Cycle	Target Number of PSAs for 2015-2017 Performance Cycle	Target Number of PSAs for 2016-2018 Performance Cycle
Mr. Wilson	73,783	65,054	86,650
Mr. Shebik	17,248	15,910	26,476
Mr. Civgin	20,123	16,872	23,107
Ms. Fortin	n/a	3,287	15,043
Mr. Winter	25,153	21,921	30,809

⁽¹⁾ The actual number of PSAs that will vest will vary from 0% to 200% of the target PSAs based on Average Adjusted Operating Income ROE or Average Adjusted Operating Income ROE and Earned Book Value for the measurement period. The number of PSAs that vest will be determined in 2017, 2018 and 2019, respectively.

Compensation Committee Report

The compensation and succession committee has reviewed and discussed with management the Compensation Discussion and Analysis contained on pages 33-49 of this proxy statement. Based on such review and discussions, the committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

THE COMPENSATION AND SUCCESSION COMMITTEE


John W. Rowe (Chair)


Michael L. Eskew


Herbert L. Henkel


Andrea Redmond

Executive Compensation Tables

SUMMARY COMPENSATION TABLE

The following table summarizes the compensation of the named executives for the last three fiscal years. However, only the last fiscal year is shown for Ms. Fortin since this is the first year she is a named executive.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) ⁽¹⁾	Option Awards (\$) ⁽²⁾	Non-Equity Incentive Plan Compensation (\$)	Non-qualified Deferred Compensation Earnings (\$) ⁽³⁾	All Other Compensation (\$) ⁽⁴⁾	Total (\$)	Total Without Change in Pension Value (\$) ⁽⁵⁾
Thomas J. Wilson Chair and Chief Executive Officer	2016	1,200,000	—	5,400,028	3,600,000	1,982,880	1,574,760	55,847	13,813,515	12,238,755
	2015	1,191,346	—	4,599,968	4,599,996	2,888,136	532,116	62,131	13,873,693	13,341,577
	2014	1,141,346	—	3,849,997	3,850,001	4,073,075	2,632,215	94,751	15,641,385	13,009,170
Steven E. Shebik Executive Vice President and Chief Financial Officer	2016	770,673	—	1,649,984	1,100,001	600,000	479,800	28,690	4,629,148	4,149,348
	2015	750,000	—	1,124,996	1,124,999	850,000	185,312	28,180	4,063,487	3,878,175
	2014	652,500	—	900,001	899,998	883,619	827,696	26,960	4,190,774	3,363,078
Don Civgin President, Emerging Businesses	2016	776,885	—	1,440,028	959,999	535,066	88,721	38,727	3,839,426	3,750,705
	2015	760,808	—	1,193,019	1,192,993	768,629	46,822	37,195	3,999,466	3,952,644
	2014	700,000	—	1,050,018	1,049,996	1,000,000	135,885	26,560	3,962,459	3,826,574
Mary Jane Fortin President, Allstate Financial	2016	632,752	—	937,480	625,006	291,774	27,366	30,682	2,545,060	2,517,694
Matthew E. Winter President	2016	820,673	—	1,920,017	1,279,999	1,017,513	121,710	153,663	5,313,575	5,191,865
	2015	799,423	—	1,550,034	1,550,004	1,600,000	80,745	79,399	5,659,605	5,578,860
	2014	766,539	—	1,312,484	1,312,504	1,500,000	139,076	39,016	5,069,619	4,930,543

⁽¹⁾ The aggregate grant date fair value of PSAs granted in 2016, 2015, and 2014 are computed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 718 (ASC 718). The fair value of PSAs is based on the final closing price of Allstate's common stock on the grant date, which in part reflects the payment of expected future dividends. (See note 18 to our audited financial statements for 2016.) This amount reflects an accounting expense and does not correspond to actual value that will be realized by the named executives. The value of PSAs is based on the probable satisfaction of the performance conditions. The number of PSAs granted in 2016 to each named executive is provided in the *Grants of Plan-Based Awards* table on page 52. The value of the PSAs granted in 2016 at grant date share price if maximum corporate performance were to be achieved is as follows: Mr. Wilson \$10,800,056, Mr. Shebik \$3,299,969, Mr. Civgin \$2,880,056, Ms. Fortin \$1,874,960, and Mr. Winter \$3,840,034.

⁽²⁾ The aggregate grant date fair value of option awards is computed in accordance with FASB ASC 718. The fair value of each option award is estimated on the grant date using a binomial lattice model and the assumptions (see note 18 to our audited financial statements for 2016) as set forth in the following table:

	2016	2015	2014
Weighted average expected term	5.0 years	6.5 years	6.5 years
Expected volatility	16.0-34.3%	16.0-37.8%	16.8-42.2%
Weighted average volatility	24.3%	24.7%	28.3%
Expected dividends	1.9-2.1%	1.6-2.1%	1.7-2.2%
Weighted average expected dividends	2.1%	1.7%	2.1%
Risk-free rate	0.2-2.4%	0.0-2.4%	0.0-3.0%

This amount reflects an accounting expense and does not correspond to actual value that will be realized by the named executives. The number of options granted in 2016 to each named executive is provided in the *Grants of Plan-Based Awards* table on page 52.

⁽³⁾ Amounts reflect the aggregate increase in actuarial value of the pension benefits as set forth in the *Pension Benefits* table, accrued during 2016, 2015, and 2014. These are benefits under the Allstate Retirement Plan (ARP) and the Supplemental Retirement Income Plan (SRIP). Non-qualified deferred compensation earnings are not reflected since our Deferred Compensation Plan does not provide above-market earnings. The pension plan measurement date is December 31. (See note 17 to our audited financial statements for 2016.)

The following table reflects the respective change in the actuarial value of the benefits provided to the named executives in 2016:

Name	ARP (\$)	SRIP (\$)
Mr. Wilson	113,353	1,461,407
Mr. Shebik	124,367	355,433
Mr. Civgin	14,350	74,371
Ms. Fortin	7,861	19,505
Mr. Winter	12,991	108,719

Interest rates and other assumptions can have a significant impact on the change in pension value from one year to another.

Effective January 1, 2014, Allstate modified its pension plans so that all eligible employees earn future pension benefits under a new cash balance formula. The change in actuarial value of benefits provided for each named executive in 2016 would have been as indicated in the following table under the prior formula:

Name	ARP (\$)	SRIP (\$)
Mr. Wilson	184,530	5,297,617
Mr. Shebik	203,850	2,426,861
Mr. Civgin	12,341	88,922
Ms. Fortin	6,979	1,368
Mr. Winter	10,271	86,457

- (4) The following table describes the incremental cost of other benefits provided in 2016 that are included in the “All Other Compensation” column.

Name	Personal Use of Aircraft ⁽¹⁾ (\$)	401(k) Match ⁽²⁾ (\$)	Other ⁽³⁾ (\$)	Total All Other Compensation (\$)
Mr. Wilson	16,837	10,600	28,410	55,847
Mr. Shebik	—	10,600	18,090	28,690
Mr. Civgin	—	10,600	28,127	38,727
Ms. Fortin	—	10,412	20,270	30,682
Mr. Winter	121,998	10,600	21,065	153,663

(1) The amount reported for personal use of aircraft is based on the incremental cost method, which is calculated based on Allstate’s average variable costs per flight hour. Variable costs include fuel, maintenance, on-board catering, landing/ramp fees, and other miscellaneous variable costs. The total annual variable costs are divided by the annual number of flight hours flown by the aircraft to derive an average variable cost per flight hour. This average variable cost per flight hour is then multiplied by the flight hours flown for personal use to derive the incremental cost. This method of calculating the incremental cost excludes fixed costs that do not change based on usage, such as pilots’ and other employees’ salaries, costs incurred in purchasing the aircraft, and non-trip related hangar expenses.

(2) Each of the named executives participated in our 401(k) plan during 2016. The amount shown is the amount allocated to their accounts as employer matching contributions. Ms. Fortin will not be vested in the employer matching contribution until she has completed three years of vesting service.

(3) “Other” consists of personal benefits and perquisites related to mobile devices, tax preparation services, financial planning, ground transportation, executive physical related items and supplemental long-term disability coverage. There was no incremental cost for the use of mobile devices. We provide supplemental long-term disability coverage to all regular full- and part-time employees who participate in the long-term disability plan and whose annual earnings exceed the level which produces the maximum monthly benefit provided by the long-term disability plan. This coverage is self-insured (funded and paid for by Allstate when obligations are incurred). No obligations for the named executives were incurred in 2016, and therefore, no incremental cost is reflected in the table. Mr. Civgin was also provided limited home security protection during the year.

- (5) We have included an additional column to show total compensation minus the change in pension value. The amounts reported in this column may differ substantially from, and are not a substitute for, the amounts reported in the “Total” column required under SEC rules. The change in pension value is subject to several external variables, including interest rates, that are not related to company or individual performance and may differ significantly based on the formula under which the benefits were earned.

Grants of Plan-Based Awards at Fiscal Year-end 2016

The following table provides information about awards granted to our named executives during fiscal year 2016.

Name	Grant Date	Plan Awards ⁽¹⁾	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ⁽²⁾			Estimated Future Payouts Under Equity Incentive Plan Awards ⁽³⁾			All Other Option Awards: Number of Securities Underlying Options (#)	Exercise Price of Option Awards (\$/Sh) ⁽⁴⁾	Grant Date Fair Value (\$) ⁽⁵⁾	
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)			Stock Awards	Option Awards
Mr. Wilson	—	Annual cash incentive	1,800,000	3,600,000	10,000,000							
	02/11/2016	PSAs				0	86,650	173,300			5,400,028	
	02/11/2016	Stock options							295,324	62.32		3,600,000
Mr. Shebik	—	Annual cash incentive	481,899	963,798	5,400,000							
	02/11/2016	PSAs				0	26,476	52,952			1,649,984	
	02/11/2016	Stock options							90,238	62.32		1,100,001
Mr. Civgin	—	Annual cash incentive	485,717	971,434	5,400,000							
	02/11/2016	PSAs				0	23,107	46,214			1,440,028	
	02/11/2016	Stock options							78,753	62.32		959,999
Ms. Fortin	—	Annual cash incentive	284,800	569,600	5,400,000							
	02/11/2016	PSAs				0	15,043	30,086			937,480	
	02/11/2016	Stock options							51,272	62.32		625,006
Mr. Winter	—	Annual cash incentive	923,668	1,847,336	7,200,000							
	02/11/2016	PSAs				0	30,809	61,618			1,920,017	
	02/11/2016	Stock options							105,004	62.32		1,279,999

⁽¹⁾ Awards under the Annual Executive Incentive Plan and the 2013 Equity Incentive Plan.

⁽²⁾ The amounts in these columns consist of the threshold, target, and maximum annual cash incentive awards for the named executives. The threshold amount for each named executive is 50% of target, as the minimum amount payable (subject to individual performance) if threshold performance is achieved. If the threshold is not achieved, the payment to the named executives would be zero. The target amount is based upon achievement of the performance measures listed under the *Earned Annual Cash Incentive Awards* caption on page 48. The maximum amount is based on the maximum amount that could be paid to a named executive to qualify the annual cash incentive award as deductible under section 162(m). The maximum amount payable to any named executive who served as CFO during the year is an amount equal to 15% of the 162(m) award pool described on pages 64-65. The maximum amount payable to the CEO and the three most highly compensated executives, excluding any named executive who served as CFO during the year, is the lesser of a stockholder-approved maximum of \$10 million under the Annual Executive Incentive Plan or a percentage, which varies by executive, of the award pool. The award pool is equal to 1.0% of Adjusted Operating Income with award opportunities capped at 35% of the pool for Mr. Wilson, 20% for Mr. Winter, and 15% of the pool for each other named executive. Adjusted Operating Income is defined on pages 64-65. For a description of the ranges of performance established by the committee for the 2016 annual incentive, which are lower than the section 162(m) limits, see page 48.

⁽³⁾ The amounts shown in these columns reflect the threshold, target, and maximum PSAs for the named executives. The threshold amount for each named executive is 0% payout. The target and maximum amounts are based upon achievement of the performance measures listed under the *Performance Stock Awards* caption on page 49.

⁽⁴⁾ The exercise price of each option is equal to the closing sale price on the New York Stock Exchange on the grant date or, if there was no such sale on the grant date, then on the last previous day on which there was a sale.

⁽⁵⁾ The aggregate grant date fair value of the PSAs was \$62.32 and stock option award was \$12.19, computed in accordance with FASB ASC 718 based on the probable satisfaction of the performance conditions. The assumptions used in the valuation are discussed in footnotes 1 and 2 to the *Summary Compensation Table* on page 50.

PERFORMANCE STOCK AWARDS (“PSAs”)

PSAs represent our promise to transfer shares of common stock in the future if certain performance measures are met. For the awards granted in 2016, performance is measured in a single three-year measurement period, and the actual number of PSAs that vest will vary from 0% to 200% of that period's target PSAs based on Average Adjusted Operating Income ROE (70%) and Earned Book Value (30%) for the measurement period. For a definition of how those measures are calculated, see pages 64-66. Each PSA represents Allstate's promise to transfer

one fully vested share in the future for each PSA that vests. Vested PSAs will be converted into shares of Allstate common stock and dividend equivalents accrued on these shares will be paid in cash. No dividend equivalents will be paid prior to vesting. PSAs will vest following the end of the three-year performance cycle if the performance conditions are met, subject to continued employment (other than in the event of death, disability, retirement, or a qualifying termination following a change in control).

STOCK OPTIONS

Stock options represent an opportunity to buy shares of our stock at a fixed exercise price at a future date. We use them to align the interests of our executives with long-term stockholder value, as the stock price must appreciate from the grant date for the executives to profit.

Under our stockholder-approved equity incentive plan, the exercise price cannot be less than the closing price of a share on the grant date. Stock option repricing is not permitted. In other words, without an event such as a stock split, if the committee cancels an award and substitutes a new award, the exercise price of the new award cannot be less than the exercise price of the cancelled award.

All stock option awards have been made in the form of non-qualified stock options. The options granted to the named executives beginning in 2014 become exercisable over three years. One-third of the stock options will become exercisable on the anniversary of the grant date for each of the three years. The change to the vesting schedule beginning in 2014 was made to reflect current market practice. For the vesting schedule for other option grants, see footnote 1 to the *Outstanding Equity Awards at Fiscal Year-end 2016* table. All of the options expire ten years from the grant date, unless an earlier date has been approved by the committee in connection with certain change-in-control situations or other special circumstances such as termination, death, or disability.

Outstanding Equity Awards at Fiscal Year-end 2016

The following table summarizes the outstanding equity awards of the named executives as of December 31, 2016.

Name	Option Awards ⁽¹⁾					Stock Awards ⁽²⁾				
	Option Grant Date	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Stock Award Grant Date	Number of Shares or Units That Have Not Vested ⁽⁴⁾	Market Value of Shares or Units of Stock That Have Not Vested ⁽⁵⁾	Equity Incentive Plan Awards: Number of Unearned Shares, or Other Rights that Have Not Vested ⁽⁶⁾	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, or Other Rights that Have Not Vested ⁽⁵⁾
Mr. Wilson	02/26/2008	338,316	0	48.82	02/26/2018					
	02/22/2010	417,576	0	31.41	02/22/2020					
	02/22/2011	447,808	0	31.74	02/22/2021					
	02/21/2012	444,060	0	31.56	02/21/2022					
	02/12/2013	272,556	90,853	45.61	02/12/2023					
	02/18/2014	206,158	103,079	52.18	02/18/2024	02/18/2014	64,265	4,763,322		
	02/18/2015	98,164	196,330	70.71	02/18/2025	02/18/2015			65,054	4,821,802
	02/11/2016	0	295,324	62.32	02/11/2026	02/11/2016			86,650	6,422,498
Mr. Shebik	02/22/2010	33,616	0	31.41	02/22/2020					
	02/22/2011	35,197	0	31.74	02/22/2021					
	02/21/2012	26,446	0	31.56	02/21/2022					
	03/06/2012	35,014	0	31.00	03/06/2022					
	02/12/2013	56,391	18,797	45.61	02/12/2023					
	02/18/2014	48,192	24,097	52.18	02/18/2024	02/18/2014	15,023	1,113,505		
	02/18/2015	24,007	48,016	70.71	02/18/2025	02/18/2015			15,910	1,179,249
	02/11/2016	0	90,238	62.32	02/11/2026	02/11/2016			26,476	1,962,401
Mr. Civgin	02/12/2013	0	21,930	45.61	02/12/2023					
	02/18/2014	56,224	28,113	52.18	02/18/2024	02/18/2014	17,527	1,299,101		
	02/18/2015	25,458	50,918	70.71	02/18/2025	02/18/2015			16,872	1,250,553
	02/11/2016	0	78,753	62.32	02/11/2026	02/11/2016			23,107	1,712,691
Ms. Fortin	10/05/2015	5,393	10,788	59.90	10/05/2025	10/05/2015	43,824	3,248,235	3,287	243,632
	02/11/2016	0	51,272	62.32	02/11/2026	02/11/2016			15,043	1,114,987
Mr. Winter	02/22/2011	101,869	0	31.74	02/22/2021					
	02/21/2012	144,175	0	31.56	02/21/2022					
	02/12/2013	79,495	26,499	45.61	02/12/2023					
	02/18/2014	70,281	35,141	52.18	02/18/2024	02/18/2014	21,908	1,623,821		
	02/18/2015	33,077	66,155	70.71	02/18/2025	02/18/2015			21,921	1,624,785
	02/11/2016	0	105,004	62.32	02/11/2026	02/11/2016			30,809	2,283,563

(1) The options granted in 2014 and after vest over three years: one-third will become exercisable on the anniversary of the grant date for each of the three years. The options granted in 2012 and 2013 vest over four years: 50% on the second anniversary date and 25% on each of the third and fourth anniversary dates. The other options vest in four installments of 25% on each of the first four anniversaries of the grant date. The exercise price of each option is equal to the closing price of Allstate's common stock on the grant date. If there was no sale on the grant date, the closing price is calculated as of the last previous day on which there was a sale.

(2) The awards listed in this table are PSAs, except for Ms. Fortin's new hire award of restricted stock units in 2015. The 43,824 shares listed above represent three-fourths of her original award granted on October 5, 2015. The shares convert in four increments with one-fourth of the total shares converting on the anniversary of the grant date for the succeeding four years.

- (3) The aggregate value and aggregate number of exercisable and unexercisable in-the-money options as of December 31, 2016, for each of the named executives are as follows:

Name	Exercisable		Unexercisable	
	Aggregate Number (#)	Aggregate Value (\$)	Aggregate Number (#)	Aggregate Value (\$)
Mr. Wilson	2,224,638	76,899,780	685,586	9,006,081
Mr. Shebik	258,863	8,309,637	181,148	2,293,134
Mr. Civgin	81,682	1,320,366	179,714	2,344,939
Ms. Fortin	5,393	76,688	62,060	758,415
Mr. Winter	428,897	14,374,456	232,799	2,991,116

- (4) The PSAs vest in one installment on the day before the third anniversary of the grant date.
 (5) Amount is based on the closing price of our common stock of \$74.12 on December 30, 2016.
 (6) The PSAs vest in one installment on the day before the third anniversary of the grant date. The number of shares that ultimately vest may range from 0 to 200% of the target depending on actual performance during the three-year performance period. For a description of the PSA program and the performance measures used, see pages 43-45 and 49. The number of PSAs reflected in this column for the 2015 and 2016 awards are the number of shares that would vest if the target level of performance is achieved. Final payouts under the PSAs will not be known until the respective performance period is completed.

Option Exercises and Stock Vested During 2016

The following table summarizes the options exercised by the named executives during 2016 and the PSAs or restricted stock units that vested during 2016.

Name	Option Awards ⁽¹⁾		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Mr. Wilson	262,335	3,079,813	130,638	8,141,360
Mr. Shebik	61,334	1,631,726	32,356	2,019,478
Mr. Civgin	214,412	5,682,556	35,627	2,220,275
Ms. Fortin	0	0	14,607	990,939
Mr. Winter	55,785	2,003,768	43,050	2,682,876

- (1) Of the options exercised in 2016 by Mr. Wilson and Mr. Shebik, 262,335 and 15,571, respectively, were due to expire in the first quarter of 2017.

Retirement Benefits

The following table provides information about the pension plans in which the named executives participate. Each of the named executives participates in the Allstate Retirement Plan (ARP) and the Supplemental Retirement Income Plan (SRIP).

PENSION BENEFITS

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ⁽¹⁾⁽²⁾ (\$)	Payments During Last Fiscal Year (\$)
Mr. Wilson	ARP	23.8	1,047,349	0
	SRIP	23.8	14,448,421	0
Mr. Shebik	ARP	28.2	1,275,795	0
	SRIP	28.2	3,667,002	0
Mr. Civgin	ARP	8.3	63,328	0
	SRIP	8.3	382,650	0
Ms. Fortin ⁽³⁾	ARP	1.3	7,861	0
	SRIP	1.3	19,505	0
Mr. Winter	ARP	7.2	53,032	0
	SRIP	7.2	495,031	0

⁽¹⁾ These amounts are estimates and do not necessarily reflect the actual amounts that will be paid to the named executives, which will be known only at the time they become eligible for payment. The present value of the accumulated benefit was determined using the same measurement date (December 31, 2016) and material assumptions that we use for year-end financial reporting purposes, except that we made no assumptions for early termination, disability, or pre-retirement mortality. Other assumptions include the following:

- Retirement at the normal retirement age as defined in the plans (age 65).
- Discount rate of 4.15%.

Other assumptions for the final average pay formula include the following:

- 80% paid as a lump sum and 20% paid as an annuity; for the cash balance formula, 100% paid as a lump sum.
- Lump-sum/annuity conversion segmented interest rates of 2.75% for the first five years, 5.00% for the next 15 years, and 5.75% for all years after 20.
- Lump sum calculations were done using the RP-2014 mortality table projected with the MP-2016 projection table, with a blend of 50% males and 50% females. The RP-2014 mortality table and MP-2016 projection table were created by the Society of Actuaries. Allstate adopted these tables for accounting on December 31, 2016 to measure retirement program obligations in the United States; however, benefits are not determined using these factors in 2016 or 2017.
- Annuity calculations were done using the RP-2014 white collar mortality table for annuitants projected with the MP-2016 projection table.

See note 17 to our audited financial statements for 2016 for additional information.

⁽²⁾ The following table shows the lump sum present value of the non-qualified pension benefits for each named executive earned through December 31, 2016, if the named executives' employment terminated on that date.

Name	Plan Name	Lump Sum Amount (\$)
Mr. Wilson	SRIP	16,229,913
Mr. Shebik	SRIP	4,129,068
Mr. Civgin	SRIP	387,879
Ms. Fortin	SRIP	19,867
Mr. Winter	SRIP	498,672

The amount shown is based on the lump sum methodology used by the Allstate pension plans in 2017. Specifically, the interest rate for 2017 is based on 100% of the average corporate bond segmented yield curve from August of the prior year. As required under the Internal Revenue Code, the mortality table used for 2017 is the 2017 combined static Pension Protection Act funding mortality table with a blend of 50% males and 50% females.

⁽³⁾ Ms. Fortin is not currently vested in the Allstate Retirement Plan or the Supplemental Retirement Income Plan.

ALLSTATE RETIREMENT PLAN (ARP)

Contributions to the ARP are made entirely by Allstate and are paid into a trust fund from which benefits are paid. Before January 1, 2014, ARP participants earned benefits under one of two formulas (final average pay or cash balance) based on their date of hire or their choice at the time Allstate introduced the cash balance formula. In order to better align our pension benefits with market practices, provide future pension benefits more equitably to Allstate employees, and reduce costs, final average pay benefits were frozen as of December 31, 2013. As of January 1, 2014, all eligible participants earn benefits under a cash balance formula only.

Final Average Pay Formula — Frozen as of 12/31/13

Benefits under the final average pay formula were earned and are stated in the form of a straight life annuity payable at the normal retirement age of 65. Messrs. Shebik and Wilson have earned final average pay benefits equal to the sum of a Base Benefit and an Additional Benefit. The Base Benefit equals 1.55% of the participant's average annual compensation, multiplied by credited service after 1988 through 2013. The Additional Benefit equals 0.65% of the amount of the participant's average annual compensation that exceeds the participant's covered compensation, multiplied by credited service after 1988 through 2013. Covered compensation is the average of the maximum annual salary taxable for Social Security over the 35-year period ending the year the participant would

reach Social Security retirement age. Messrs. Shebik and Wilson are eligible for a reduced early retirement benefit which would reduce their Base Benefit by 4.8% for each year of early payment before age 65 and their Additional Benefit by 8% for each year of early payment from age 62 to age 65 and 4% for each year of early payment from age 55 to age 62, prorated on a monthly basis based on age at the date payments begin.

Cash Balance Formula — For all Participants Beginning 1/1/14

All named executives earned benefits under the cash balance formula in 2016. Under this formula, participants receive pay credits while employed at Allstate, based on a percentage of eligible annual compensation and years of service, plus interest credits. Pay credits are allocated to a hypothetical account in an amount equal to 3% to 5% of eligible annual compensation, depending on years of vesting service. Interest credits are allocated to the hypothetical account based on the interest crediting rate in effect for that plan year as published by the Internal Revenue Service. The interest crediting rate is set annually and is currently based on the average yield for 30-year U.S. Treasury securities for August of the prior year. Prior to 2014, Messrs. Civgin and Winter earned cash balance credits equal to 2.5% of eligible annual compensation after they completed one year of vesting service based on the prior cash balance formula.

SUPPLEMENTAL RETIREMENT INCOME PLAN (SRIP)

SRIP benefits are generally determined using a two-step process: (1) determine the amount that would be payable under the ARP formula(s) specified above if Internal Revenue Code limits did not apply, then (2) reduce the amount described in (1) by the amount actually payable under the applicable ARP

formula(s). The normal retirement date under the SRIP is age 65. If eligible for early retirement under the ARP, the employee also is eligible for early retirement under the SRIP. SRIP benefits are not funded and are paid out of Allstate's general assets.

CREDITED SERVICE

No additional service credit beyond service with Allstate or its predecessors is granted under the ARP or the SRIP to any of the named executives. Messrs. Shebik and Wilson have combined service with Allstate and its former parent company, Sears, Roebuck and Co., of 28.2 and 23.8 years, respectively. As a result, a portion of their retirement benefits will be paid from the Sears pension plan. Consistent with the pension benefits of other

employees with Sears service who were employed by Allstate at the time of the spin-off from Sears in 1995, Messrs. Shebik's and Wilson's final average pay pension benefits under the ARP and the SRIP are calculated as if each had worked his combined Sears-Allstate career with Allstate through December 31, 2013, and then are reduced by amounts earned under the Sears pension plan.

ELIGIBLE COMPENSATION

Under both the ARP and SRIP, eligible compensation consists of salary, annual cash incentive awards, and certain other forms of compensation, but does not include long-term cash incentive awards or income related to equity awards. Compensation used to determine benefits under the ARP is limited in

accordance with the Internal Revenue Code. For final average pay benefits, average annual compensation is the average compensation of the five highest consecutive calendar years within the last ten consecutive calendar years through 2013.

PAYMENT OPTIONS

Payment options under the ARP include a lump sum, straight life annuity, and various survivor annuity options. The lump sum under the final average pay benefit is calculated in accordance with the applicable interest rate and mortality assumptions as required under the Internal Revenue Code.

The lump sum payment under the cash balance benefit is generally equal to a participant's account balance. Payments from the SRIP are paid in the form of a lump sum using the same interest rate and mortality assumptions used under the ARP.

TIMING OF PAYMENTS

Eligible employees are vested in the normal ARP and SRIP retirement benefits on the earlier of the completion of three years of service or upon reaching age 65.

Final average pay benefits are payable at age 65. A participant with final average pay benefits may be entitled to a reduced early retirement benefit on or after age 55 if he or she terminates employment after completing 20 or more years of vesting service.

A participant earning cash balance benefits who terminates employment with at least three years of vesting service is entitled to a lump sum benefit equal to his or her cash balance account balance.

The following SRIP payment dates assume a retirement or termination date of December 31, 2016:

- Messrs. Shebik's and Wilson's SRIP benefits earned prior to 2005 would become payable as early as January 1, 2017. Benefits earned after 2004 would be paid on July 1, 2017, or following death.
- Mr. Civgin's SRIP benefit would be paid on July 1, 2017, or following death.
- Mr. Winter's SRIP benefit would be paid on July 1, 2017, or following death.
- Ms. Fortin's SRIP benefit is not currently vested but would become payable following death.

Non-Qualified Deferred Compensation at Fiscal Year-end 2016

The following table summarizes the non-qualified deferred compensation contributions, earnings, and account balances of our named executives in 2016. All amounts relate to The Allstate Corporation Deferred Compensation Plan.

Name	Executive Contributions in Last FY (\$)	Registrant Contributions in Last FY (\$)	Aggregate Earnings in Last FY (\$) ⁽¹⁾	Aggregate Withdrawals/ Distributions in Last FY (\$)	Aggregate Balance at Last FYE (\$) ⁽²⁾
Mr. Wilson	0	0	131,704	0	891,608
Mr. Shebik	0	0	20,464	0	155,797
Mr. Civgin	0	0	0	0	0
Ms. Fortin	0	0	0	0	0
Mr. Winter	0	0	0	0	0

⁽¹⁾ Aggregate earnings were not included in the named executive's compensation in the last completed fiscal year in the *Summary Compensation Table*.

⁽²⁾ There are no amounts reported in the Aggregate Balance at Last FYE column that previously were reported as compensation in the *Summary Compensation Table*.

In order to remain competitive with other employers, we allow the named executives and other employees whose annual compensation exceeds the amount specified in the Internal Revenue Code (\$265,000 in 2016), to defer under the Deferred Compensation Plan up to 80% of their salary and/or up to 100% of their annual cash incentive award that exceeds the Internal Revenue Code limit. Allstate does not match participant deferrals and does not guarantee a stated rate of return.

Deferrals under the Deferred Compensation Plan are credited with earnings or debited for losses based on the results of the notional investment option or options selected by the participants. The notional investment options available in 2016 under the Deferred Compensation Plan are: stable value, S&P 500, international equity, Russell 2000, mid-cap, and bond funds. Under the Deferred Compensation Plan, deferrals are not actually invested in these funds, but instead are credited with earnings or debited for losses based on the funds' investment returns. Because the rate of return is based on actual investment measures in our 401(k) plan, no above-market earnings are credited, recorded, or paid. Our Deferred Compensation Plan and 401(k) plan allow participants to change their investment elections daily, subject to certain trading restrictions.

The Deferred Compensation Plan is unfunded. This means that Allstate does not set aside funds for the plan in a trust or otherwise. Participants have only the rights of general unsecured creditors and may lose their balances in the event of the company's bankruptcy. Account balances are 100% vested at all times.

An irrevocable distribution election is required before making any deferrals into the plan. Generally, a named executive may elect to begin receiving a distribution of his or her account balance immediately upon separation from service or in one of the first through fifth years after separation from service. The earliest distribution date for deferrals on or after January 1, 2005, and earnings and losses on these amounts, is six months following separation from service. The named executive may elect to receive payment in a lump sum or in annual cash installment payments over a period of two to ten years. In addition, a named executive may elect an in-service withdrawal of his or her entire balance earned and vested prior to January 1, 2005, and earnings and losses on these amounts, subject to forfeiture of 10% of such balance. Upon proof of an unforeseen emergency, a plan participant may be allowed to access certain funds in a deferred compensation account earlier than the dates specified above.

Potential Payments as a Result of Termination or Change in Control (CIC)

The following table lists the compensation and benefits that Allstate would generally provide to the named executives in various scenarios involving a termination of employment, other than compensation and benefits generally available to

salaried employees. The table describes equity granting practices for the 2016 equity incentive awards. Relevant prior practices are described in the footnotes.

Compensation Elements	Termination Scenarios				
	Termination ⁽¹⁾	Retirement	Termination due to Change-in-Control ⁽²⁾	Death	Disability
Base Salary	Ceases immediately	Ceases immediately	Ceases immediately	Ceases immediately	Ceases immediately
Severance Pay	None	None	Lump sum equal to two times salary and annual incentive at target, except for CEO who receives three times salary and annual incentive at target ⁽³⁾	None	None
Annual Incentive ⁽⁴⁾	Forfeited	Prorated for the year and subject to discretionary adjustments ⁽⁵⁾	Prorated at target (reduced by any amounts actually paid)	Prorated for the year and subject to discretionary adjustments	Prorated for the year and subject to discretionary adjustments
Stock Options ⁽⁴⁾⁽⁶⁾	Unvested are forfeited, vested expire at the earlier of three months or normal expiration	Awards granted more than 12 months before, and pro rata portion of award granted within 12 months of retirement, continue to vest. All expire at earlier of five years or normal expiration ⁽⁷⁾	Awards vest upon qualifying termination after a CIC	Awards vest immediately and expire at earlier of two years or normal expiration	Awards vest immediately and expire at earlier of two years or normal expiration
Restricted Stock Units ⁽⁴⁾⁽⁶⁾	Forfeited	Awards granted more than 12 months before, and pro rata portion of award granted within 12 months of retirement, continue to vest ⁽⁷⁾	Awards vest upon qualifying termination after a CIC	Awards vest and are payable immediately	Awards vest and are payable immediately
Performance Stock Awards ⁽⁴⁾⁽⁶⁾	Forfeited	Awards granted more than 12 months before, and pro rata portion of awards granted within 12 months of retirement, continue to vest and are paid out based on actual performance ⁽⁷⁾	Awards vest based on performance upon a qualifying termination after a CIC ⁽⁸⁾	Awards vest and are payable immediately ⁽⁹⁾	Awards vest and are payable immediately ⁽⁹⁾
Non-Qualified Pension Benefits ⁽¹⁰⁾	Distributions commence per plan	Distributions commence per plan	Immediately payable upon a CIC	Distributions commence per plan	Participant may request payment if age 50 or older

Compensation Elements	Termination Scenarios				
	Termination ⁽¹⁾	Retirement	Termination due to Change-in-Control ⁽²⁾	Death	Disability
Deferred Compensation⁽¹¹⁾	Distributions commence per participant election	Distributions commence per participant election	Immediately payable upon a CIC	Payable within 90 days	Distributions commence per participant election
Health, Welfare and Other Benefits	None	None	Outplacement services provided; lump sum payment equal to additional cost of welfare benefits continuation coverage for 18 months ⁽¹²⁾	None	Supplemental Long Term Disability benefits if enrolled in basic long term disability plan

⁽¹⁾ Includes both voluntary and involuntary termination. Examples of involuntary termination independent of a change in control include performance-related terminations; terminations for employee dishonesty and violation of Allstate rules, regulations, or policies; and terminations resulting from lack of work, rearrangement of work, or reduction in force.

⁽²⁾ In general, a change in control is one or more of the following events: (1) any person acquires 30% or more of the combined voting power of Allstate common stock within a 12-month period; (2) any person acquires more than 50% of the combined voting power of Allstate common stock; (3) certain changes are made to the composition of the Board; or (4) the consummation of a merger, reorganization, or similar transaction. These triggers were selected because any of these could cause a substantial change in management in a widely held company the size of Allstate. Effective upon a change in control, the named executives become subject to covenants prohibiting solicitation of employees, customers, and suppliers until one year after termination of employment. If a named executive incurs legal fees or other expenses in an effort to enforce the change-in-control plan, Allstate will reimburse the named executive for these expenses unless it is established by a court that the named executive had no reasonable basis for the claim or acted in bad faith.

⁽³⁾ Under the change-in-control plan, severance benefits would be payable if a named executive's employment is terminated either by Allstate without cause or by the executive for good reason as defined in the plan during the two years following the change in control. Cause means the named executive has been convicted of a felony or other crime involving fraud or dishonesty, has willfully or intentionally breached the restrictive covenants in the change-in-control plan, has habitually neglected his or her duties, or has engaged in willful or reckless material misconduct in the performance of his or her duties. Good reason includes a material diminution in a named executive's base compensation, authority, duties, or responsibilities, or a material change in the geographic location where the named executive performs services.

⁽⁴⁾ Named executives who receive an equity award or an annual cash incentive award after May 19, 2009, are subject to a non-solicitation covenant while they are employed and for the one-year period following termination of employment. If a named executive violates the non-solicitation covenant, the Board or the committee, to the extent permitted by applicable law, may recover compensation provided to the named executive (including cancellation of outstanding awards or recovery of all or a portion of any gain realized upon vesting, settlement, or exercise of an award or recovery of all or a portion of any proceeds resulting from any disposition of shares received pursuant to an award) if the vesting, settlement, or exercise of the award or the receipt of the sale proceeds occurred during the 12-month period prior to the violation.

⁽⁵⁾ Retirement for purposes of the Annual Executive Incentive Plan is defined as voluntary termination on or after the date the named executive attains age 55 with at least 10 years of service or age 60 with five years of service.

⁽⁶⁾ Named executives who receive an equity award on or after May 21, 2013, that remains subject to a period of restriction or other performance or vesting condition, are subject to a non-compete provision while they are employed and for the one-year period following termination of employment. Named executives who received equity awards granted between February 21, 2012, and May 20, 2013, are subject to a non-compete provision while they are employed and for the two-year period following termination of employment. If a named executive violates the non-competition covenant, the Board or the committee may, to the extent permitted by applicable law, cancel any or all of the named executive's outstanding awards that remain subject to a period of restriction or other performance or vesting condition as of the date on which the named executive first violated the non-competition provision.

- (7) Retirement definitions and treatment for purposes of stock options, restricted stock units, and performance stock awards are as follows:

	Date of award on or after February 21, 2012
Definition	Early Retirement-age 55 with 10 years of service; Normal Retirement-age 60 with at least five years of service
Treatment	• Unvested awards not granted within 12 months of retirement continue to vest. • Prorated portion of unvested awards granted within 12 months of the retirement date continue to vest. • Vested stock options expire at the earlier of five years from the date of retirement or the expiration date of the option.

Stock option awards granted in 2012 and before have vested and will expire at the earlier of five years from the date of retirement or the expiration date of the option.

- (8) For completed measurement periods with results certified by the committee, the earned amount continues to vest. For open cycles, the committee will determine the number of PSAs that continue to vest based on actual performance up to the change in control.
- (9) For open cycles, the payout is based on the target number of PSAs.
- (10) See the *Retirement Benefits* section for further detail on non-qualified pension benefits and timing of payments.
- (11) See the *Non-Qualified Deferred Compensation at Fiscal Year-end 2016* section for additional information on the Deferred Compensation Plan and distribution options available.
- (12) If a named executive's employment is terminated due to death during the two years after the date of a change in control, the named executive's estate or beneficiary will be entitled to survivor and other benefits, including retiree medical coverage, if eligible, that are not less favorable than the most favorable benefits available to the estates or surviving families of peer executives of Allstate. In the event of termination due to disability during the two years after the date of a change in control, Allstate will pay disability and other benefits, including supplemental long-term disability benefits and retiree medical coverage, if eligible, that are not less favorable than the most favorable benefits available to disabled peer executives.

ESTIMATE OF POTENTIAL PAYMENTS UPON TERMINATION⁽¹⁾

The table below describes the value of compensation and benefits payable to each named executive upon termination that would exceed the compensation or benefits generally available to salaried employees in each termination scenario. The total column in the following table does not

reflect compensation or benefits previously accrued or earned by the named executives, such as deferred compensation and non-qualified pension benefits. Benefits and payments are calculated assuming a December 31, 2016, employment termination date.

Name	Severance (\$)	Annual Incentive Plan ⁽²⁾ (\$)	Stock Options — Unvested and Accelerated (\$)	Restricted Stock Units and Performance Stock Awards — Unvested and Accelerated (\$)	Welfare Benefits and Outplacement Services (\$)	Total (\$)
Mr. Wilson						
Termination/Retirement ⁽³⁾	0	1,982,880	8,615,701	15,288,139	0	25,886,720
Termination due to Change in Control ⁽⁴⁾	14,400,000	3,600,000	9,006,081	16,007,622	73,195 ⁽⁵⁾	43,086,898
Death	0	1,982,880	9,006,081	16,007,622	0	26,996,583
Disability	0	1,982,880	9,006,081	16,007,622	12,026,900 ⁽⁶⁾	39,023,483
Mr. Shebik						
Termination/Retirement ⁽³⁾	0	600,000	2,173,847	4,035,315	0	6,809,162
Termination due to Change in Control ⁽⁴⁾	3,487,500	968,750	2,293,134	4,255,155	73,195 ⁽⁵⁾	11,077,734
Death	0	600,000	2,293,134	4,255,155	0	7,148,289
Disability	0	600,000	2,293,134	4,255,155	3,541,488 ⁽⁶⁾	10,689,777
Mr. Civgin						
Termination/Retirement ⁽³⁾	0	0	0	0	0	0
Termination due to Change in Control ⁽⁴⁾	3,510,000	975,000	2,344,939	4,262,345	73,195 ⁽⁵⁾	11,165,479
Death	0	535,066	2,344,939	4,262,345	0	7,142,350
Disability	0	535,066	2,344,939	4,262,345	6,391,461 ⁽⁶⁾	13,533,811
Ms. Fortin						
Termination/Retirement ⁽³⁾	0	0	0	0	0	0
Termination due to Change in Control ⁽⁴⁾	2,410,625	570,938	758,415	4,606,854	73,195 ⁽⁵⁾	8,420,027
Death	0	291,774	758,415	4,606,854	0	5,657,043
Disability	0	291,774	758,415	4,606,854	0 ⁽⁶⁾	5,657,043
Mr. Winter						
Termination/Retirement ⁽³⁾	0	0	0	0	0	0
Termination due to Change in Control ⁽⁴⁾	5,362,500	1,856,250	2,991,116	5,532,169	73,195 ⁽⁵⁾	15,815,230
Death	0	1,017,513	2,991,116	5,532,169	0	9,540,798
Disability	0	1,017,513	2,991,116	5,532,169	6,132,345 ⁽⁶⁾	15,673,143

⁽¹⁾ A "0" indicates either that there is no amount payable to the named executive, or the amount payable is the same for both the named executives and all salaried employees.

⁽²⁾ The 2016 annual incentive plan payment is payable to all named executives as a result of death and disability. In addition, it is payable to Messrs. Wilson and Shebik in the event of retirement. The amount listed for the annual incentive plan payment upon termination due to a change in control is shown at target as defined in the change-in-control severance plan.

⁽³⁾ As of December 31, 2016, Messrs. Shebik and Wilson are the only named executives eligible to retire in accordance with Allstate's policy and the terms of its equity incentive compensation and benefit plans.

⁽⁴⁾ The values in this change-in-control row represent amounts paid if both the change in control and qualifying termination occur on December 31, 2016. PSAs are paid out based on actual performance; for purposes of this table, the 2014-2016 cycle is shown at 87.1% of target and the 2015-2017 and 2016-2018 cycles are reflected at target. Beginning with awards granted in 2012, equity awards do not accelerate in the event of a change in control unless also accompanied by a qualifying termination of employment. A change in control also would accelerate the distribution of each named executive's non-qualified deferred compensation and SRIP benefits.

Please see the *Non-Qualified Deferred Compensation at Fiscal Year-end 2016* table and footnote 2 to the *Pension Benefits* table in the *Retirement Benefits* section for details regarding the applicable amounts for each named executive.

- (5) The Welfare Benefits and Outplacement Services amount includes the cost to provide certain welfare benefits to the named executive and family during the period the named executive is eligible for continuation coverage under applicable law. The amount shown reflects Allstate's costs for these benefits or programs assuming an 18-month continuation period. The value of outplacement services is \$50,000 for each named executive.
- (6) The named executives who participate in the long-term disability plan are eligible to participate in Allstate's supplemental long-term disability plan for employees whose annual earnings exceed the level which produces the maximum monthly benefit provided by the long-term disability plan (basic plan). The monthly benefit is equal to 60% of the named executive's qualified annual earnings divided by twelve and rounded to the nearest \$100, reduced by \$7,500, which is the maximum monthly benefit payment that can be received under the basic plan. The amount reflected assumes the named executive remains totally disabled until age 65 and represents the present value of the monthly benefit payable until age 65.

Performance Measures for 2016

The following pages contain descriptions of the performance measures used for executive incentive compensation. They were developed uniquely for incentive compensation purposes, are non-GAAP measures and are not reported in our financial statements. The committee has approved the use of non-GAAP measures when appropriate to drive executive focus on particular strategic, operational, or financial factors, or to exclude factors over which our executives have little influence or control. The committee monitors compensation estimates

during the year based on actual performance on these measures, and the internal audit department reviews the final results.

Adjusted Operating Income: This measure is calculated uniquely for annual cash incentive awards, the 162(m) pool, and each PSA performance cycle. For each plan, Adjusted Operating Income is equal to net income applicable to common shareholders as reported in The Allstate Corporation annual report on Form 10-K adjusted for the after-tax effect of the items indicated below:

 Indicates adjustments to Net Income	Annual Cash Incentive Awards/162(m) Pool	Performance Stock Awards ⁽¹⁾
Net income applicable to common shareholders, excluding:		
— Realized capital gains and losses (which includes the related effect on amortization of deferred acquisition and deferred sales inducement costs) except for periodic settlements and accruals on certain non-hedge derivative instruments		
— Valuation changes on embedded derivatives that are not hedged (which includes the related effect on amortization of deferred acquisition and deferred sales inducement costs)		
— Business combination expenses and amortization of purchased intangible assets		
— Gain (loss) on disposition of operations		
— Other significant non-recurring, infrequent or unusual items , when the nature of the charge or gain is such that it is reasonably unlikely to recur within two years or there has been no similar charge or gain within the prior two years, including: • Change in accounting for investments in qualified affordable housing projects⁽²⁾		 
Operating income subtotal (See Appendix A)		
— Restructuring or related charges		
— Underwriting results of Discontinued Lines and Coverages segment		
— Effects of acquiring and selling businesses		
— Adjustments to be consistent with financial reporting used in establishing the measure		

✓ Indicates adjustments to Net Income

Adjusted Operating Income before adjustment for volatile items⁽³⁾

Adjustment for after-tax volatile items

Annual Cash Incentive
Awards/162(m) Pool

Performance Stock Awards⁽¹⁾

Adjusted to include minimum or maximum amount of after-tax catastrophe losses and income from performance-based long-term investments⁽⁴⁾

Three-year average adjusted to include a minimum or maximum amount of after-tax catastrophe losses

Adjusted Operating Income

- ⁽¹⁾ Adjusted Operating Income is a performance measure for the 2014-2016, 2015-2017 and 2016-2018 performance cycles. The 2015-2017 and 2016-2018 performance cycles do not qualify for final measurement as of December 31, 2016; the items checked above and after-tax volatile items indicate items that by definition may impact the final measurement when the three-year cycle and final measurement is completed.
- ⁽²⁾ Adjustment impacts only the calculations for the 2014-2016 performance cycle.
- ⁽³⁾ Volatile items include catastrophe losses and income from performance-based long-term investments ("PBLT income") depending on the measure.
- ⁽⁴⁾ 162(m) pool volatile items adjustment only excludes actual amount of after-tax catastrophe losses. 2016 annual cash incentive award adjustment for volatile items was not required.

ANNUAL CASH INCENTIVE AWARD PERFORMANCE MEASURES FOR 2016

- **Adjusted Operating Income:** This measure is used to assess financial performance. In 2016, Adjusted Operating Income was \$1,928 million compared to reported operating income of \$1,838 million, an increase of \$90 million. It was adjusted to remove the impacts of the underwriting loss of the Discontinued Lines and Coverages segment and restructuring and related charges.
- **Net Investment Income:** This measure is used to assess the financial operating performance provided from investments. Net investment income as reported in the consolidated statement of operations is adjusted to include a minimum or maximum amount of income from performance-based long-term investments if the actual amounts are less than or exceed those amounts, respectively. Net Investment Income is also subject to adjustments to be consistent with the financial reporting used in establishing the measure and to exclude the effects of acquiring and selling businesses. In 2016, no adjustments were necessary and Net Investment Income of \$3,042 million was equal to reported net investment income.
- **Total Premiums:** This measure is used to assess growth within the Allstate Protection and Allstate Financial businesses. It is equal to the sum of Allstate Protection premiums written and Allstate Financial premiums and contract charges as described below.

Allstate Protection premiums written is equal to the Allstate Protection net premiums written as reported in management's discussion and analysis in The Allstate Corporation annual report on Form 10-K.

Allstate Financial premiums and contract charges are equal to life and annuity premiums and contract charges reported in the consolidated statement of operations.

Total Premiums is subject to adjustments to be consistent with the financial reporting used in establishing the measure and to exclude the effects of acquiring and selling businesses. No such adjustments were necessary in 2016.

Total Premiums of \$33,872 million were equal to reported Total Premiums.

- **Total Return:** This measure is used to assess financial performance of the investment portfolio. Total return is calculated as the ratio of the sum of net investment income, realized capital gains and losses, the change in unrealized net capital gains and losses, and the change in the difference between fair value and carrying value of mortgage loans, cost method limited partnerships, bank loans and agent loans, divided by the average fair value balances at the beginning and at the end of 2016.

Total Return is subject to adjustment to be consistent with the financial reporting used in establishing the measure and to exclude the effects of acquiring and selling businesses. In 2016, no adjustments were necessary and Total return was 4.4%.

PERFORMANCE STOCK AWARD PERFORMANCE MEASURES FOR THE 2014-2016 AND 2015-2017 PERFORMANCE CYCLES

- **Three-Year Average Adjusted Operating Income Return on Equity:** It is calculated as the ratio of the average Adjusted Operating Income for the three years in the period divided by the average of Adjusted Common Shareholders' Equity at December 31 of the year-end immediately preceding the period and at the end of each year in the three-year period.
- Adjusted Common Shareholders' Equity is equal to common shareholders' equity excluding the net effects of unrealized net capital gains and losses. It is subject to adjustments to be consistent with the financial reporting used in establishing the measure and to exclude the net effects of acquiring and selling businesses. Adjusted Common Shareholders' Equity at December 31 of the year-end immediately preceding the period is not subject to adjustment.
- Three-year Average Adjusted Operating Income Return on Equity for the 2014-2016 performance cycle was 12.1%, compared to our reported operating income return of equity of 10.4%, 11.6% and 12.6% for the three years ended 2016, 2015 and 2014, respectively, and the three year average of 11.5%. The primary adjustments relate to removing the impacts of the underwriting loss of the Discontinued Lines and Coverages segment, restructuring and related charges, net effects of selling businesses and adjusting for the change in accounting for investments in qualified affordable housing projects.

PERFORMANCE STOCK AWARD PERFORMANCE MEASURES FOR THE 2016-2018 AND 2017-2019 PERFORMANCE CYCLES

- **Three-Year Average Adjusted Operating Income Return on Equity (measure weighted at 70%):** These cycles are calculated in a similar manner to the 2014-2016 and 2015-2017 cycles as disclosed above, but are adjusted to reflect the foreign exchange rate used in establishing the measure (in place of actual foreign currency translation) for any period if the Total Premiums measure for the Annual Incentive Plan is adjusted for foreign exchange rates.
- **Earned Book Value (measure weighted at 30%):** Earned book value is the increase between common shareholders' equity at December 31 of the year-end immediately preceding the three-year period and adjusted common shareholders' equity at December 31 of the last year of the three-year period expressed as a compound annual growth rate. Adjusted common shareholders' equity is equal to common shareholders' equity at December 31 of the last year of the three-year period adjusted to:
 - Remove the impact of other significant non-recurring, infrequent or unusual items in excess of a threshold.
 - Reflect a minimum or maximum amount of after-tax catastrophe losses if the actual after-tax catastrophe losses are more or less than +/- 20% respectively of the three years of catastrophe losses used to establish the measure.
 - Be consistent with the financial reporting used in establishing the measure.
 - Exclude the effects of acquiring and selling businesses.
 - Reflect the foreign exchange rate used in establishing the measure (in place of actual foreign currency translation) for any period if the Total Premiums measure for the Annual Incentive Plan is adjusted for foreign exchange rates.
- Add back reductions for common share repurchases and declared common shareholder dividends during the three-year period.

OTHER COMPENSATION PROPOSALS

Proposal

3

Advisory Vote on the Frequency of Future Advisory Votes on the Compensation of the Named Executives



The Board recommends that you vote to conduct future advisory votes on executive compensation EVERY YEAR.

- Our stockholders have expressed interest in annual say-on-pay proposals.
- The Board values the opportunity to receive annual feedback to respond to changing market conditions.

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act, every six years, stockholders must vote on whether executive compensation votes (say-on-pay) should occur every year, every two years, or every three years.

The Board of Directors recommends that future advisory votes on executive compensation occur every year, as is the current practice. This provides the basis for proactive dialogue between the Board and stockholders annually on the company's pay practices. When Allstate last presented this issue for vote in 2011, approximately 64% of the votes cast supported an annual frequency.

The Board of Directors recommends that you vote to conduct future advisory votes on executive compensation EVERY YEAR.

Stockholders will be able to specify one of four choices for this proposal: one year, two years, three years, or abstain. Stockholders are not voting to approve or disapprove the Board's recommendation. While this advisory vote is non-binding on the Board of Directors, the Board intends to adopt the frequency supported by the largest number of votes cast.

Proposal 4

Approval of The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors



The Board recommends a vote FOR the approval of the Plan.

- Director pay is reviewed and benchmarked against our peers annually.
- The Plan includes a number of provisions that reflect best practice, including an annual limit on equity awards to directors.
- The director pay program is aligned with stockholder interests as a meaningful portion of director compensation is in the form of equity.
- Allstate cannot make equity awards to non-employee directors beyond the remaining allotment under the 2006 plan. The new Plan authorizes 400,000 shares for equity grants to Allstate's independent directors.

We are asking stockholders to approve The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors (the "2017 Plan"), which was approved by the Board subject to approval by the stockholders at the 2017 Annual Meeting of Stockholders. The 2017 Plan will become effective upon stockholder approval and is intended to replace The Allstate Corporation 2006 Equity Compensation Plan for Non-Employee Directors, which was approved by stockholders on May 16, 2006 (the "2006 Plan"). The maximum number of shares available under the 2006 Plan was 600,000 shares. As of March 1, 2017, there were approximately 117,000 shares remaining for issuance. Upon effectiveness of the 2017 Plan, any shares remaining for issuance under the 2006 Plan will no longer be available for future awards and the Board will no longer have authority to grant new awards under the 2006 Plan.

The Board believes that it is both desirable and appropriate for a meaningful portion of a non-employee director's compensation to continue to be paid in the form of equity. Equity-based compensation aligns the interests of non-employee directors with those of stockholders. If the stockholders fail to approve the 2017 Plan, Allstate will not be able to make equity-based awards to our non-employee directors beyond the remaining allotment under the 2006 Plan of 117,000 shares.

The 2017 Plan contains a number of provisions that reflect best practices, including:

- An annual limit on awards to non-employee directors;
- No awards with an exercise price less than fair market value on the grant date;
- No repricing or the exchange of underwater awards without stockholder approval, except in the case of certain corporate transactions;
- No annual "evergreen" provision (i.e., no automatic annual increase in the number of shares available for future awards); and
- Material amendments (defined as an increase in the number of shares authorized for issuance, materially modifying participation requirements, or materially increasing the benefits accruing to non-employee directors) require stockholder approval.

Our directors are currently granted equity awards with a three-year settlement provision (except for death, disability and termination of Board service), subject to further deferral based on the director's election.

The following is a summary of the 2017 Plan's material features and is qualified in its entirety by reference to Appendix D, which contains the complete 2017 Plan.

SUMMARY OF THE PLAN

Purpose

The purpose of the 2017 Plan is to align the long-term interests of the directors with the interests of Allstate's stockholders and customers. In addition, the 2017 Plan is intended to help motivate, attract and retain highly qualified persons to serve as directors.

Shares Available Under the Plan

The maximum number of shares that may be issued under the 2017 Plan will be 400,000 shares. Awards may be granted under the 2017 Plan from authorized

but unissued shares or treasury stock. If any stock subject to an award is forfeited, or an award is cancelled, expired or settled in cash, or in the case of an award that is not a stock option, that is settled without delivery of shares of stock, the stock that is subject to such award will again be available for distribution in connection with future awards under the 2017 Plan. Shares of stock that are withheld to satisfy the option exercise price related to a stock option or other award shall be deemed to be issued under the 2017 Plan. As of March 1, 2017, the closing price of the Company's common stock as reported on the New York Stock Exchange was \$82.69.

In setting the number of shares issuable under the 2017 Plan, the committee and the Board considered a number of factors. These factors included:

- How long the shares available are expected to last;
- Historical equity award granting practices, including our three-year average share usage rate (commonly referred to as burn rate) under all of Allstate's equity plans for employees and non-employee directors – Allstate's three-year average burn rate of 1.32% is lower than the industry thresholds referenced by some Allstate stockholders; and
- Total estimated cost of all of the company's equity plans relative to peers.

Eligibility

Each director of Allstate who is not also an officer or employee of Allstate or its subsidiaries (a "non-employee director") is eligible to participate in the 2017 Plan. The Board, upon recommendation of the committee, determines the non-employee directors to whom awards will be granted. The nominees for election as directors at the 2017 Annual Meeting, other than Mr. Wilson, are non-employee directors and will be eligible for awards under the 2017 Plan.

Administration

The 2017 Plan will be administered by Allstate's nominating and governance committee or such other committee as the Board selects (the "committee" as referenced throughout this Proposal 4). Each member of the committee is a non-employee director not eligible to participate in any other company equity compensation plan (other than the 2006 Plan). The 2017 Plan provides that the committee shall recommend to the full Board the size, type and terms and conditions of awards. The committee has the authority to interpret the 2017 Plan and to establish or amend any rules for its administration.

Types of Awards

The 2017 Plan provides for awards of stock options, stock, restricted stock, restricted stock units (RSUs), election shares, and other awards as determined by the Board upon recommendation of the committee.

Limitations on Awards

The aggregate grant date fair value of any awards that are valued by reference to, or based in, stock (other than election shares) to a non-employee director during a calendar year may not exceed \$800,000.

Restricted Stock and Restricted Stock Units

The 2017 Plan provides that restricted stock and/or RSUs may be granted to a non-employee director at such time, in such number and subject to such terms as determined by the Board upon recommendation of the committee.

Each award of restricted stock or RSUs shall specify the number, the period of restriction, whether and the extent to which restricted stock or RSUs shall be forfeitable and whether cash dividends or dividend equivalents (other than large non-recurring cash dividends) are provided for in the award. Restricted stock and RSUs shall become freely transferable after the last day of the applicable restriction period provided in the award. Payment of vested RSUs shall be made following the end of the restriction period in either shares of common stock or cash of equal value (or a combination thereof). Unless the Board determines otherwise, non-employee directors holding restricted stock may exercise full voting rights on those shares during the restriction period.

In the event of a change of control of the company, as defined by the 2017 Plan, the successor corporation may either assume outstanding RSUs or substitute substantially equivalent RSUs. If RSUs are neither assumed nor substituted, then all outstanding RSUs shall be immediately payable in shares of common stock upon consummation of the change of control.

Stock Options

The 2017 Plan provides that stock options may be granted to a non-employee director at such time, in such number and subject to such terms as determined by the Board upon the committee's recommendation. The Board's current practice is not to award stock options to non-employee directors.

Each stock option award shall specify the option exercise price (which may not be less than 100% of the fair market value of Allstate common stock on the date of grant), its term (which may not exceed ten years), the number of shares of stock to which the option pertains, the period during which the option is exercisable, and the vesting schedule. The 2017 Plan defines fair market value as the price at which a share of Allstate stock was last sold in the principal U.S. market for the stock as of the date that fair market value is being determined. Outstanding stock option grants may not be amended for the sole purpose of reducing the option exercise price. No dividend equivalents shall be provided with respect to options. No stock option may be granted on account of the use of stock to exercise a prior stock option.

Stock options may be exercised by delivery of a notice of intent to purchase a specific number of shares subject to the option terms. The exercise price for the shares must be paid in full at the time of exercise. Payment may be made in cash

or its equivalent, by tendering previously acquired shares of common stock, by broker-assisted cashless exercises, by share withholding, or any combination of the foregoing. In the event of a change of control of Allstate, as defined by the 2017 Plan, the successor corporation may either assume outstanding stock options or substitute substantially equivalent stock options. If stock options are neither assumed nor substituted, then all outstanding and unvested stock options shall become immediately exercisable and shall terminate if not exercised as of the date of the change of control or other prescribed time period.

Election to Receive Stock-In-Lieu of Retainer

In lieu of receiving the cash compensation payable for services as a non-employee director, including annual lead director and committee chair retainer fees, a non-employee director may elect in writing to reduce, in ten percent increments, these cash fees and instead receive shares with a fair market value equal to the amount by which the cash fees were reduced (referred to as election shares). The election must be made no later than one business day prior to the year to which the election relates and will remain in effect until revoked or changed for a prospective period. Shares shall be issued on the date cash compensation is payable to the director. Only whole shares may be issued; fractional shares are payable in cash.

Other Awards

The Board, upon recommendation of the committee, may issue stock free of any forfeiture or transferability restrictions, and may also grant other awards and determine the manner and timing of payment under or settlement of these awards. The committee will recommend to the Board whether and to what extent the awards will be entitled to cash dividends, dividend equivalents or other distributions, except that no dividend equivalents shall be provided for options.

FEDERAL INCOME TAX CONSEQUENCES UNDER THE 2017 EQUITY COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS

The following is a general summary of the current federal income tax consequences related to awards that may be granted under the 2017 Plan. Federal tax laws may change and the federal, state and local tax consequences for any non-employee director will depend upon his or her individual circumstances. This summary does not address all potential tax consequences related to awards, such as estate and gift taxes, foreign taxes and state and local taxes.

Adjustments for Certain Events

The committee will make equitable adjustments to the maximum number of shares of common stock that may be delivered under the 2017 Plan and to outstanding awards to reflect an equity restructuring that causes the per share value of stock to change, such as stock dividends, stock splits, spin-offs, rights offerings, or recapitalizations. The Board, upon recommendation by the committee, will make equitable adjustments to the maximum number of shares of common stock that may be delivered under the 2017 Plan and to outstanding awards in the event of any other change in corporate capitalization such as mergers, consolidations, reorganizations, or liquidation events to prevent dilution or enlargement of rights.

Transferability

In general, each award shall not be assignable or transferable other than by will or the laws of descent and distribution. Vested portions of stock options may be transferred to certain family members or to a trust, foundation or any other entity meeting certain ownership requirements. However, in no event may a transfer be made for consideration.

Amendment of the Plan

The Board may amend, modify or terminate the 2017 Plan at any time and in any respect, provided that no amendment shall either (1) increase the total number of shares of common stock that can be issued under the 2017 Plan, (2) materially modify the requirements for participation in the 2017 Plan, or (3) materially increase the benefits accruing to non-employee directors under the 2017 Plan, unless in each instance the amendment is approved by Allstate's stockholders.

Duration of the Plan

The 2017 Plan will expire ten years after the 2017 Annual Meeting of Stockholders, if approved by our stockholders. The expiration will not affect any outstanding awards under the 2017 Plan, and the terms and conditions of this 2017 Plan will continue to apply to those awards.

Stock Options

Generally a non-employee director will not have any taxable income and Allstate is not entitled to any deduction on the grant of a stock option.

Upon the exercise of the stock option, the non-employee director recognizes ordinary income equal to the excess of the fair market value of the shares acquired over the option exercise price on

the date of exercise. Allstate is generally entitled to a deduction equal to and at the same time the non-employee director recognizes ordinary income. If vested portions of stock options are transferred under the limited circumstances allowed by the 2017 Plan, any taxes payable upon a transferee's subsequent exercise of the option remain the obligation of the non-employee director, the original option holder.

Use of Common Stock to Pay Option Exercise Price of a Stock Option

If a non-employee director delivers previously acquired common stock in payment of all or part of the option exercise price of a stock option, the director will not, as a result of such delivery, recognize taxable income or loss of any appreciation or depreciation in value of the tendered common stock. The non-employee director's tax basis in the tendered stock carries over to any equal number of the option shares received on a share-for-share fair market value basis. The fair market value of the shares received in excess of the tendered shares constitutes compensation taxable to that director as ordinary income. Allstate may be entitled to a

tax deduction equal to the compensation income recognized by the non-employee director, and at the same time such income is recognized.

Restricted Stock, Restricted Stock Units and Stock Awards

Generally a non-employee director will not have any taxable income on the grant of restricted stock and RSUs. When restrictions lapse on restricted stock, that director will recognize ordinary income in an amount equal to the fair market value of the shares. A non-employee director may elect to be taxed at the time of grant, in which case he or she will recognize ordinary income on the date of grant equal to the fair market value of the shares on the grant date. For RSUs, a non-employee director recognizes ordinary income equal to the fair market value of the shares received upon settlement of the units with cash or shares of common stock. A non-employee director will recognize ordinary income on the grant date of stock, in an amount equal to the fair market value of the stock on the grant date. Allstate generally will be entitled to a tax deduction at the time and in the amount that a non-employee director recognizes ordinary income.

SECTION 409A

Section 409A of the Internal Revenue Code imposes certain restrictions on amounts deferred under non-qualified deferred compensation plans and a 20% additional tax on amounts that are subject to, but do not comply with, Section 409A. Section 409A includes a broad definition of a non-qualified

deferred compensation plan, which includes certain types of equity incentive compensation. Allstate intends for the awards granted under the 2017 Plan to comply with or be exempt from the requirements of Section 409A and the Treasury regulations thereunder.

NEW PLAN BENEFITS

It is not possible at this time to determine the benefits or amounts of awards that will be made in the future under the 2017 Plan. However, subject to stockholder approval and consistent with past practices, the Board intends to provide each non-employee director with equity compensation for 2017 consisting of an RSU award on June 1, 2017

equal in value to \$155,000 divided by the closing price of a share of Allstate common stock on such grant date, rounded to the nearest whole share.

The table below sets forth the awards that would be received by the non-employee directors as a group during 2017 under the 2017 Plan if approved and the Board proceeds with its planned awards.

NEW PLAN BENEFITS

2017 EQUITY COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS

Name and Position	Number of Shares Underlying Options anticipated to be Granted ⁽²⁾	Number of RSUs anticipated to be Granted ⁽²⁾
All current non-employee directors as a group ⁽¹⁾	0	Not available

⁽¹⁾ No other groups, such as executive officers or employees, are eligible to receive awards under the 2017 Plan.

⁽²⁾ Annual awards under the 2017 Plan are expected to be made on June 1. The number of RSUs that will be granted to the non-employee directors is not available at this time. It will be equal in value to \$155,000 divided by the closing price of a share of Allstate common stock on the grant date, rounded to the nearest whole share.

EQUITY COMPENSATION PLAN INFORMATION

The following table includes information as of December 31, 2016, with respect to The Allstate Corporation's equity compensation plans for all of its employees and non-employee directors:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans			
Approved by Security Holders ⁽¹⁾	17,076,608 ⁽²⁾	\$50.01	19,750,494 ⁽³⁾
Total	17,076,608 ⁽²⁾	\$50.01	19,750,494 ⁽³⁾

⁽¹⁾ Consists of the 2013 Equity Incentive Plan, which amended and restated the 2009 Equity Incentive Plan; the 2006 Equity Compensation Plan for Non-Employee Directors, and the Equity Incentive Plan for Non-Employee Directors (the equity plan for non-employee directors prior to 2006). The Allstate Corporation does not maintain any equity compensation plans not approved by stockholders.

⁽²⁾ As of December 31, 2016, 1,678,566 restricted stock units (RSUs) and 1,838,092 performance stock awards ("PSAs") were outstanding. The weighted-average exercise price of outstanding options, warrants, and rights does not take into account RSUs and PSAs, which have no exercise price. PSAs are reported at the maximum potential amount awarded for incomplete performance periods and the amount earned for the 2014 PSA grant, reduced for forfeitures. For incomplete performance periods, the actual number of shares earned may be less and are based upon measures achieved at the end of the three-year performance period for those granted in 2015 and 2016.

⁽³⁾ Includes 19,633,233 shares that may be issued in the form of stock options, unrestricted stock, restricted stock, restricted stock units, stock appreciation rights, performance units, performance stock, and stock in lieu of cash under the 2013 Equity Incentive Plan; and 117,261 shares that may be issued in the form of stock options, unrestricted stock, restricted stock, restricted stock units, and stock in lieu of cash compensation under the 2006 Equity Compensation Plan for Non-Employee Directors.

The Board unanimously recommends that stockholders vote for the approval of The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors. The text of the entire plan is set forth in Appendix D.

AUDIT COMMITTEE MATTERS

Proposal

5

Ratification of Deloitte & Touche LLP as the Independent Registered Public Accountant for 2017

- ✓ The Board recommends a vote FOR ratification of Deloitte & Touche LLP for 2017.
 - Independent firm with few ancillary services and reasonable fees.
 - Significant industry and financial reporting expertise.
 - The audit committee has solicited requests for information from other auditing firms in the last four years and determined that the retention of Deloitte & Touche LLP continues to be in the best interests of Allstate and its stockholders.

The audit committee has established strong practices to evaluate the qualifications, compensation, performance, and independence of the independent registered public accountant both on an ongoing basis throughout the year and through the completion of an annual evaluation. Deloitte & Touche LLP has been Allstate's independent registered public accountant since Allstate became a publicly-traded entity in 1993.

As a starting point for the annual evaluation, a survey is administered by a Deloitte & Touche LLP partner who is not affiliated with the Allstate account and by a risk or internal audit executive. The survey assesses Allstate's general satisfaction with the quality and efficiency of the services provided. Results are reported to the audit committee for its discussion and analysis.

In addition, the audit committee reviews and discusses the results of the firm's reports on its quality controls and external assessments, including results of inspections conducted by the Public Company Accounting Oversight Board (PCAOB).

Rotation of the independent registered public accounting firm is explicitly considered each year by the committee in addition to the regular mandated rotation of audit partners.

The audit committee has adopted a policy regarding its pre-approval of all audit and permissible non-audit services provided by the independent registered public accountant. The policy identifies

the basic principles that must be considered by the audit committee in approving services to ensure that the registered public accountant's independence is not impaired, describes the type of audit, audit-related, tax and other services that may be provided, and lists the non-audit services that may not be performed. The independent registered public accountant or management will submit to the audit committee detailed schedules with all of the proposed services within each category, together with the estimated fees. Each specific service will require approval before service can begin.

Prior to requesting approval from the audit committee, the registered public accountant and management consider and conclude that the services are permissible in that they: (1) do not place the registered public accountant in the position of auditing their own work, (2) do not result in the registered public accountant's personnel acting as management or an employee of Allstate, (3) do not place the registered public accountant in a position of being an advocate for Allstate, (4) do not create a mutual or conflicting interest between the registered public accountant and Allstate and (5) are not based on a contingent fee arrangement. The audit committee's policy delegates to the chair the authority to grant approvals, but the decisions of the chair must be reported to the audit committee at its next regularly scheduled meeting. All services provided by Deloitte & Touche LLP in 2015 and 2016 were approved in accordance with this pre-approval policy.

Based on the results of the annual evaluation, the audit committee has appointed Deloitte & Touche LLP as Allstate's independent registered public accountant for 2017. The factors considered by the audit committee include:

- Focus on independence and their quality control policies;
- Insurance and technical expertise and capability in handling the breadth and complexity of Allstate's operations and industry;
- Quality and efficiency of the work performed;
- Quality of discussions and feedback sessions;
- External data on audit quality and performance, including the results from the PCAOB; and
- Reasonableness of fees.

The audit committee and the Board believe it is in the best interests of Allstate and its stockholders to continue to retain Deloitte & Touche LLP as Allstate's independent registered public accountant. The committee and its chair approve the selection of Deloitte & Touche LLP's lead engagement partner.

The following fees have been, or are anticipated to be, billed by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their

respective affiliates, for professional services rendered to Allstate for the fiscal years ending December 31, 2015 and December 31, 2016.

	2015 ⁽⁵⁾	2016
Audit fees ⁽¹⁾	\$9,814,000	\$10,139,000
Audit-related fees ⁽²⁾	\$519,000	\$739,000
Tax fees ⁽³⁾	\$611,000	\$6,000
All other fees ⁽⁴⁾	\$0	\$95,000
Total fees	\$10,944,000	\$10,979,000

⁽¹⁾ Fees for audits of annual financial statements, reviews of quarterly financial statements, statutory audits, attest services, comfort letters, consents, and review of documents filed with the Securities and Exchange Commission. The amount disclosed does not reflect reimbursements expected to be received for certain separate account audit fees from the managing entity in the amounts of \$165,000 and \$179,000 for 2015 and 2016, respectively.

⁽²⁾ Audit-related fees are for professional services, such as accounting consultations on new accounting standards, internal control reviews, and audits and other attest services for non-consolidated entities (e.g., employee benefit plans, various trusts) and are set forth below.

	2015	2016
Audits and other attest services for non-consolidated entities	\$359,000	\$345,000
Other audit-related fees	\$160,000	\$394,000
Total audit-related fees	\$519,000	\$739,000

⁽³⁾ Tax fees include income tax return preparation, compliance assistance, tax studies and research for audit support and international tax planning.

⁽⁴⁾ "All other fees" includes all fees paid that are not audit, audit-related, or tax services. In 2016, these fees relate to advisory services.

⁽⁵⁾ Total fees for 2015 have been reallocated between audit and audit-related fees to account for an additional required audit.

Representatives of Deloitte & Touche LLP will be present at the 2017 annual meeting to respond to questions and may make a statement if they choose. If stockholders fail to ratify the appointment, the

audit committee will reconsider the appointment, but no assurance can be given that the audit committee will change the appointment.

Audit Committee Report

Deloitte & Touche LLP (Deloitte) was Allstate's independent registered public accountant for the year ended December 31, 2016.

The audit committee reviewed and discussed with management the audited financial statements for the fiscal year ended December 31, 2016.

The committee discussed with Deloitte the matters required to be discussed by Auditing Standard No. 1301, as adopted by the Public Company Accounting Oversight Board. The committee received the written disclosures and letter from Deloitte that is required by applicable requirements

of the Public Company Accounting Oversight Board regarding Deloitte's communications with the committee concerning independence and has discussed with Deloitte its independence.

Based on these reviews and discussions and other information considered by the committee in its judgment, the committee recommended to the Board of Directors that the audited financial statements be included in Allstate's annual report on Form 10-K for the fiscal year ended December 31, 2016, for filing with the Securities and Exchange Commission, and furnished to stockholders with this Notice of Annual Meeting and Proxy Statement.



Mary Alice Taylor (Chair)



Kermit R. Crawford



Michael L. Eskew



Siddharth N. Mehta

STOCKHOLDER PROPOSALS

Proposal Stockholder Proposal on Independent Board Chairman

6

✗ The Board recommends a vote AGAINST this proposal.

- Allstate's independent lead director provides meaningful independent leadership of the Board.
- The Board should continue to have flexibility to determine whether to split or combine the Chair and CEO roles and not be required to utilize one approach.
- The Board has split the roles of Chair and CEO in the past.
- The lead director is just one of many structural safeguards that provide effective independent oversight of Allstate.

Mr. Kenneth Steiner, 14 Stoner Ave., 2M, Great Neck, NY 11021, beneficial owner of no less than 500 shares of Allstate common stock as of November 28, 2016, intends to propose the following resolution at the annual meeting.

Proposal 6 – Independent Board Chairman

Shareholders request our Board of Directors to adopt as policy, and amend our governing documents as necessary, to require the Chair of the Board of Directors, whenever possible, to be an independent member of the Board. The Board would have the discretion to phase in this policy for the next CEO transition, implemented so it does not violate any existing agreement. If the Board determines that a Chair who was independent when selected is no longer independent, the Board shall select a new Chair who satisfies the requirements of the policy within a reasonable amount of time. Compliance with this policy is waived if no independent director is available and willing to serve as Chair. This proposal requests that all the necessary steps be taken to accomplish the above.

Caterpillar reversed itself by naming an independent board chairman in October 2016. Caterpillar had opposed a shareholder proposal for an independent board chairman as recent as its June 2016 annual meeting. Wells Fargo also reversed itself and named an independent board chairman in October 2016.

This proposal is of greater importance to our company because our Lead Director, Judith Sprieser was cited as a flagged director by GMI Analysis because she was involved with a company that went bankrupt. Ms. Sprieser had 17 years long-tenure (one of 2 directors with over 17-years tenure) which can make a director act like an insider.

This proposal topic won 47% voting support at our 2016 annual meeting. This means that the overwhelming number of shareholders who are well informed on both sides of the issues involving an independent board chairman — supported this proposal topic.

According to Institutional Shareholder Services 53% of the Standard & Poors 1,500 firms separate these 2 positions — “2015 Board Practices,” April 12, 2015. This proposal topic won 50%-plus support at 5 major U.S. companies in 2013 including 73%-support at Netflix.

It is the responsibility of the Board of Directors to protect shareholders' long-term interests by providing independent oversight of management. By setting agendas, priorities and procedures, the Chairman is critical in shaping the work of the Board.

Having a board chairman who is independent of management is a practice that will promote greater management accountability to shareholders and lead to a more objective evaluation of management.

A number of institutional investors said that a strong, objective board leader can best provide the necessary oversight of management. Thus, the California Public Employees' Retirement System's Global Principles of Accountable Corporate Governance recommends that a company's board should be chaired by an independent director, as does the Council of Institutional Investors. An independent director serving as chairman can help ensure the functioning of an effective board. Please vote to enhance shareholder value:

Independent Board Chairman – Proposal 6

Board of Directors' Statement in Opposition to the Stockholder Proposal on Independent Board Chairman

The Board recommends that stockholders vote **AGAINST** this proposal for the following reasons:

ALLSTATE'S INDEPENDENT LEAD DIRECTOR PROVIDES MEANINGFUL INDEPENDENT LEADERSHIP OF THE BOARD.

- The powers of the lead director and committee chairs were formalized and expanded in 2016 as a result of stockholder dialogue. For a more detailed description of our lead director role, see page 21.
- Our lead director is selected after a comprehensive annual process and has well-defined and substantive responsibilities:
 - Is elected solely by independent members of the Board;
 - Has authority to call meetings of the independent members of the Board;
 - Approves Board meeting agendas, schedules and information provided to the Board;
 - Facilitates and communicates the Board's performance evaluation of the CEO and Chair;
 - Facilitates the evaluation of Board and director performance;
- Ensures implementation of the Board committee self-evaluation process and reports to the Board, and provides guidance to Committee chairs, as needed;
- Facilitates the Chair and CEO succession process;
- Presides at all Board meetings at which the Chair is not present and at all executive sessions; and
- Communicates with significant stockholders and other stakeholders on matters involving broad corporate policies and practices, when appropriate.
- The lead director's performance is assessed annually; as part of that review, the nominating and governance committee evaluates the criteria for nominees for the lead director role and assesses any needed changes.
- The committee chairs' responsibilities were proactively enhanced to include the power to approve committee agendas and meeting materials.

THE BOARD SHOULD CONTINUE TO HAVE FLEXIBILITY TO DETERMINE WHETHER TO SPLIT OR COMBINE THE CHAIR AND CEO ROLES AND NOT BE REQUIRED TO UTILIZE ONE APPROACH.

- The Board believes it is important to maintain the flexibility to choose whether to separate the Board Chair and CEO roles at Allstate. Requiring a split of the roles would reduce the Board's ability to act in the best interests of the company as the needs of the Board and the company change over time.
- According to a survey by a major executive search firm in 2015, only 4% of S&P 500 companies **REQUIRE** the separation of the roles. Most boards believe it is beneficial to have flexibility in determining whether to separate or combine the roles.
- In response to a similar proposal last year, the Board engaged in an extensive outreach campaign to our largest stockholders representing approximately 40% of Allstate's outstanding shares in 2016. Topics discussed included the lead director role and the decision to maintain a combined Chair and CEO. Based on feedback from our stockholders and the Board's analysis of its needs, the lead director role and committee chair responsibilities were enhanced, codifying existing practices and incorporating additional responsibilities.
- At present, the independent directors have determined Allstate is well-served by having both Chair and CEO roles performed by Mr. Wilson, who provides excellent leadership and direction for both management and the Board. Given his extensive company knowledge and his ability to effectively fulfill both roles simultaneously, he is uniquely qualified to lead discussions of the Board and is in the best position to facilitate the flow of business information and communications.

THE BOARD HAS SPLIT THE ROLES OF CHAIR AND CEO IN THE PAST.

- Allstate's Board previously and effectively used this flexibility to benefit stockholders. The Board split the roles of Chair and CEO in 2007 during a leadership transition. In January 2007, Thomas Wilson replaced Edward Liddy as CEO, and the Board determined that Mr. Liddy should remain Chair. During this period, both Mr. Liddy and Mr. Wilson attended Board and committee meetings to provide historical context and a seamless transition. Mr. Liddy retired in 2008 and the Board decided to have Mr. Wilson be Chair while retaining his role as CEO.
- The practice of splitting the roles during leadership transitions is common among companies. According to a survey from a leading global advisory firm, 37% of current stand-alone board chairs previously served as CEO of the same company.

THE LEAD DIRECTOR IS JUST ONE OF MANY STRUCTURAL SAFEGUARDS THAT PROVIDE EFFECTIVE INDEPENDENT OVERSIGHT OF ALLSTATE.

- In addition to the strong independent lead director, the Board has policies and practices that support a balanced and strong governance system, including:
 - All of Allstate's Board members are independent within the meaning of applicable laws, with the exception of the CEO;
 - All members of each of the key Board committees (the audit, compensation and succession, nominating and governance, and risk and return committees) are independent;
- Each committee operates under a written charter that has been approved by the Board and that details the oversight of key matters, such as the integrity of Allstate's financial statements, executive compensation, CEO performance, nomination of directors, evaluation of the Board, and risk and return management;
- The Board performs a formal annual evaluation of the Chair and CEO in an executive session; and
- All key Board committees have access to and utilize independent external advisors.

Proposal 7 Stockholder Proposal on Lead Director Qualifications



The Board recommends a vote AGAINST this proposal.

- This proposal seeks to establish a new independence standard that is inconsistent with public stock exchange listing standards.
- The nominating and governance committee specifically evaluated the impact of Ms. Sprieser's tenure and concluded it had no impact on her independence.
- Allstate's independent lead director is selected through a robust process, and her performance is evaluated annually.
- The Board believes it is important to maintain a mix of director tenures.

Mr. William Steiner, 112 Abbottsford Gate, Piermont, NY 10968, beneficial owner of no less than 100 shares of Allstate common stock as of December 6, 2016, intends to propose the following resolution at the annual meeting.

Proposal 7 – Lead Director Qualifications

Shareholders request that our Board adopt a rule that whenever possible our Lead Director have less than 12-years tenure. A director with more than 12-years tenure is arguably not independent.

GMI Analyst said Judith Sprieser, our Lead Director, had long tenure of 17 years, which may compromise her ability to act as an effective and independent counterbalance to the CEO/chair. Ms. Sprieser had also been flagged for her service on a board that previously filed for bankruptcy. GMI said long-tenured directors can often form relationships that may compromise their independence and therefore hinder their ability to provide effective oversight. Independence in a Lead Director is especially important since Mr. Wilson serves the dual roles of CEO and Chairman.

Please vote to enhance shareholder value:

[Lead Director Qualifications — Proposal 7](#)

Board of Directors' Statement in Opposition to the Stockholder Proposal on Lead Director Qualifications

The Board recommends that stockholders vote AGAINST this proposal for the following reasons:

THIS PROPOSAL SEEKS TO ESTABLISH A NEW INDEPENDENCE STANDARD THAT IS INCONSISTENT WITH PUBLIC STOCK EXCHANGE LISTING STANDARDS.

- New York Stock Exchange listing standards for director independence do not cite tenure as a factor.
- In our discussions with our top investors, none cite tenure as the sole reason to deem a director non-independent.
- Our independence assessment considers the number of years of service as part of the annual evaluation of director nominees.

THE NOMINATING AND GOVERNANCE COMMITTEE SPECIFICALLY EVALUATED THE IMPACT OF MS. SPRIESER'S TENURE AND CONCLUDED IT HAD NO IMPACT ON HER INDEPENDENCE.

- The Board weighed the potential impact of tenure on the independence of Ms. Sprieser. She has significant experience serving at Allstate under different operating environments and management teams, and has served on the Board under two CEOs. The independent directors concluded that she is a highly effective director capable of leading reasoned, balanced and thoughtful Board deliberations amongst the independent directors. Her experience with two CEOs in a variety of operating environments was determined to be a significant source of insight for effective governance.
- The proposal cites Ms. Sprieser's experience serving on the board of another company that successfully emerged from bankruptcy proceedings. The Board concluded this served to deepen and enhance her skill set.

ALLSTATE'S INDEPENDENT LEAD DIRECTOR IS SELECTED THROUGH A ROBUST PROCESS, AND HER PERFORMANCE IS EVALUATED ANNUALLY.

- Each year, the nominating and governance committee recommends a director to the independent members of the Board to serve as the independent lead director. The lead director is elected annually by the independent directors but is generally expected to serve for more than one year.
- In selecting the lead director, the independent directors consider evolving market, operational, and governance issues facing Allstate. They consider relevant leadership, operational and corporate governance experience, relationships with the other Board members and external commitments. In addition, the lead director is expected to have a thorough understanding of the company's business operations and history.
- The responsibilities of the lead director are reviewed annually in connection with the annual evaluation of the lead director's performance.

THE BOARD BELIEVES IT IS IMPORTANT TO MAINTAIN A MIX OF DIRECTOR TENURES.

- Our Board evaluates tenure for each individual and in aggregate because a mix of experience and tenure is critical to the effectiveness of our Board.
- Our Board is committed to routine refreshment, and our current diversity of director tenures provides us with a mix of fresh perspectives and experienced insights derived from overseeing a business that has developed and changed through many different external operating environments.
- Our Board's current average tenure of 7 years is below the S&P 500 average of 8 years (according to a survey by a major executive search firm in 2016).
- In addition to the variety of director tenures, the Board values and actively cultivates a mix of diversity and experience among our directors to enhance the range of perspectives on all issues.
- Sufficient tenure gives the lead director the experience, institutional knowledge and understanding of Board and company dynamics needed to lead and oversee management effectively; this is balanced by other directors with a shorter tenure.

Proposal 8 Stockholder Proposal on Reporting Political Contributions

8

X The Board recommends a vote AGAINST this proposal.

- Allstate already provides stockholders with comprehensive disclosures on Allstate's involvement in the public policy arena (found at www.allstate.com/publicpolicyreport).
- Allstate's Board has strong governance and oversight practices over the company's public policy involvement.
- Allstate surpasses all disclosure requirements pertaining to political contributions under federal, state, and local laws.

The Comptroller of the State of New York, 59 Maiden Lane – 30th Floor, New York, NY 10038, beneficial owner of no less than 1,354,824 shares of Allstate common stock as of December 5, 2016, and The International Brotherhood of Teamsters, 25 Louisiana Avenue, NW, Washington, D.C. 20001, beneficial owners of no less than 64 shares of Allstate common stock as of December 7, 2016, intend to propose the following resolution at the annual meeting.

Resolved, that the shareholders of **Allstate Corp.** ("Allstate" or "Company") hereby request that the Company provide a report, updated semiannually, disclosing the Company's:

1. Policies and procedures for making, with corporate funds or assets, contributions and expenditures (direct or indirect) to (a) participate or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office, or (b) influence the general public, or any segment thereof, with respect to an election or referendum.
2. Monetary and non-monetary contributions and expenditures (direct and indirect) used in the manner described in section 1 above, including:
 - a. The identity of the recipient as well as the amount paid to each; and
 - b. The title(s) of the person(s) in the Company responsible for decision-making.

The report shall be presented to the board of directors or relevant board committee and posted on the Company's website within 12 months from the date of the annual meeting.

Supporting Statement:

As long-term shareholders of Allstate, we support transparency and accountability in corporate spending on political activities. These include any activities considered intervention in any political campaign under the Internal Revenue Code, such as direct and indirect contributions to political candidates, parties, organizations, or ballot measures; direct independent expenditures; or electioneering communications on behalf of federal, state, or local candidates.

Disclosure is in the best interest of the company and its shareholders. The Supreme Court affirmed this its *Citizens United* decision: "[D]isclosure permits citizens and shareholders to react to the speech of corporate entities in a proper way. This transparency enables the electorate to make informed decisions and give proper weight to different speakers and messages." Gaps in transparency and accountability may expose the company to reputational and business risks that could threaten long-term shareholder value.

Publicly available records show that Allstate directly or indirectly contributed over \$10.4 million in corporate funds since the 2004 election cycle. (CQ: <http://moneyline.cq.com> and National Institute on Money in State Politics: <http://www.followthemoney.org>)

We acknowledge that Allstate publicly discloses some information on its political spending. However, such data is presented in the aggregate and does not identify specific recipients, making it difficult for shareholders to get a complete picture of the Company's political spending. This proposal asks the Company to provide itemized disclosure of all of its political expenditures, including payments to trade associations and other tax-exempt organizations.

This would bring our Company in line with a growing number of leading companies, including **AFLAC Inc.**, **Bank of America Corp.**, and **Travelers Companies Inc.**, that support political disclosure and accountability and present this information on their websites.

The Company's Board and its shareholders need comprehensive disclosure to be able to fully evaluate the political use of corporate assets. We urge your support for this critical governance reform.

Board of Directors' Statement in Opposition to the Stockholder Proposal on Reporting Political Contributions

The Board recommends that stockholders vote **AGAINST** this proposal for the following reasons:

ALLSTATE ALREADY PROVIDES STOCKHOLDERS WITH COMPREHENSIVE DISCLOSURES ON ALLSTATE'S INVOLVEMENT IN THE PUBLIC POLICY ARENA (FOUND AT WWW.ALLSTATE.COM/PUBLICPOLICYREPORT).

- Allstate issues an annual Corporate Involvement in Public Policy report, which provides a comprehensive discussion of Allstate's activities. The report describes the Board's process for overseeing expenditures, the strategic and business rationale for expenditures, total amounts contributed by category (including non-deductible amounts for certain lobbying activities and to political candidates and organizations), those involved in the decision-making process, and the major organizations supported.
- The proponents seek additional disclosure of line-item expenditures to each recipient, but they do not address the possible harm to Allstate in providing this information. This additional disclosure could be used by special interest groups to pressure Allstate to change the way it manages its public policy engagement or to pressure Allstate to stop providing support to organizations that support initiatives that are in the best interests of Allstate and its stockholders, employees, agencies, and customers.
- In our ongoing engagement with investors, several have indicated strong support for Allstate's current political contribution disclosures, finding them to contain appropriate and meaningful detail. Some investors have told us our report is a model for balanced disclosure.

ALLSTATE'S BOARD HAS STRONG GOVERNANCE AND OVERSIGHT PRACTICES OVER THE COMPANY'S PUBLIC POLICY INVOLVEMENT.

- The specific deployment of corporate resources in the public policy arena is presented formally to the Board each year. Our Corporate Governance Guidelines address the Board's annual review and our involvement in the public policy arena and can be found at www.allstateinvestors.com.
- We expanded the discussion of Allstate's oversight over political spending in the 2016 report and accelerated its availability to stockholders prior to the 2017 annual meeting. Subject matter experts within Allstate make recommendations for which organizations and candidates to support financially, and members of Allstate's government and industry relations group consult with members of senior management to make the ultimate determinations.

ALLSTATE SURPASSES ALL DISCLOSURE REQUIREMENTS PERTAINING TO POLITICAL CONTRIBUTIONS UNDER FEDERAL, STATE, AND LOCAL LAWS.

- Allstate complies with all public disclosure laws at the federal, state, and local levels.
- Allstate also maintains internal guidelines and procedures to ensure that the company's public policy efforts remain consistent with the company's operating priorities and annual operating plan while advancing positions that promote Allstate's strategy and the long-term interests of our stockholders, employees, agencies, and customers. For example, we use our industry expertise in formulating public policy solutions that help mitigate weather-related risks and reduce the likelihood and severity of property loss.
- The proposal would impose requirements on Allstate that are not dictated by law or our own internal requirements and that are not standard among other companies.

Stockholder Proposals or Director Nominations for the 2018 Annual Meeting

Proposals that stockholders would like to include in Allstate's proxy materials for presentation at the 2018 annual meeting of stockholders must be received by the Office of the Secretary by December 13, 2017, and must otherwise comply with Securities and Exchange Commission rules in order to be eligible for inclusion in the proxy material for the 2018 annual meeting.

If a stockholder would like to bring a matter before the meeting which is not the subject of a proposal that meets the Securities and Exchange Commission proxy rule requirements for inclusion in the proxy statement, the stockholder must follow procedures in Allstate's bylaws in order to personally present the proposal at the meeting.

One of the procedural requirements in the bylaws is timely notice in writing of the business the stockholder proposes to bring before the meeting. Notice of business proposed to be brought before the 2018 annual meeting must be received by the Office of the Secretary no earlier than the close of business on January 25, 2018, and no later than the close of business on February 26, 2018. Among other things, the notice must describe the business proposed to be brought before the meeting, the reasons for conducting the business at the meeting, and any material interest of the stockholder in the business.

A stockholder also may directly nominate someone for election as a director at a stockholders' meeting. Under our bylaws, a stockholder may nominate a candidate at the 2018 annual meeting by providing advance notice to Allstate to the Office of the Secretary that is received no earlier than the close of business on January 25, 2018, and no later than the close of business on February 26, 2018. For proxy access nominees to be considered at the 2018 annual meeting, the nomination notice must be received by the Office of the Secretary no earlier than the close of business on November 13, 2017 and no later than the close of business on December 13, 2017. Among other things, the notice must include the information and documents described in Section 20 of the company's bylaws.

A copy of the procedures and requirements related to the above matters is available upon request from the Office of the Secretary or can be found on Allstate's website, allstateinvestors.com. The notices required above must be sent to the Office of the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite F7, Northbrook, Illinois 60062-6127.

STOCK OWNERSHIP INFORMATION

Security Ownership of Directors and Executive Officers

The following table shows the Allstate common shares beneficially owned as of March 1, 2017 by each director and named executive individually, and by all executive officers and directors of Allstate as a group. Shares reported as beneficially owned include

shares held indirectly through the Allstate 401(k) Savings Plan and other shares held indirectly. It also includes shares subject to stock options exercisable on or before April 30, 2017. As of March 1, 2017, none of these shares were pledged as security.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership of Allstate Common Stock ⁽¹⁾	Common Stock Subject to Options Exercisable on or prior to April 29, 2017 — Included in Previous Column ⁽¹⁾
Kermit R. Crawford	1,000	0
Michael L. Eskew	190	0
Herbert L. Henkel	0	0
Siddharth N. Mehta	0	0
Jacques P. Perold ⁽²⁾	35	0
Andrea Redmond	4,000	0
John W. Rowe	6,025	0
Judith A. Sprieser	0	0
Mary Alice Taylor	21,048	8,000
Perry M. Traquina	765	0
Thomas J. Wilson ⁽²⁾	3,199,281	2,615,176
Steven E. Shebik	460,930	355,844
Don Civgin	298,634	183,435
Mary Jane Fortin	32,410	22,483
Matthew E. Winter	694,532	558,615
All directors and executive officers as a group	5,520,918	4,344,897

⁽¹⁾ As of March 1, 2017, no director or executive officer beneficially owned 1% or more of the outstanding common stock of Allstate. The directors and executive officers of Allstate as a group beneficially owned (including common stock subject to stock options exercisable on or prior to April 29, 2017) approximately 1.5% of the common stock outstanding as of March 1, 2017.

⁽²⁾ Mr. Perold's common shares are held indirectly by a trust. The shares held by Mr. Wilson include shares owned indirectly through a grantor retained annuity trust and a remainder grantor retained annuity trust.

Security Ownership of Certain Beneficial Owners

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common	BlackRock, Inc. 55 East 52nd Street New York, NY 10055	28,277,120 ⁽¹⁾	7.70%
Common	The Vanguard Group 100 Vanguard Boulevard Malvern, PA 19355	22,904,281 ⁽²⁾	6.21%

⁽¹⁾ Reflects shares beneficially owned as of December 31, 2016, as set forth in a schedule 13G/A filed on January 19, 2017. Of these shares, BlackRock reported it held 24,597,674 shares with sole voting power; 25,997 shares with shared voting power; 28,251,123 shares with sole dispositive power; and 25,997 shares with shared dispositive power. BlackRock also manages approximately \$3.2 billion of Allstate's investment portfolio as of December 31, 2016 under various investment management agreements and has licensed to Allstate an investment technology software system widely used by investors. The terms of these arrangements are customary and the aggregate related fees are not material.

⁽²⁾ Reflects shares beneficially owned as of December 31, 2016, as set forth in a schedule 13G/A filed on February 9, 2017. Of these shares, The Vanguard Group reported it held 580,449 shares with sole voting power; 87,521 shares with shared voting power; 22,239,770 with sole dispositive power; and 664,511 shares with shared dispositive power.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Allstate's executive officers, directors, and persons who beneficially own more than 10% of Allstate's common stock to file reports of securities ownership and changes in such ownership with the Securities and Exchange Commission.

Based solely upon a review of copies of such reports, or written representations that all such reports were timely filed, Allstate believes that each of its executive officers and directors complied with all Section 16(a) filing requirements applicable to them during 2016.

OTHER INFORMATION

Proxy and Voting Information

Who is asking for my vote and why?

The Allstate Board of Directors is soliciting proxies for use at the annual meeting of stockholders to be held on May 25, 2017, and any adjournments or postponements of the meeting. The annual meeting will be held only if there is a quorum, which means that a majority of the outstanding common stock entitled to vote is represented at the meeting by proxy or in person. To ensure there will be a quorum, the Allstate Board asks you to vote before the meeting, which allows your Allstate stock to be represented at the annual meeting.

Who can vote at the annual meeting?

The Allstate Board has set the close of business on March 27, 2017 as the record date for the meeting. This means that you are entitled to vote if you were a stockholder of record at the close of business on March 27, 2017. On that date, there were 365,203,582 shares of Allstate common stock outstanding and entitled to vote at the annual meeting.

Why did I receive a notice of Internet availability of proxy materials instead of the proxy materials?

We distribute our proxy materials to certain stockholders over the Internet using “Notice and Access” delivery, as permitted by the rules of the Securities and Exchange Commission. We elected to use this method for certain stockholders as it reduces our print and mail costs and the environmental impact of our annual stockholders’ meeting.

How do I vote?

Instructions on how to vote your shares are included on the Notice on page 4. If you hold shares in your own name as a registered stockholder, you may vote in person by attending the annual meeting, or you may instruct the proxies how to vote your shares by following the instructions on the proxy card/voting instruction form. **If you plan to attend the meeting in person, please see the details on page 87.**

If you hold shares in street name (that is, through a broker, bank, or other record holder), you should follow the instructions provided by your broker, bank, or other record holder to vote your shares.

If you hold shares through the Allstate 401(k) Savings Plan, please see the instructions on page 88.

Can I change my vote?

Before your shares have been voted at the annual meeting by the proxies, you may change or revoke your voting instructions by providing instructions again by telephone, by Internet, in writing, or, if you are a registered stockholder, by voting in person at the annual meeting.

Are the votes kept confidential?

All proxies, ballots, and tabulations that identify the vote of a particular stockholder are confidential, except as necessary to allow the inspector of election to certify the voting results or to meet certain legal requirements. A representative of American Election Services, LLC will act as the inspector of election and will count the votes. The representative is independent of Allstate and its directors, officers, and employees.

If you write a comment on your proxy card, voting instruction form, or ballot, it may be provided to our Secretary along with your name and address.

Your comments will be provided without reference to how you voted, unless the vote is mentioned in your comment or unless disclosure of the vote is necessary to understand your comment. At our request, the distribution agent or the solicitation agent will provide us with periodic status reports on the aggregate vote. These status reports may include a list of stockholders who have not voted and breakdowns of vote totals by different types of stockholders, as long as we are not able to determine how a particular stockholder voted.

What happens if I submit a signed proxy card but do not indicate how I want to vote?

You may instruct the proxies to vote “FOR” or “AGAINST” on each proposal, other than Proposal 3 on which you are allowed to choose one year, two years or three years, or you may instruct the proxies to “ABSTAIN” from voting. If you submit a signed proxy card/voting instruction form to allow your shares to be represented at the annual meeting but do not indicate how your shares should be voted on one or more proposals, then the proxies will vote your shares as the Board of Directors recommends on those proposals. Other than the proposals listed on pages 5-9, we do not know of any other matters to be presented at the meeting. If any other matters are properly presented at the meeting, the proxies may vote your shares in accordance with their best judgment.

What vote is needed to approve each item?

Shares of common stock represented by a properly completed proxy card/voting instruction form will be counted as present at the meeting for purposes of determining a quorum, even if the stockholder is abstaining from voting.

Proposal 1. To be elected under Allstate's majority vote standard, each director must receive an affirmative vote of the majority of the votes cast. In other words, the number of shares voted "For" a director must exceed 50% of the votes cast on that director. Abstentions will not be counted as votes cast and will have no impact on the vote's outcome.

Proposals 2 – 8. Except for Proposal 3, to be approved, a majority of the shares present in person or represented by proxy at the meeting and entitled to vote must be voted "For" the proposal. **Abstentions will have the effect of a vote against the proposal.** With respect to Proposal 3, if none of the three frequency choices receive a majority vote, the Board will consider the frequency that receives a plurality of the votes cast as the recommendation of the stockholders.

Are broker non-votes counted at the meeting?

Brokers and banks have discretionary authority to vote shares in the absence of instructions on matters the New York Stock Exchange considers "routine," such as the ratification of the appointment of the auditors. They do not have discretionary authority to vote shares in the absence of instructions on "non-routine" matters, such as the election of directors, say-on-pay, frequency of say-on-pay, approval of the director equity plan or the stockholder proposals. Broker non-votes will not be counted as shares entitled to vote on any of the foregoing matters and will have no impact on the vote's outcome.

What is "householding" and how does it affect me?

Allstate has adopted the "householding" procedure approved by the SEC, which allows us to deliver one set of documents to a household of stockholders instead of delivering a set to each stockholder in a household, unless we have been instructed otherwise. This procedure is more environmentally friendly and cost-effective because it reduces the number of copies to be printed and mailed. Stockholders who receive proxy materials in paper form will continue to receive separate proxy cards/voting instruction forms to vote their shares. Stockholders who receive the Notice of Internet Availability of Proxy Materials will receive instructions on submitting their proxy cards/voting instruction form via the Internet.

If you would like to change your householding election, request that a single copy of the proxy materials be sent to your address, or request a separate copy of the proxy materials, please contact our distribution agent, Broadridge Financial Solutions, by calling (866) 540-7095 or by writing to Broadridge Householding Department, 51 Mercedes Way, Edgewood, NY 11717. We will promptly deliver the proxy materials to you upon receipt of your request. If you hold your shares in street name, please contact your bank, broker, or other record holder to request information about householding.

If you receive more than one proxy card/voting instruction form, your shares probably are registered in more than one account or you may hold shares both as a registered stockholder and through the Allstate 401(k) Savings Plan. You should vote each proxy card/voting instruction form you receive.

How do I attend the annual meeting?

If you plan to attend the meeting, you must be a holder of Allstate shares as of the record date of March 27, 2017. We encourage you to request an admission ticket in advance. You may request admission tickets by visiting www.proxyvote.com and following the instructions provided or calling 1-888-247-6053. You will need your proxy card, voting instruction form, or notice of Internet availability with you when you request the ticket.

At the entrance to the meeting, we will request to see your admission ticket and valid photo identification, such as a driver's license or passport.

If you do not request an admission ticket in advance, we will request to see your photo identification at the entrance to the meeting. We will then confirm your common stock ownership on the record date by:

- **For registered stockholders:** verifying your name and stock ownership against our list of registered stockholders.
- **For beneficial or street name stockholders** (those holding shares through a broker, bank or other record holder): asking to review evidence of your stock ownership as of March 27, 2017, such as your brokerage statement. **You must bring such evidence with you in order to be admitted to the meeting.**

If you are acting as a proxy, we will need to review a valid written legal proxy signed by the owner of the common stock granting you the required authority to vote the owner's shares.

Where can I find the results of the annual meeting?

Preliminary results will be announced at the meeting and final results will be reported in a current report on Form 8-K, which is expected to be filed with the SEC within four business days after the meeting.

Who will pay the cost of this proxy solicitation?

Allstate pays the cost of this proxy solicitation. Officers and other employees of Allstate and its subsidiaries may solicit proxies by mail, personal interview, telephone, facsimile, electronic means, or via the Internet. None of these individuals will receive special compensation for soliciting votes, which will be performed in addition to their regular duties, and some of them may not necessarily solicit proxies. Allstate also has made arrangements with brokerage firms, banks, record holders, and other fiduciaries to forward proxy solicitation materials to the beneficial owners of shares they hold on your behalf. Allstate will reimburse these intermediaries for reasonable out-of-pocket expenses. Georgeson LLC, 1290 Avenue of the Americas, 9th Floor, New York, NY 10104 has been retained to assist in the solicitation of proxies for a fee of \$16,500 plus expenses.

How do I vote if I hold shares through the 401(k) Savings Plan?

If you hold Allstate common shares through the Allstate 401(k) Savings Plan, your proxy card/voting instruction form for those shares will instruct the plan trustee how to vote those shares. If you received your annual meeting materials electronically, and you hold Allstate common shares both through the plan and also directly as a registered stockholder, the voting instructions you provide electronically will be applied to both your plan shares and your registered shares. If you return a signed proxy card/voting instruction form or vote by telephone or the Internet on a timely basis, the trustee will follow your voting instructions for all Allstate common shares allocated to your plan account unless that would be inconsistent with the trustee's duties.

If your voting instructions are not received on a timely basis, the shares allocated to your plan account will be considered "unvoted." If you return a signed proxy card/voting instruction form but do not indicate how your shares should be voted on a given matter, the shares represented by your proxy card/voting instruction form will be voted as the Board of Directors recommends. **The trustee will vote all unvoted shares and all unallocated shares held by the plan as follows:**

- If the trustee receives instructions (through voting instruction forms or through telephonic or Internet instruction) on a timely basis for at least 50% of the votable allocated shares in the plan, then it will vote all unvoted shares and unallocated shares in the same proportion and in the same manner as the shares for which timely instructions have been received, unless to do so would be inconsistent with the trustee's duties.
- If the trustee receives instructions for less than 50% of the votable allocated shares, the trustee will vote all unvoted and unallocated shares in its sole discretion. However, the trustee will not use its discretionary authority to vote on adjournment of the meeting in order to solicit further proxies.

Plan votes receive the same high level of confidentiality as all other votes. You may not vote the shares allocated to your plan account by voting in person at the meeting. You must instruct The Northern Trust Company, as trustee for the plan, how to vote your shares.

By order of the Board,



Susan L. Lees
Secretary

April 12, 2017

Appendix A – Definitions of Non-GAAP Measures

Measures that are not based on accounting principles generally accepted in the United States of America (“non-GAAP”) are defined and reconciled to the most directly comparable GAAP measure. We believe that investors’ understanding of Allstate’s performance is enhanced by our disclosure of the following non-GAAP measures. Our methods for calculating these measures may differ from those used by other companies and therefore comparability may be limited.

Operating income (“operating profit” or “operating earnings”) is net income applicable to common shareholders, excluding:

- realized capital gains and losses, after-tax, except for periodic settlements and accruals on non-hedge derivative instruments, which are reported with realized capital gains and losses but included in operating income,
- valuation changes on embedded derivatives that are not hedged, after-tax,
- amortization of deferred policy acquisition costs (“DAC”) and deferred sales inducements (“DSI”), to the extent they resulted from the recognition of certain realized capital gains and losses or valuation changes on embedded derivatives that are not hedged, after-tax,
- amortization of purchased intangible assets, after-tax,
- gain (loss) on disposition of operations, after-tax, and
- adjustments for other significant non-recurring, infrequent or unusual items, when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, or (b) there has been no similar charge or gain within the prior two years.

Net income applicable to common shareholders is the GAAP measure that is most directly comparable to operating income.

We use operating income as an important measure to evaluate our results of operations. We believe that the measure provides investors with a valuable measure of the company’s ongoing performance because it reveals trends in our insurance and financial services business that may be obscured by the net effect of realized capital gains and losses, valuation changes on embedded derivatives that are not hedged, amortization of purchased intangible assets, gain (loss) on disposition of operations and adjustments for other significant non-recurring, infrequent or unusual items.

Realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and gain (loss) on disposition of operations may vary significantly between periods and are generally driven by business decisions and external economic developments

such as capital market conditions, the timing of which is unrelated to the insurance underwriting process. Consistent with our intent to protect results or earn additional income, operating income includes periodic settlements and accruals on certain derivative instruments that are reported in realized capital gains and losses because they do not qualify for hedge accounting or are not designated as hedges for accounting purposes. These instruments are used for economic hedges and to replicate fixed income securities, and by including them in operating income, we are appropriately reflecting their trends in our performance and in a manner consistent with the economically hedged investments, product attributes (e.g. net investment income and interest credited to contractholder funds) or replicated investments.

Amortization of purchased intangible assets is excluded because it relates to the acquisition purchase price and is not indicative of our underlying insurance business results or trends.

Non-recurring items are excluded because, by their nature, they are not indicative of our business or economic trends.

Accordingly, operating income excludes the effect of items that tend to be highly variable from period to period and highlights the results from ongoing operations and the underlying profitability of our business. A byproduct of excluding these items to determine operating income is the transparency and understanding of their significance to net income variability and profitability while recognizing these or similar items may recur in subsequent periods.

Operating income is used by management along with the other components of net income applicable to common shareholders to assess our performance. We use adjusted measures of operating income in incentive compensation. Therefore, we believe it is useful for investors to evaluate net income applicable to common shareholders, operating income and their components separately and in the aggregate when reviewing and evaluating our performance. We note that investors, financial analysts, financial and business media organizations and rating agencies utilize operating income results in their evaluation of our and our industry’s financial performance and in their investment decisions, recommendations and communications as it represents a reliable, representative and consistent measurement of the industry and the company and management’s performance.

We note that the price to earnings multiple commonly used by insurance investors as a forward-looking valuation technique uses operating income as the denominator. Operating income should not be considered a substitute for net income applicable to common shareholders and does not reflect the overall profitability of our business.

The following table reconciles consolidated net income applicable to common shareholders and operating income for the years ended December 31. Taxes on adjustments to reconcile net income applicable to common shareholders and operating income generally use a 35% effective tax rate and are reported net with the reconciling adjustment. If the effective tax rate is other than 35%, this is specified in the disclosure.

(\$ in millions, except per share data)						Per diluted common share				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Net income applicable to common shareholders	\$1,761	\$2,055	\$2,746	\$2,263	\$2,306	\$4.67	\$5.05	\$6.27	\$4.81	\$4.68
Realized capital gains and losses, after-tax	56	(19)	(451)	(385)	(216)	0.15	(0.05)	(1.03)	(0.82)	(0.44)
Valuation changes on embedded derivatives that are not hedged, after-tax	2	1	15	16	(82)	—	—	0.03	0.03	(0.17)
DAC and DSI amortization relating to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax	4	3	3	5	42	0.01	—	0.01	0.01	0.09
DAC and DSI unlocking relating to realized capital gains and losses, after-tax	—	—	—	(7)	(4)	—	—	—	(0.01)	(0.01)
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(3)	(2)	(7)	7	33	(0.01)	—	(0.02)	0.01	0.07
Amortization of purchased intangible assets, after-tax	21	32	45	55	81	0.06	0.08	0.10	0.12	0.16
(Gain) loss on disposition of operations, after-tax	(3)	(2)	16	515	(12)	(0.01)	—	0.04	1.10	(0.02)
Loss on extinguishment of debt, after-tax	—	—	—	319	—	—	—	—	0.68	—
Postretirement benefits curtailment gain, after-tax	—	—	—	(118)	—	—	—	—	(0.25)	—
Change in accounting for investments in qualified affordable housing projects, after-tax (all tax)	—	45	—	—	—	—	0.11	—	—	—
Operating income	\$1,838	\$2,113	\$2,367	\$2,670	\$2,148	\$4.87	\$5.19	\$5.40	\$5.68	\$4.36

Combined ratio excluding the effect of catastrophes, prior year reserve reestimates and amortization of purchased intangible assets (“underlying combined ratio”) is a non-GAAP ratio, which is computed as the difference between four GAAP operating ratios: the combined ratio, the effect of catastrophes on the combined ratio, the effect of prior year non-catastrophe reserve reestimates on the combined ratio, and the effect of amortization of purchased intangible assets on the combined ratio. We believe that this ratio is useful to investors and it is used by management to reveal the trends in our Property-Liability business that may be obscured by catastrophe losses, prior year reserve reestimates and amortization of purchased intangible assets. Catastrophe losses cause our loss trends to vary significantly between periods as a result of their incidence of occurrence and

magnitude, and can have a significant impact on the combined ratio. Prior year reserve reestimates are caused by unexpected loss development on historical reserves. Amortization of purchased intangible assets relates to the acquisition purchase price and is not indicative of our underlying insurance business results or trends. We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our underwriting performance. We also provide it to facilitate a comparison to our outlook on the underlying combined ratio. The most directly comparable GAAP measure is the combined ratio. The underlying combined ratio should not be considered a substitute for the combined ratio and does not reflect the overall underwriting profitability of our business.

The following table reconciles the Property-Liability combined ratio to the Property-Liability underlying combined ratio for the years ended December 31.

	2016	2015	2014	2013	2012
Combined ratio	96.1	94.9	93.9	92.0	95.5
Effect of catastrophe losses	(8.2)	(5.7)	(6.9)	(4.5)	(8.8)
Effect of prior year non-catastrophe reserve reestimates	0.1	(0.3)	0.4	0.1	1.0
Effect of amortization of purchased intangible assets	(0.1)	(0.2)	(0.2)	(0.3)	(0.5)
Underlying combined ratio	87.9	88.7	87.2	87.3	87.2
Effect of prior year catastrophe reserve reestimates	—	—	0.1	(0.3)	(1.5)

Underwriting margin is calculated as 100% minus the combined ratio.

Operating income return on common shareholders' equity is a ratio that uses a non-GAAP measure. It is calculated by dividing the rolling 12-month operating income by the average of common shareholders' equity at the beginning and at the end of the 12-months, after excluding the effect of unrealized net capital gains and losses. Return on common shareholders' equity is the most directly comparable GAAP measure. We use operating income as the numerator for the same reasons we use operating income, as discussed above. We use average common shareholders' equity excluding the effect of unrealized net capital gains and losses for the denominator as a representation of common shareholders' equity primarily attributable to the company's earned and realized business operations because it eliminates the effect of items that are unrealized and vary significantly between periods due to external economic developments such as capital market conditions like changes in equity prices and interest rates, the amount and timing of which are unrelated to the insurance underwriting process. We use it to supplement our evaluation of net income applicable to common shareholders and return on common shareholders' equity because it excludes the effect of items that tend to be highly variable from period to period. We believe that this measure is useful to investors and that it provides a valuable tool for investors when considered along with return on common shareholders' equity because it eliminates the after-tax effects of realized and unrealized net capital gains and losses that can fluctuate significantly from period to period

and that are driven by economic developments, the magnitude and timing of which are generally not influenced by management. In addition, it eliminates non-recurring items that are not indicative of our ongoing business or economic trends. A byproduct of excluding the items noted above to determine operating income return on common shareholders' equity from return on common shareholders' equity is the transparency and understanding of their significance to return on common shareholders' equity variability and profitability while recognizing these or similar items may recur in subsequent periods. We use adjusted measures of operating income return on common shareholders' equity in incentive compensation. Therefore, we believe it is useful for investors to have operating income return on common shareholders' equity and return on common shareholders' equity when evaluating our performance. We note that investors, financial analysts, financial and business media organizations and rating agencies utilize operating income return on common shareholders' equity results in their evaluation of our and our industry's financial performance and in their investment decisions, recommendations and communications as it represents a reliable, representative and consistent measurement of the industry and the company and management's utilization of capital. Operating income return on common shareholders' equity should not be considered a substitute for return on common shareholders' equity and does not reflect the overall profitability of our business.

The following tables reconcile return on common shareholders' equity and operating income return on common shareholders' equity for the years ended December 31.

(\$ in millions)	2016	2015	2014	2013	2012
Return on common shareholders' equity					
Numerator:					
Net income applicable to common shareholders	\$1,761	\$2,055	\$2,746	\$2,263	\$2,306
Denominator:					
Beginning common shareholders' equity ⁽¹⁾	\$18,279	\$20,558	\$20,700	\$20,580	\$18,298
Ending common shareholders' equity ⁽¹⁾	18,827	18,279	20,558	20,700	20,580
Average common shareholders' equity	\$18,553	\$19,419	\$20,629	\$20,640	\$19,439
Return on common shareholders' equity	9.5%	10.6%	13.3%	11.0%	11.9%
Operating income return on common shareholders' equity					
Numerator:					
Operating income	\$1,838	\$2,113	\$2,367	\$2,670	\$2,148
Denominator:					
Beginning common shareholders' equity	\$18,279	\$20,558	\$20,700	\$20,580	\$18,298
Unrealized net capital gains and losses	620	1,926	1,646	2,834	1,400
Adjusted beginning common shareholders' equity	17,659	18,632	19,054	17,746	16,898
Ending common shareholders' equity	18,827	18,279	20,558	20,700	20,580
Unrealized net capital gains and losses	1,053	620	1,926	1,646	2,834
Adjusted ending common shareholders' equity	17,774	17,659	18,632	19,054	17,746
Average adjusted common shareholders' equity	\$17,717	\$18,146	\$18,843	\$18,400	\$17,322
Operating income return on common shareholders' equity	10.4%	11.6%	12.6%	14.5%	12.4%

⁽¹⁾ Excludes equity related to preferred stock of \$1,746 million, \$1,746 million, \$1,746 million and \$780 million as of December 31, 2016, 2015, 2014 and 2013, respectively.

Appendix B – Categorical Standards of Independence

In accordance with the Director Independence Standards, the Board has determined that the nature of the following relationships with the corporation do not create a conflict of interest that would impair a director's independence.

1. An Allstate director's relationship arising from (i) only such director's position as a director of another corporation or organization; (ii) only such director's direct or indirect ownership of a 5% or less equity interest in another corporation or organization (other than a partnership); (iii) both such position and such ownership; or (iv) such director's position only as a limited partner in a partnership in which he or she has an interest of 5% or less.
2. An Allstate director's relationship arising from an interest of the director, or any entity in which the director is an employee, director, partner, stockholder or officer, in or under any standard-form insurance policy or other financial product offered by the Allstate Group in the ordinary course of business.
3. An Allstate director's relationship with another company that participates in a transaction with the Allstate Group (i) where the rates or charges involved are determined by competitive bid or (ii) where the transaction involves the rendering of services as a common or contract carrier (including any airline) or public utility at rates or charges fixed in conformity with law or governmental authority.
4. An Allstate director's relationship with another company that has made payments to, or received payments from, the Allstate Group for property or services in an amount which, in the last fiscal year, does not exceed the greater of \$1 million or 2% of such other company's consolidated gross revenues for such year.
5. An Allstate director's position as an executive officer of a tax exempt organization to which the aggregate amount of discretionary contributions (other than employee matching contributions) made by the Allstate Group and The Allstate Foundation in any of the last three fiscal years of the tax exempt organization were equal to or less than the greater of \$1 million or 2% of such organization's consolidated gross revenues for such year.
6. An Allstate director's relationship with another company (i) in which the Allstate Group makes investments or (ii) which invests in securities issued by the Allstate Group or securities backed by any product issued by the Allstate Group, all in the ordinary course of such entity's investment business and on terms and under circumstances similar to those available to or from entities unaffiliated with such director.

Appendix C – Executive Officers

The following table lists the names and titles of our executive officers as of March 1, 2017. AIC refers to Allstate Insurance Company.

Name	Principal Positions and Offices Held
Thomas J. Wilson	Chair of the Board and Chief Executive Officer of The Allstate Corporation and of AIC.
Matthew E. Winter	President of The Allstate Corporation and of AIC.
Don Civgin	President, Emerging Businesses of AIC.
John Dugenske	Executive Vice President and Chief Investment Officer of AIC.
Mary Jane Fortin	President, Allstate Financial of AIC.
Sanjay Gupta	Executive Vice President, Marketing, Innovation and Corporate Relations of AIC.
Suren Gupta	Executive Vice President, Enterprise Technology and Strategic Ventures of AIC.
Harriet K. Harty	Executive Vice President, Human Resources of AIC.
Susan L. Lees	Executive Vice President, General Counsel, and Secretary of The Allstate Corporation and of AIC (Chief Legal Officer).
Samuel H. Pilch	Senior Group Vice President and Controller of The Allstate Corporation and of AIC.
Steven E. Shebik	Executive Vice President and Chief Financial Officer of The Allstate Corporation and of AIC.

Appendix D – The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors

ARTICLE I. ESTABLISHMENT, PURPOSE AND DURATION

Section 1.1. Establishment of the Plan. The Allstate Corporation, a Delaware corporation (hereinafter referred to as the “Company”), hereby establishes an equity compensation plan for non-employee directors, to be known as “The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors” (hereinafter referred to as the “Plan”), as set forth in this document. The Plan permits the grant of Stock Options, Election Shares, Stock, Restricted Stock, Restricted Stock Units, and any other type of award permitted under Article IX to Non-Employee Directors of the Company.

Section 1.2. Purpose of the Plan. The purpose of the Plan is to appropriately compensate the non-employee members of the Company’s Board of Directors (the “Board”).

Section 1.3. Duration of the Plan. The Plan shall become effective when approved by the stockholders at the 2017 Annual Meeting of Stockholders on May 25, 2017 (the “Effective Date”). The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Awards granted under the Plan have lapsed. However, no Awards shall be granted after the tenth anniversary of the Effective Date.

ARTICLE II. DEFINITIONS

Whenever used in the Plan, the following terms shall have the meanings set forth below and, when such meaning is intended, the initial letter of the word is capitalized:

Section 2.1. “Award” means, individually or collectively, a grant under the Plan of Stock Options, Election Shares, Stock, Restricted Stock, and Restricted Stock Units or any other type of award permitted under Article IX.

Section 2.2. “Award Agreement” means an agreement setting forth the terms and provisions applicable to an Award granted to a Participant under the Plan.

Section 2.3. “Board” shall have the meaning set forth in Section 1.2 herein.

Section 2.4. “Change of Control” means, except as otherwise provided at the end of this Section, the occurrence of any one or more of the following:

- (a) (Voting Power) any Person or group (as such term is defined in Treasury Regulation Section 1.409A-3(i)(5)(v)(B)), other than a Subsidiary or any employee benefit plan (or any related trust) of the Company or any of its Subsidiaries, acquires or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons, ownership of stock of the Company possessing 30% or more of the combined voting power of all Voting Securities of the Company (such a Person or group that is not a Similarly Owned Company (as defined below), a “More than 30% Owner”), except that no Change of Control shall be deemed to have occurred solely by reason of such ownership by a corporation with respect to which both more than 70%

of the common stock of such corporation and Voting Securities representing more than 70% of the combined voting power of the Voting Securities of such corporation are then owned, directly or indirectly, by the Persons who were the direct or indirect owners of the common stock and Voting Securities of the Company immediately before such acquisition in substantially the same proportions as their ownership, immediately before such acquisition, of the common stock and Voting Securities of the Company, as the case may be (a “Similarly Owned Company”); or

- (b) (Majority Ownership) any Person or group (as such term is defined in Treasury Regulation Section 1.409A-3(i)(5)(v)(B)), other than a Subsidiary or any employee benefit plan (or any related trust) of the Company or any of its Subsidiaries, acquires ownership of more than 50% of the voting power of all Voting Securities of the Company or of the total fair market value of the stock of the Company (such a Person or group that is not a Similarly Owned Company, a “Majority Owner”), except that no Change of Control shall be deemed to have occurred solely by reason of such ownership by a Similarly Owned Company; or
- (c) (Board Composition) a majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election (“Board Turnover”); or

- (d) (*Reorganization*) the consummation of a merger, reorganization, consolidation, or similar transaction, or of a plan or agreement for the sale or other disposition of all or substantially all of the consolidated assets of the Company, or a plan of liquidation of the Company (any of the foregoing, a “Reorganization Transaction”) that, does not qualify as an Exempt Reorganization Transaction.

Notwithstanding anything contained herein to the contrary: (i) no transaction or event shall constitute a Change of Control for purposes of this Plan unless the transaction or event constituting the Change of Control also constitutes a change in the ownership of a corporation (as defined in Treasury Regulation Section 1.409A-3(i)(5)(v)), a change in effective control of a corporation (as defined in Treasury Regulation Section 1.409A-3(i)(5)(vi)) or a change in the ownership of a substantial portion of the assets of a corporation (as defined in Treasury Regulation Section 1.409A-3(i)(5)(vii)); and (ii) no sale or disposition of one or more Subsidiaries (“Sale Subsidiary”) or the assets thereof shall constitute a Change of Control for purposes of this Plan if the investments in and advances by the Company and its Subsidiaries (other than the Sale Subsidiaries) to such Sale Subsidiary as of immediately prior to the sale or disposition determined in accordance with Generally Accepted Accounting Principles (“GAAP”) (but after intercompany eliminations and net of the effect of intercompany reinsurance) are less than 51% of the Consolidated Total Shareholders’ Equity of the Company as of immediately prior to the sale or disposition. Consolidated Total Shareholders’ Equity means, at any date, the total shareholders’ equity of the Company and its Subsidiaries at such date, as reported in the consolidated financial statements prepared in accordance with GAAP.

Section 2.5. “Code” means the Internal Revenue Code of 1986, as amended from time to time, or any successor code thereto.

Section 2.6. “Committee” means the Company’s Nominating and Governance Committee or such other committee as the Board shall select.

Section 2.7. “Company” shall have the meaning set forth in Section 1.1 herein, or any successor to the Company as provided in Article XI herein.

Section 2.8. “Disability” means an impairment which renders a Participant disabled within the meaning of Code Section 409A(a)(2)(C).

Section 2.9. “Dividend Equivalent” means, with respect to Stock subject to an Award, a right to be paid an amount equal to cash dividends declared on an equal number of outstanding shares of Stock.

Section 2.10. “Effective Date” shall have the meaning set forth in Section 1.3 herein.

Section 2.11. “Election Shares” means any shares of Stock issued to a Non-Employee Director pursuant to the election of such person to receive such shares of Stock in lieu of cash compensation made in accordance with Section 8.2 herein.

Section 2.12. “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

Section 2.13. “Exempt Reorganization Transaction” means a Reorganization Transaction (as that term is defined in Section 2.4(d)) that fails to result in (a) any Person or group (as such term is defined in Treasury Regulation Section 1.409A-3(i)(5)(v)(B)) becoming a More than 30% Owner (as that term is defined in Section 2.4(a)) or a Majority Owner (as that term is defined in Section 2.4(b)), (b) Board Turnover (as that term is defined in Section 2.4(c)), or (c) a sale or disposition to any Person or group (as such term is defined in Treasury Regulation Section 1.409A-3(i)(5)(v)(B)) of the assets of the Company that have a total Gross Fair Market Value equal to at least forty percent (40%) of the total Gross Fair Market Value of all of the assets of the Company immediately before such transaction.

Section 2.14. “Exercise Period” means the period during which a Stock Option is exercisable, as set forth in the related Award Agreement.

Section 2.15. “Fair Market Value” means the price at which a share of the Stock was last sold in the principal United States market for the Stock as of the date for which fair market value is being determined. Notwithstanding anything herein to the contrary, to the extent necessary to comply with or be exempt from Section 409A, Fair Market Value shall be determined in accordance with Treasury Regulation Section 1.409A-1(b)(5)(iv).

Section 2.16. “Family Member” means any spouse, domestic partner, child, stepchild, sibling, parent, stepparent, grandparent, or grandchild, including adoptive relationships; a trust in which these persons have more than fifty (50) percent of the beneficial interest; a foundation in which these persons (or the Non-Employee Director) control the management of assets; and any other entity in which these persons (or the Non-Employee Director) own more than fifty (50) percent of the voting interests.

Section 2.17. “Gross Fair Market Value” means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

Section 2.18. “Non-Employee Director” means each member of the Board who is not an officer or employee of the Company or any of its Subsidiaries.

Section 2.19. “Option Exercise Price” means the price at which a share of Stock may be purchased by a Participant pursuant to a Stock Option, as determined by the Committee and set forth in the applicable Award Agreement.

Section 2.20. “Participant” means a Non-Employee Director who has an outstanding Award granted under the Plan.

Section 2.21. “Period of Restriction” means the period during which the transfer of Restricted Stock or Restricted Stock Units is limited in some way, as provided in Article VII herein.

Section 2.22. “Person” means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity, or government instrumentality, division, agency, body, or department.

Section 2.23. “Plan” shall have the meaning set forth in Section 1.1 herein.

Section 2.24. “Restricted Stock” means an Award of shares of Stock granted to a Participant pursuant to Article VII herein. Delivery of Restricted Stock shall be effected by either (i) a stock certificate or certificates or (ii) book-entry form, in an appropriate number of shares of Stock based upon the number of shares of Restricted Stock issued.

Section 2.25. “Restricted Stock Unit” means an Award granted to a Participant as provided in Article VII herein.

Section 2.26. “Section 409A” shall have the meaning set forth in Section 12.5 herein and the Plan and any Awards, as appropriate, shall be administered in accordance with Section 12.5.

Section 2.27. “Securities Act” means the Securities Act of 1933, as amended.

Section 2.28. “Stock” means the common stock, \$.01 par value, of the Company.

Section 2.29. “Stock Option” means an option to purchase shares of Stock granted under Article VI herein.

Section 2.30. “Subsidiary” means any corporation, business trust, limited liability company, or partnership with respect to which the Company owns, directly or indirectly, (a) more than 50% of the equity interests or partnership interests or (b) Voting Securities representing more than 50% of the aggregate Voting Power of the then-outstanding Voting Securities.

Section 2.31. “Voting Power” for purposes of Section 2.30 means the combined voting power of the then-outstanding Voting Securities entitled to vote generally in the election of directors.

Section 2.32. “Voting Securities” of a corporation means securities of such corporation that are entitled to vote generally in the election of directors of such corporation.

ARTICLE III. ADMINISTRATION

Section 3.1. The Committee. The Plan shall be administered by the Committee.

Section 3.2. Authority of the Committee. The Committee shall have full power except as limited by law, the articles of incorporation or the bylaws of the Company, subject to such other restricting limitations or directions as may be imposed by the Board and subject to the provisions herein, to recommend to the full Board the size and types of Awards and the terms and conditions of such Awards, in a manner consistent with the Plan; to construe and interpret the Plan and any agreement or instrument entered into under the Plan; to establish, amend or waive rules and regulations for the Plan’s administration; to recommend the amendment of the terms and conditions of any outstanding Award; and to authorize any action of or make any determination by the Company as the Committee shall deem necessary or advisable for carrying out the purposes of the Plan; provided, however, that the terms and conditions of any outstanding Award shall not be amended so as to adversely affect in any material way such Award without the written consent of the Participant holding such Award (or if the Participant is not then living, the Participant’s personal representative or estate), unless such amendment is required by applicable law. Further, the Committee shall interpret and make all other determinations which

may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate its authorities as identified hereunder.

Section 3.3. Delivery of Stock by Company; Restrictions on Stock. Notwithstanding any other provision of the Plan, the Company shall have no liability to deliver any shares of Stock or benefits under the Plan unless such delivery would comply with all applicable laws (including, without limitation, the Code, the Securities Act and the Exchange Act) and applicable requirements of any securities exchange or similar entity. The Committee may recommend that the Board impose such restrictions on any shares of Stock acquired under the Plan as it may deem advisable, including, without limitation, restrictions to comply with applicable Federal securities laws, with the requirements of any stock exchange or market upon which such Stock is then listed and/or traded, and with any blue sky or state securities laws applicable to such Stock.

Section 3.4. Approval. The Committee or the full Board shall approve all Awards made under the Plan and all elections made by Participants, prior to their effective date, to the extent necessary to comply with Rule 16b-3 under the Exchange Act.

Section 3.5. Decisions Binding. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive

and binding on all persons, including the Company, its stockholders, Participants and their estates. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award.

ARTICLE IV. STOCK SUBJECT TO THE PLAN

Section 4.1. Number of Shares. Subject to Section 4.3 herein, the maximum number of shares of Stock that may be issued pursuant to Awards under the Plan shall be 400,000. Shares of Stock underlying lapsed or forfeited Awards of Restricted Stock shall not be treated as having been issued pursuant to an Award under the Plan. Shares of Stock that are potentially deliverable under an Award that expires or is cancelled, forfeited, settled in cash or, in the case of an Award that is not a Stock Option, otherwise settled without delivery of shares of Stock shall not be treated as having been issued under the Plan. Shares of Stock that are withheld to satisfy the Option Exercise Price related to a Stock Option or other Award shall be deemed to be shares of Stock issued under the Plan. Shares of Stock issued pursuant to the Plan may be (i) authorized but unissued shares of Stock or (ii) treasury stock.

Section 4.2. Award Limitations. Subject to Section 4.1 above, the aggregate grant date fair value of any Awards that are valued in whole or in part by reference to, or otherwise based on Stock, other than Election Shares that may be granted in any calendar year to any Participant shall not exceed \$800,000.

Section 4.3. Adjustments in Authorized Stock and Awards. In the event of any equity restructuring (within the meaning of Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 718) that causes the per share value of shares of Stock to change, such as a stock dividend, stock split, spin off, rights offering, or recapitalization through a large, nonrecurring cash dividend, the Committee shall cause there to be made an equitable adjustment to the number and kind of shares that may be issued under the Plan and to the number and kind of shares or units subject to and the exercise price (if applicable) of any then outstanding Awards of Stock Options, Restricted Stock, Restricted Stock Units or any other Awards related to shares of Stock (to the extent such other Awards would not otherwise automatically adjust in

Section 3.6. Costs. The Company shall pay all costs of administration of the Plan.

the equity restructuring). In the event of any other change in corporate capitalization, such as a merger, consolidation, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Company, such equitable adjustments described in the foregoing sentence shall be made as may be determined to be appropriate and equitable by the Board upon recommendation of the Committee to prevent dilution or enlargement of rights. In either case, any such adjustment shall be conclusive and binding for all purposes of the Plan. Unless otherwise determined by the Board upon recommendation of the Committee, the number of shares of Stock subject to an Award shall always be a whole number. In no event shall an outstanding Stock Option be amended for the sole purpose of reducing the Option Exercise Price thereof.

Section 4.4. No Repricing or Reload Options. Notwithstanding any provision of the Plan to the contrary, except in connection with a corporate transaction involving the Company (including, without limitation, a Change of Control or the transactions or events described in Section 4.3), the Committee shall not, without the approval of the Company's stockholders, (i) reduce the Option Exercise Price of an Option after it is granted, (ii) cancel outstanding Options in exchange for other Awards or Options with an Option Exercise Price that is less than the Option Exercise Price of the original Options, (iii) cancel an outstanding Option when the Option Exercise Price, exceeds the Fair Market Value of a share of the Stock in exchange for cash or other securities, or (iv) take any other action with respect to an Option that would be treated as a repricing under the rules and regulations of the New York Stock Exchange.

No Stock Option may be granted to any Participant on account of the use of Stock by the Participant to exercise a prior Stock Option.

ARTICLE V. ELIGIBILITY AND PARTICIPATION

Section 5.1. Eligibility and Participation. Subject to the provisions of the Plan, the Committee may, from time to time, recommend to the full Board the

Non-Employee Directors to whom Awards shall be granted and shall determine the nature and amount of each Award.

ARTICLE VI. STOCK OPTIONS

Section 6.1. Grant of Stock Options. Subject to the terms and conditions of the Plan, Stock Options may be granted to a Non-Employee Director at any time and from time to time, as shall be determined by the Board upon recommendation of the Committee. The Committee shall recommend to the full Board

the number of shares of Stock subject to Stock Options granted to each Participant (subject to Article IV herein) and, consistent with the provisions of the Plan, terms and conditions pertaining to such Stock Options. No Dividend Equivalents shall be provided with respect to Options.

Section 6.2. Stock Option Award Agreement. Each Stock Option grant shall be evidenced by an Award Agreement that shall specify the Option Exercise Price, the term of the Stock Option (which shall not be greater than ten years), the number of shares of Stock to which the Stock Option pertains, the Exercise Period, vesting and such other provisions as the Board shall determine upon recommendation of the Committee. The Option Exercise Price shall not be less than 100% of the Fair Market Value of the Stock on the date of grant.

Section 6.3. Exercise of and Payment for Stock Options. Stock Options granted under the Plan shall be exercisable at such times and shall be subject to such restrictions and conditions as the Board shall in each instance approve upon recommendation of the Committee and set forth in the Award Agreement. Without limiting the generality of the foregoing, a Participant may exercise a Stock Option at any time during the Exercise Period. Stock Options shall be exercised by the delivery of a written notice (or other method acceptable to the Company) of exercise to the Company or its designee, setting forth the number of shares of Stock with respect to which the Stock Option is to be exercised, accompanied by provision for full payment of the Stock. The Option Exercise Price shall be payable: (i) in cash or its equivalent, (ii) by tendering (by actual delivery of shares or by attestation) previously acquired shares of Stock (owned for at least six months) having an aggregate Fair Market Value at the time of exercise of not less than the total Option Exercise Price, (iii) by broker-assisted cashless exercise, (iv) by share withholding or (v) by a combination of (i), (ii), (iii) and/or (iv). As soon as practicable after receipt of a written notification (or other method acceptable to the Company) of exercise of a Stock Option and provisions for full payment therefor, the Company shall (a) cause to be issued in the Participant's name or the name of the Participant's designee, in book entry form, an appropriate number of shares of Stock based upon the number of shares of Stock purchased under the Stock Option, or (b) deliver to the Participant, in the Participant's name or the name of the Participant's designee, a stock certificate or certificates in an appropriate

aggregate amount based upon the number of shares of Stock purchased under the Stock Option.

Section 6.4. Transferability of Options. Except as otherwise recommended by the Committee to the full Board and set forth in the applicable Award Agreement, all Stock Options granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant or by such Participant's guardian or other legal representative, and no Stock Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution; provided, however, that the vested portions of Stock Options may be transferred by the Participant during his lifetime to any Family Member. A transfer of a Stock Option pursuant hereto may only be effected by the Company at the written request of a Participant and shall become effective only when recorded in the Company's record of outstanding Stock Options. In the event a Stock Option is transferred as contemplated herein, such transferred Stock Option may not be subsequently transferred by the transferee except by will or the laws of descent and distribution. Otherwise, a transferred Stock Option shall continue to be governed by and subject to the terms and limitations of the Plan and the relevant Award Agreement, and the transferee shall be entitled to the same rights as the Participant, as if no transfer had taken place. In no event shall a Stock Option be transferred for consideration.

Section 6.5. Change of Control. In the event of a Change of Control, the Stock Options may be assumed by the successor corporation or a parent of such successor corporation or substantially equivalent Stock Options may be substituted by the successor corporation or a parent of such successor corporation, and if the successor corporation does not assume the Stock Options or substitute options, then all outstanding and unvested Stock Options shall become immediately exercisable and all outstanding Stock Options shall terminate if not exercised as of the date of the Change of Control (or other prescribed period of time).

ARTICLE VII. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

Section 7.1. Grant of Restricted Stock and Restricted Stock Units. Subject to the terms and conditions of the Plan, Restricted Stock and/or Restricted Stock Units may be granted to a Non-Employee Director at any time and from time to time, as shall be determined by the Board upon recommendation of the Committee. The Committee shall recommend to the full Board the number of shares of Restricted Stock and/or Restricted Stock Units granted to each Participant (subject to Article IV herein) and, consistent with the provisions of the Plan, the terms and conditions pertaining to such Awards.

- (a) *Dividends, Dividend Equivalents and Other Distributions.* The Committee shall recommend to the full Board whether and to what extent any Participant shall be entitled to cash dividends, other than large, nonrecurring cash dividends, Dividend Equivalents and/or other distributions paid with respect to Restricted Stock and Restricted Stock Units, provided that any such right shall be evidenced by an Award Agreement containing terms and conditions that are consistent with the provisions of Section 409A and applicable guidance promulgated thereunder.

Section 7.2. Restricted Stock/Restricted Stock Unit Award Agreement. Each grant of Restricted Stock and/or Restricted Stock Units grant shall be evidenced by an Award Agreement that shall specify the number of shares of Restricted Stock and/or Restricted Stock Units granted, the Period or Periods of Restriction, and whether, and the extent to which, Restricted Stock and/or Restricted Stock Units shall be forfeitable, and such other provisions as recommended by the Committee.

Section 7.3. Transferability. Restricted Stock and Restricted Stock Units granted hereunder may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction recommended by the Committee and specified in the Award Agreement. During the applicable Period of Restriction, all rights with respect to the Restricted Stock and Restricted Stock Units granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant or his or her legal representative.

Section 7.4. Restricted Stock Certificates. No book entry representing delivery of Stock to a Participant shall be made, and no certificates representing Stock shall be delivered to a Participant, until such time as all restrictions applicable to such shares have been satisfied.

Section 7.5. Forfeiture Restriction. Restricted Stock shall become freely transferable and no longer subject to forfeiture after the last day of the Period of Restriction applicable thereto. The Board, upon recommendation of the Committee, may

determine whether payment of Restricted Stock Units shall be in cash equal to the aggregate Fair Market Value of the Stock subject to the Restricted Stock Units at the close of the applicable Period of Restriction or shares of Stock (or a combination thereof). Delivery of Stock shall be effected by either (a) book-entry form, in an appropriate number of shares of Stock based upon the number of shares of Stock underlying the Restricted Stock Units, or (b) delivery to the Participant, in the Participant's name or the name of the Participant's designee, a stock certificate or certificates in an appropriate aggregate amount based upon the number of shares of Stock underlying the Restricted Stock Units.

Section 7.6. Voting Rights. Unless otherwise recommended by the Committee to the full Board and set forth in the applicable Award Agreement, during the Period of Restriction, Participants may exercise full voting rights with respect to the Restricted Stock.

Section 7.7. Change of Control. In the event of a Change of Control, the Restricted Stock Units may be assumed by the successor corporation or a parent of such successor corporation or substantially equivalent Restricted Stock Units may be substituted by the successor corporation or a parent of such successor corporation, and if the successor corporation does not assume the Restricted Stock Units or substitute Restricted Stock Units, then all outstanding Restricted Stock Units shall immediately be payable in Stock upon consummation of the Change of Control of Control (or other prescribed period of time).

ARTICLE VIII. ELECTION TO RECEIVE STOCK IN LIEU OF CASH COMPENSATION

Section 8.1. General. In lieu of receiving the cash compensation, including annual and committee retainer fees (collectively, the "Annual Retainer Fees"), payable for services to be rendered by a Non-Employee Director for any period for which cash compensation is payable to Non-Employee Directors pursuant to the policies of the Board, a Non-Employee Director may make a written irrevocable election to reduce the Annual Retainer Fees by a specified percentage (which percentage shall be in ten percent increments) and receive an equivalent value in Election Shares granted in accordance with this Article VIII.

Section 8.2. Election. The election shall be made on a form prescribed by the Committee and must be returned to the Committee or its designee no later than one business day prior to the period for which the election is to be effective. The election form

shall state the amount of cash compensation to be received in the form of Election Shares (expressed as a percentage of the cash compensation otherwise payable in cash). Such election shall remain in effect until revoked or changed for any subsequent period.

Section 8.3. Issuance of Election Shares. If a Non-Employee Director elects pursuant to Section 8.2 above to receive Election Shares in lieu of cash compensation, there shall be issued to such Director in book entry form on the date cash compensation would otherwise be payable to the Non-Employee Director, a number of Election Shares equal to the amount of compensation that would otherwise have been paid divided by the Fair Market Value of the Election Shares. Cash will be paid to the Non-Employee Director in lieu of any fractional Election Shares based upon the Fair Market Value of such fractional Election Share.

ARTICLE IX. STOCK AND OTHER AWARDS

Section 9.1. Stock Awards. The Board, upon recommendation of the Committee, shall have the right to issue Stock free of any forfeiture or transferability restrictions.

Section 9.2. Other Awards. The Board, upon recommendation of the Committee, shall have the right to grant other Awards and determine the manner and timing of payment under or settlement of any such Awards.

(a) Dividends, Dividend Equivalents and Other Distributions. The Committee shall recommend to the full Board whether and to what extent any Participant shall be entitled to cash dividends, other than large, nonrecurring cash dividends, Dividend Equivalents and/or other distributions paid with respect to such other Awards, provided that any such right shall be evidenced by an Award Agreement containing terms and conditions that are consistent with the provisions of Section 409A and applicable guidance promulgated thereunder.

ARTICLE X. AMENDMENT, MODIFICATION AND TERMINATION

Section 10.1. The Board may, at any time and from time to time, alter, amend, suspend or terminate the Plan, in whole or in part, provided that no amendment shall be made which shall increase the total number of shares of Stock that may be issued under the Plan, materially modify the requirements

for participation in the Plan, or materially increase the benefits accruing to Participants under the Plan, in each case unless such amendment is approved by the stockholders of the Company. No amendment that requires shareholder approval shall be made without shareholder approval.

ARTICLE XI. SUCCESSORS

Section 11.1. All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise of all or substantially all of the business and/or assets of the Company.

ARTICLE XII. GENERAL PROVISIONS

Section 12.1. Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular and the singular shall include the plural.

Section 12.2. Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

Section 12.3. Requirements of Law. The granting of Awards and the issuance of Stock under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

Section 12.4. Governing Law. To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with, and governed by, the laws of the State of Delaware, except with regard to conflicts of law provisions.

Section 12.5. Code Section 409A Compliance. To the extent applicable, it is intended that this Plan and any Awards granted hereunder comply with or be exempt from the requirements of Section 409A of the Code and any related regulations or other guidance promulgated with respect to such

Section by the U.S. Department of the Treasury or the Internal Revenue Service ("Section 409A"), and the Plan and any Awards granted hereunder shall be interpreted and construed in a manner consistent with such intent. Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Committee determines that any Award may be subject to Section 409A, the Committee may adopt such amendments to the Plan and the applicable Award Agreement or adopt other policies and procedures (including amendments, policies, and procedures with retroactive effect), or take any other actions, that the Committee determines are necessary or appropriate to (i) exempt the Award from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (ii) comply with the requirements of Section 409A and thereby avoid the application of any penalty taxes under such Section. In the event that it is reasonably determined by the Committee that, as a result of Section 409A, payments in respect of any Award under the Plan may not be made at the time contemplated by the terms of the Plan or the applicable Award Agreement, as the case may be, without causing the Participant holding such Award to be subject to taxation under Section 409A, the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A. No action or failure by the Committee or the Company in good faith to act, pursuant to this Section 12.5 shall subject the

Committee, the Company, or any of the Company's employees, directors, or representatives to any claim, liability, or expense, and the Company shall not have any obligation to indemnify or otherwise protect any Participant from the obligation to pay any taxes pursuant to Section 409A.

Section 12.6. Rights of Board Members. Nothing in this Plan shall interfere with or limit in any way the rights of stockholders of the Company or the Board to elect or remove members of the Board at any time or confer upon any Participant any right to continue as a member of the Board.

Section 12.7. No Right to Specific Assets. Nothing contained in the Plan and no action taken pursuant to the Plan shall create or be construed to create a trust of any kind or any fiduciary relationship between the Company and any Participant, the executor, administrator or other personal representative or designated beneficiary of such Participant, or any other persons. To the extent that any Participant or his executor, administrator, or other personal representative, as the case may be, acquires a right to receive any benefit from the Company pursuant to the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company.

Section 12.8. Rights as a Stockholder. A Participant shall have no rights as a stockholder with respect to any Stock until he shall have become the holder of record of such Stock.

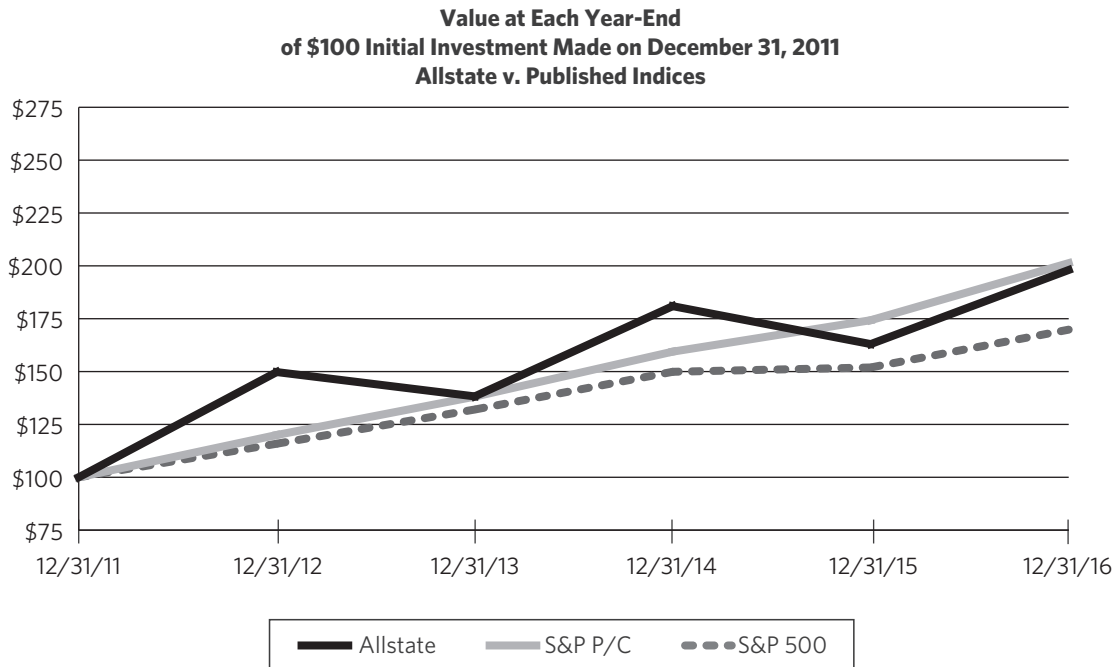
Section 12.9. Deferrals and Settlements. The Board may require or permit Participants to elect to defer the issuance of shares of Stock, including Election Shares, or the settlement of Awards in cash subject to such terms and conditions as it shall determine upon recommendation of the Committee. It may also provide that deferred settlements include the payment or crediting of Dividend Equivalents on the deferral amounts. Any such rules or procedures shall comply with the requirements of Section 409A, including those with respect to the time when a deferral election may be made, the period of the deferral, and the events that would result in the payment of the deferred amount.

**2016 Annual Report
Table of Contents**

	Page
Performance Graph	103
Risk Factors	103
5-Year Summary of Selected Financial Data	116
Management's Discussion and Analysis of Financial Condition and Results of Operations	
Overview	117
2016 Highlights	118
Consolidated Net Income	118
Impact of Low Interest Rate Environment	119
Property-Liability 2016 Highlights	120
Property-Liability Operations	120
Allstate Protection Segment	122
Discontinued Lines and Coverages Segment	144
Property-Liability Investment Results	145
Property-Liability Claims and Claims Expense Reserves	146
Allstate Financial 2016 Highlights	158
Allstate Financial Segment	158
Investments 2016 Highlights	171
Investments	171
Market Risk	185
Pension and Other Postretirement Plans	188
Goodwill	191
Capital Resources and Liquidity 2016 Highlights	192
Capital Resources and Liquidity	192
Enterprise Risk and Return Management	198
Application of Critical Accounting Estimates	200
Regulation and Legal Proceedings	212
Pending Accounting Standards	212
Financial Statements and Supplementary Data	
Consolidated Statements of Operations	213
Consolidated Statements of Comprehensive Income	214
Consolidated Statements of Financial Position	215
Consolidated Statements of Shareholders' Equity	216
Consolidated Statements of Cash Flows	217
Notes to Consolidated Financial Statements (Notes)	218
Report of Independent Registered Public Accounting Firm	300

Performance Graph

The following performance graph compares the performance of Allstate common stock total return during the five-year period from December 31, 2011, through December 31, 2016, with the performance of the S&P 500 Property/Casualty Index and the S&P 500 Index. The graph plots the cumulative changes in value of an initial \$100 investment as of December 31, 2011, over the indicated time periods, assuming all dividends are reinvested quarterly.



Value at each year-end of \$100 initial investment made on December 31, 2011:

	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Allstate	\$ 100.00	\$ 149.76	\$ 138.26	\$ 180.93	\$ 163.00	\$ 198.05
S&P P/C	\$ 100.00	\$ 120.00	\$ 138.13	\$ 159.42	\$ 174.29	\$ 201.30
S&P 500	\$ 100.00	\$ 115.88	\$ 132.04	\$ 149.89	\$ 151.94	\$ 169.82

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.

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

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

⁽²⁾ 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of 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
Preferred stock dividends	(116)	(116)	(104)
Net income applicable to common shareholders	<u>\$ 1,761</u>	<u>\$ 2,055</u>	<u>\$ 2,746</u>
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	<u>\$ 1,761</u>	<u>\$ 2,055</u>	<u>\$ 2,746</u>

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⁾ :			
Resetable in next 12 months	1.85	3.24	401
Resetable 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)	(1,491)	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)
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	<u>\$ 31,307</u>	<u>\$ 30,309</u>	<u>\$ 28,929</u>
Premiums earned			
Allstate Protection	\$ 31,307	\$ 30,309	\$ 28,928
Discontinued Lines and Coverages	—	—	1
Property-Liability	<u>\$ 31,307</u>	<u>\$ 30,309</u>	<u>\$ 28,929</u>

⁽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	<u>\$ 31,597</u>	<u>\$ 30,871</u>	<u>\$ 29,613</u>
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	<u>\$ 31,307</u>	<u>\$ 30,309</u>	<u>\$ 28,928</u>

⁽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.

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)			% earned after			
			Three months	Six months	Nine months	Twelve months
	2016	2015				
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	
Underwriting income (loss)		Percent to total		Percent to total		Percent to total		Percent to total
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
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 HandsSM", 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

⁽¹⁾ Rate changes that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued. Rate changes do not include rating plan enhancements, including the introduction of discounts and surcharges that result in no change in the overall rate level in a location. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a location. 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.

⁽⁴⁾ Represents the impact in the states, the District of Columbia and Canadian provinces where rate changes were approved during the period as a percentage of 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)
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
Underwriting income (loss) by line of business			
Auto	\$ (65)	\$ (145)	\$ (256)
Homeowners	(59)	(19)	1
Other personal lines	—	—	(4)
Underwriting loss	\$ (124)	\$ (164)	\$ (259)

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

⁽¹⁾ Rate changes that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued. Rate changes do not include rating plan enhancements, including the introduction of discounts and surcharges that result in no change in the overall rate level in a location. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a location.

⁽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 (%)	(0.5) ⁽⁴⁾	N/A	N/A
Location specific (%)	(10.0) ⁽⁴⁾	N/A	N/A

⁽¹⁾ 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.

⁽²⁾ Includes rate changes approved based on our net cost of reinsurance.

⁽³⁾ Esurance brand operates in 31 states and 2 Canadian provinces.

⁽⁴⁾ 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.

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
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	<u>\$ 1,140</u>	<u>\$ 1,244</u>	<u>\$ 1,280</u>
Premiums earned			
Auto	\$ 623	\$ 657	\$ 655
Homeowners	479	504	486
Other personal lines	100	108	106
Total	<u>\$ 1,202</u>	<u>\$ 1,269</u>	<u>\$ 1,247</u>

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

⁽¹⁾ Rate changes that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued. Rate changes do not include rating plan enhancements, including the introduction of discounts and surcharges that result in no change in the overall rate level in a location. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a location.

⁽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:

- 14.0% or 101 thousand decrease in PIF as of December 31, 2016 compared to December 31, 2015.
- 34.1% 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.
- 39.3% 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.

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
Allstate brand	\$ 14,974	\$ 14,214	\$ 14,225
Esurance brand	717	649	575
Encompass brand	770	754	747
Total Allstate Protection	16,461	15,617	15,547
Discontinued Lines and Coverages	1,516	1,612	1,646
Total Property-Liability	\$ 17,977	\$ 17,229	\$ 17,193

(\$ in millions, except ratios)

	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	\$ (106)	(0.3)	\$ 38	0.1	\$ (171)	(0.6)
Esurance brand	(21)	(0.1)	(17)	—	(16)	(0.1)
Encompass brand	5	—	7	—	(9)	—
Total Allstate Protection	(122)	(0.4)	28	0.1	(196)	(0.7)
Discontinued Lines and Coverages	105	0.3	53	0.2	112	0.4
Total Property-Liability ⁽³⁾	\$ (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
Total Allstate Protection Discontinued Lines and Coverages	37	(4)	(20)	(18)	(60)	(24)	(76)	(29)	49	173	28
	53	—	—	—	—	—	—	—	—	—	53
Total Property-Liability	\$ 90	\$ (4)	\$ (20)	\$ (18)	\$ (60)	\$ (24)	\$ (76)	\$ (29)	\$ 49	\$ 173	\$ 81

2014 Prior year reserve reestimates

(\$ in millions)	2004 & prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
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 Discontinued Lines and Coverages	(36)	(9)	(11)	3	(21)	35	(88)	(49)	(99)	79	(196)
	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	(26.9)%	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.

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	2015	2016
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	\$ 23,869	\$ 25,250
Reinsurance recoverable	2,256	2,205	2,274	2,139	2,072	2,588	4,010	4,664	5,694	5,892	6,184
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	17,977	19,066
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	6,910	
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	17,977	19,066
One year later	16,438	16,830	17,070	16,869	17,061	17,122	17,157	17,109	17,310	17,960	
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	17	
Percent	(7.9)%	(6.8)%	(1.7)%	(0.1)%	2.8%	5.1%	2.4%	1.4%	0.1%	0.1%	
Gross reestimated liability-latest	23,370	23,150	22,944	22,289	22,167	22,278	23,301	22,728	23,048	23,930	
Reestimated recoverable-latest	5,452	5,358	5,465	5,252	5,263	5,391	6,434	5,768	5,830	5,970	
Net reestimated liability-latest	17,918	17,792	17,479	17,037	16,904	16,887	16,867	16,960	17,218	17,960	
Gross cumulative reestimate (increase) decrease	\$ (4,504)	\$ (4,285)	\$ (3,488)	\$ (3,122)	\$ (2,699)	\$ (1,903)	\$ (2,013)	\$ (871)	\$ (125)	\$ (61)	

(\$ 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)	<u>\$ (1,308)</u>	<u>\$ (1,132)</u>	<u>\$ (297)</u>	<u>\$ (9)</u>	<u>\$ 492</u>	<u>\$ 900</u>	<u>\$ 411</u>	<u>\$ 233</u>	<u>\$ 11</u>	<u>\$ 17</u>

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	<u>\$ (172)</u>	<u>\$ 170</u>	<u>\$ (112)</u>	<u>\$ (159)</u>	<u>\$ (335)</u>	<u>\$ (665)</u>	<u>\$ (121)</u>	<u>\$ (84)</u>	<u>\$ 81</u>	<u>\$ (17)</u>	<u>\$ (1,414)</u>

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	<u>\$ 16,461</u>	<u>\$ 15,617</u>	<u>\$ 15,547</u>

(\$ 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	<u>\$ (122)</u>	<u>(0.4)</u>	<u>\$ 28</u>	<u>0.1</u>	<u>\$ (196)</u>	<u>(0.7)</u>
Underwriting income	<u>\$ 1,317</u>		<u>\$ 1,614</u>		<u>\$ 1,887</u>	
Reserve reestimates as a % impact on underwriting income	<u>9.3%</u>		<u>(1.7)%</u>		<u>10.4%</u>	

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.

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 reserves	Active policyholders	Net reserves	% of reserves	Active policyholders	Net reserves	% of reserves
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 15 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	<u>6,883</u>	<u>7,151</u>	<u>7,306</u>
Closed without payment	<u>373</u>	<u>398</u>	<u>433</u>
Environmental			
Pending, beginning of year	3,504	3,552	3,717
New	292	347	381
Closed	(397)	(395)	(546)
Pending, end of year	<u>3,399</u>	<u>3,504</u>	<u>3,552</u>
Closed without payment	<u>211</u>	<u>254</u>	<u>369</u>

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		<u>6</u>	<u>3</u>
Subtotal		<u>5,619</u>	<u>5,265</u>

(\$ in millions)

	S & P financial strength rating ⁽¹⁾	Reinsurance recoverable on paid and unpaid claims, net	
		2016	2015
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
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.

⁽²⁾ As of December 31, 2016 and 2015, MCCA includes \$28 million and \$29 million of reinsurance recoverable on 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	<u>\$ 987</u>	<u>\$ 1,006</u>	<u>\$ 1,030</u>
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	<u>78</u>	<u>78</u>	<u>69</u>
Subtotal industry pools and facilities	1,021	544	1,307
Other	<u>95</u>	<u>58</u>	<u>86</u>
Ceded property-liability claims and claims expense	<u>\$ 1,116</u>	<u>\$ 602</u>	<u>\$ 1,393</u>

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⁾	<u>(204)</u>	<u>(105)</u>	<u>(190)</u>	<u>(102)</u>	<u>(187)</u>	<u>(100)</u>
Ending reserves ⁽²⁾	<u>\$ 5,443</u>	<u>\$ 522</u>	<u>\$ 5,121</u>	<u>\$ 486</u>	<u>\$ 4,804</u>	<u>\$ 417</u>

⁽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.

⁽²⁾ Gross reserves for the year ended December 31, 2016 comprise 85% case reserves (claims with a file review 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.

Number of claims	2016	2015	2014
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	<u>5,388</u>	<u>5,127</u>	<u>4,936</u>

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	\$ 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	\$ 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

⁽¹⁾ The table above illustrates the changes in contractholder funds, which are presented gross of reinsurance recoverables on the Consolidated Statements of Financial Position. The table above is intended to supplement our discussion and analysis of revenues, which are presented net of reinsurance on the Consolidated Statements of Operations. 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	<u>\$ 1,734</u>	<u>\$ 1,884</u>	<u>\$ 2,131</u>
Allstate Life	\$ 482	\$ 490	\$ 519
Allstate Benefits	71	71	72
Allstate Annuities	1,181	1,323	1,540
Net investment income	<u>\$ 1,734</u>	<u>\$ 1,884</u>	<u>\$ 2,131</u>

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

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

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

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

Amortization of DAC increased 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") ⁽¹⁾	—	—	2	(1)	—	—	2	(1)
Effect of unrealized capital gains and losses ⁽²⁾	—	—	(74)	99	—	5	(74)	104
Ending balance	<u>\$ 821</u>	<u>\$ 792</u>	<u>\$ 905</u>	<u>\$ 993</u>	<u>\$ 40</u>	<u>\$ 47</u>	<u>\$ 1,766</u>	<u>\$ 1,832</u>

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

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

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	<u>\$ 1,766</u>	<u>\$ 1,832</u>

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	<u>\$ 497</u>	<u>\$ 472</u>	<u>\$ 466</u>
Restructuring and related charges	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 2</u>
Allstate Life	\$ 225	\$ 212	\$ 232
Allstate Benefits	240	222	206
Allstate Annuities	32	38	28
Total operating costs and expenses	<u>\$ 497</u>	<u>\$ 472</u>	<u>\$ 466</u>

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 ⁽⁵⁾		Allstate Financial ⁽⁵⁾		Corporate and Other ⁽⁵⁾		Total	
		Percent to total		Percent to total		Percent to total		Percent to total
Fixed income securities ⁽¹⁾	\$ 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%

⁽¹⁾ Fixed income securities are carried at fair value. Amortized cost basis for these securities was \$30.20 billion, \$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.

⁽⁴⁾ Short-term investments are carried at fair value. Amortized cost basis for these investments was \$3.41 billion, \$609 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	<u>\$ 81,799</u>	<u>\$ 66,225</u>	<u>\$ 9,565</u>	<u>\$ 5,989</u>	<u>\$ 20</u>
% 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	<u>\$ 1,770</u>	<u>\$ 1,685</u>	<u>\$ 80</u>	<u>\$ 5</u>	<u>\$ —</u>

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
RMBS	728	0.9	947	1.2
CMBS	270	0.3	466	0.6
Redeemable preferred stock	24	—	25	—
Total fixed income securities	<u>\$ 57,839</u>	<u>70.7%</u>	<u>\$ 57,948</u>	<u>74.5%</u>

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	<u>\$ 49,217</u>	<u>\$ 1,084</u>	<u>\$ 8,622</u>	<u>\$ 179</u>	<u>\$ 57,839</u>	<u>\$ 1,263</u>
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	<u>\$ 49,217</u>	<u>\$ 1,084</u>	<u>\$ 8,622</u>	<u>\$ 179</u>	<u>\$ 57,839</u>	<u>\$ 1,263</u>

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 general obligation	Local general obligation	Revenue ⁽¹⁾	Fair value	Amortized cost	Average credit rating
State						
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	<u>\$ 4,210</u>	<u>\$ 1,102</u>	<u>\$ 502</u>	<u>\$ 5,814</u>
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	<u>\$ 16,171</u>	<u>\$ (344)</u>	<u>\$ 2,669</u>	<u>\$ (103)</u>	<u>\$ 18,840</u>	<u>\$ (447)</u>
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	<u>\$ 16,171</u>	<u>\$ (344)</u>	<u>\$ 2,669</u>	<u>\$ (103)</u>	<u>\$ 18,840</u>	<u>\$ (447)</u>

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	<u>\$ 1,381</u>	<u>\$ (29)</u>	<u>\$ 744</u>	<u>\$ (16)</u>	<u>\$ 49</u>	<u>\$ (9)</u>	<u>\$ 2,174</u>	<u>\$ (54)</u>
	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
	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	<u>\$ 116</u>	<u>\$ (7)</u>	<u>\$ 132</u>	<u>\$ (5)</u>	<u>\$ 51</u>	<u>\$ (6)</u>	<u>\$ 299</u>	<u>\$ (18)</u>
Total	<u>\$ 1,497</u>	<u>\$ (36)</u>	<u>\$ 876</u>	<u>\$ (21)</u>	<u>\$ 100</u>	<u>\$ (15)</u>	<u>\$ 2,473</u>	<u>\$ (72)</u>

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	<u>\$ 5,157</u>	<u>\$ 594</u>	<u>\$ (85)</u>	<u>\$ 5,666</u>

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	<u>\$ 3,042</u>	<u>\$ 3,156</u>	<u>\$ 3,459</u>
Property-Liability	\$ 1,266	\$ 1,237	\$ 1,301
Allstate Financial	1,734	1,884	2,131
Corporate & Other	42	35	27
Net investment income	<u>\$ 3,042</u>	<u>\$ 3,156</u>	<u>\$ 3,459</u>
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	<u>\$ 3,213</u>	<u>\$ 3,306</u>	

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	<u>\$ (56)</u>	<u>\$ 19</u>	<u>\$ 451</u>
Property-Liability	\$ —	\$ (154)	\$ 357
Allstate Financial	(54)	173	94
Corporate & Other	(2)	—	—
Realized capital gains and losses, after-tax	<u>\$ (56)</u>	<u>\$ 19</u>	<u>\$ 451</u>
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	<u>\$ (90)</u>	<u>\$ 30</u>	

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	<u>\$ (234)</u>	<u>\$ (195)</u>	<u>\$ (32)</u>

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.

⁽²⁾ Other limited partnership interests are located in the market-based core and performance-based opportunistic investing strategies and are not included in the performance-based long-term table above. Investment income (loss) was zero, \$(10) million and \$12 million in 2016, 2015 and 2014, respectively, for these limited partnership interests.

⁽³⁾ 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.

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	<u>\$ (76)</u>	<u>\$ (46)</u>	<u>\$ 20</u>
Property-Liability	\$ (46)	\$ (34)	\$ 22
Allstate Financial	(30)	(12)	(2)
Total PBLT	<u>\$ (76)</u>	<u>\$ (46)</u>	<u>\$ 20</u>

⁽¹⁾ Other limited partnership interests are located in the market-based core and performance-based opportunistic investing strategies and are not included in the performance-based long-term table above. Realized capital gains and losses were \$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	<u>\$ 146</u>	<u>\$ 113</u>	<u>\$ 83</u>

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.

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.

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.

	<u>Property- Liability</u>	<u>Allstate Financial</u>	<u>Corporate and Other</u>
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.

	<u>Property- Liability</u>	<u>Allstate Financial</u>	<u>Corporate and Other</u>
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, AIC 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 AIC 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 AIC 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.

⁽²⁾ \$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.

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

⁽⁴⁾ 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	<u>\$ 126,997</u>	<u>\$ 21,761</u>	<u>\$ 17,366</u>	<u>\$ 10,498</u>	<u>\$ 77,372</u>

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

⁽²⁾ Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life 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.
- (4) Our payment obligations relating to operating leases, unconditional purchase obligations and pension and other postretirement benefits ("OPEB") contributions are managed within the structure of our intermediate to long-term liquidity management program.
- (5) 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 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.
- (6) 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. 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	Less than 1 year	1 to 3 years	Over 3 years 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 ERRM 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 ERRM 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 ERRM 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 ERRM 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 results and financial conditions, claims frequency and severity, catastrophes and severe weather, and mortality and morbidity risk.

Insurance risk exposures are measured and monitored with a number of different approaches including:

- Stochastic methods: measures and monitors risks such as natural catastrophes and severe weather. We develop probabilistic estimates of risk that is based on our exposures, historical observed volatility and/or industry-recognized models in the case of catastrophe risk.
- Scenario analysis: measures and monitors risks and estimate losses due to catastrophe scenarios. Stress scenario events are also analyzed for mortality/morbidity risk exposures.

Financial risk management addresses the risk of insufficient cash flows to meet corporate or policyholder needs, risk of inadequate aggregate capital or capital within any subsidiary, inability to access capital markets or risk associated with a business counterparty default.

Financial risk exposures include capital resources and liquidity sources and uses.

We actively manage our capital and liquidity levels in light of changing market, economic, and business conditions. Our capital position, capital generation capacity, and targeted risk profile provide strategic and financial flexibility.

We generally assess solvency on a statutory accounting basis, but also consider GAAP volatility. Current enterprise economic capital, which exceeds targeted levels, approximates a combination of total statutory surplus and deployable invested assets at the parent holding company level which were \$16.82 billion and \$2.43 billion, respectively, as of December 31, 2016.

Investment risk management addresses financial loss due to changes in the valuations of assets held in the Allstate investment portfolio. Such losses may be caused by macro developments, such as rising interest rates, widening credit spreads, and falling equity prices, or could be specific to individual investments in the portfolio. These losses can encompass both daily market volatility and permanent impairments of capital due to credit defaults and equity write-downs.

Investment risk exposures include interest rate risk, credit spread risk, equity price risk and foreign currency exchange rate risk.

Investment risk exposures are measured and monitored in a number of ways including:

- Sensitivity analysis: measures the impact from a unit change in a market risk input.
- Stochastic and probabilistic estimation of potential losses: combines portfolio risk exposures with historical or recent market volatilities and correlations to assess the potential span of future investment results.
- Stress testing: measures material adverse outcomes such as shock scenarios applied to credit, public and private equity markets.

Operational risk management addresses loss as a result of the failure of people, processes, and systems, or from external events. Operational risk exposures include human resources, privacy, regulatory compliance, ethics, system availability, cybersecurity, data quality, disaster recovery and business continuity.

Operational risk is managed at the enterprise and business unit levels, with business units identifying, measuring, monitoring, managing, and reporting these and other operational risks at a more detailed level.

Strategic risk management addresses loss associated with inadequate or flawed business planning or strategy setting, including product mix, mergers or acquisitions and market positioning, and unexpected changes within the market or regulatory environment in which Allstate operates. This includes reputational risk, which is the potential for negative publicity regarding a company's conduct or business practices to adversely impact its profitability, operations, consumer base, or require costly litigation and other defensive measures.

Strategic risk exposures include strategic priorities or business model, workforce and reputation.

We manage strategic risk through the Company's board of directors and senior management strategy reviews that include a risk and return assessment of our strategic plans, S&RC governance, and ongoing monitoring of our strategic actions and the external competitive environment. Using the ERRM framework, Allstate designs strategies that seek to optimize risk-adjusted returns on economic capital for risk types including interest rate risk, credit risk to equity investments with idiosyncratic return potential, auto profitability, and growing property exposure.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The most critical estimates, presented in the order they appear in the Consolidated Statements of Financial Position, include those used in determining:

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

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

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

Fair value of financial assets Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are responsible for the determination of fair value of financial assets and the supporting assumptions and methodologies. We use independent third-party valuation service providers, broker quotes and internal pricing methods to determine fair values. We obtain or calculate only one single quote or price for each financial instrument.

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

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

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

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

We gain assurance that our financial assets are appropriately valued through the execution of various processes and controls designed to ensure the overall reasonableness and consistent application of valuation methodologies, including inputs and assumptions, and compliance with accounting standards. For fair values received from third parties or internally estimated, our processes and controls are designed to ensure that the valuation methodologies are appropriate and consistently applied, the inputs and assumptions are reasonable and consistent with the objective

of determining fair value, and the fair values are accurately recorded. For example, on a continuing basis, we assess the reasonableness of individual fair values that have stale security prices or that exceed certain thresholds as compared to previous fair values received from valuation service providers or brokers or derived from internal models. We perform procedures to understand and assess the methodologies, processes and controls of valuation service providers. In addition, we may validate the reasonableness of fair values by comparing information obtained from valuation service providers or brokers to other third party valuation sources for selected securities. We perform ongoing price validation procedures such as back-testing of actual sales, which corroborate the various inputs used in internal models to market observable data. When fair value determinations are expected to be more variable, we validate them through reviews by members of management who have relevant expertise and who are independent of those charged with executing investment transactions.

We also perform an analysis to determine whether there has been a significant decrease in the volume and level of activity for the asset when compared to normal market activity, and if so, whether transactions may not be orderly. Among the indicators we consider in determining whether a significant decrease in the volume and level of market activity for a specific asset has occurred include the level of new issuances in the primary market, trading volume in the secondary market, level of credit spreads over historical levels, bid-ask spread, and price consensus among market participants and sources. If evidence indicates that prices are based on transactions that are not orderly, we place little, if any, weight on the transaction price and will estimate fair value using an internal model. As of December 31, 2016 and 2015, we did not adjust fair values provided by our valuation service providers or brokers or substitute them with an internal model for such securities.

The following table identifies fixed income and equity securities and short-term investments as of December 31, 2016 by source of fair value determination.

(\$ in millions)	Fair value	Percent to total
Fair value based on internal sources	\$ 3,647	5.4%
Fair value based on external sources ⁽¹⁾	64,146	94.6
Total	<u>\$ 67,793</u>	<u>100.0%</u>

⁽¹⁾ Includes \$957 million that are valued using broker quotes.

For additional detail on fair value measurements, see Note 6 of the consolidated financial statements.

Impairment of fixed income and equity securities For investments classified as available for sale, the difference between fair value and amortized cost for fixed income securities and cost for equity securities, net of certain other items and deferred income taxes (as disclosed in Note 5), is reported as a component of accumulated other comprehensive income on the Consolidated Statements of Financial Position and is not reflected in the operating results of any period until reclassified to net income upon the consummation of a transaction with an unrelated third party or when a write-down is recorded due to an other-than-temporary decline in fair value. We have a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value may be other-than-temporarily impaired.

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

If we have not made the decision to sell the fixed income security and it is not more likely than not we will be required to sell the fixed income security before recovery of its amortized cost basis, we evaluate whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. We use our best estimate of future cash flows expected to be collected from the fixed income security, discounted at the security's original or current effective rate, as appropriate, to calculate a recovery value and determine whether a credit loss exists. The determination of cash flow estimates is inherently subjective and methodologies may vary depending on facts and circumstances specific to the security. All reasonably available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable assumptions and forecasts, are considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, foreign exchange rates, the financial condition and future earnings potential of the issue or issuer, expected defaults, expected recoveries, the value of underlying collateral, vintage, geographic concentration, available reserves or escrows, current subordination levels, third party guarantees and other credit enhancements. Other information, such as industry analyst reports and forecasts, sector credit ratings, financial condition of the bond insurer for insured fixed income securities, and other market data relevant to the realizability of contractual cash flows, may also be considered. The estimated fair value of collateral will be used to estimate recovery value if we determine that the security is dependent on the liquidation of collateral for ultimate settlement. If the estimated recovery

value is less than the amortized cost of the security, a credit loss exists and an other-than-temporary impairment for the difference between the estimated recovery value and amortized cost is recorded in earnings. The portion of the unrealized loss related to factors other than credit remains classified in accumulated other comprehensive income. If we determine that the fixed income security does not have sufficient cash flow or other information to estimate a recovery value for the security, we may conclude that the entire decline in fair value is deemed to be credit related and the loss is recorded in earnings.

There are a number of assumptions and estimates inherent in evaluating impairments of equity securities and determining if they are other than temporary, including: 1) our ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; 3) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity; and 4) the length of time and extent to which the fair value has been less than cost.

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

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

For additional detail on investment impairments, see Note 5 of the consolidated financial statements.

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

DAC related to property-liability contracts is amortized into income as premiums are earned, typically over periods of six or twelve months. The amortization methodology for DAC related to Allstate Financial policies and contracts includes significant assumptions and estimates.

DAC related to traditional life and voluntary accident and health insurance is amortized over the premium paying period of the related policies in proportion to the estimated revenues on such business. Significant assumptions relating to estimated premiums, investment returns, as well as mortality, persistency and expenses to administer the business are established at the time the policy is issued and are generally not revised during the life of the policy. The assumptions for determining the timing and amount of DAC amortization are consistent with the assumptions used to calculate the reserve for life-contingent contract benefits. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies may result in a change to the rate of amortization in the period such events occur. Generally, the amortization periods for these policies approximates the estimated lives of the policies. The recovery of DAC is dependent upon the future profitability of the business. We periodically review the adequacy of reserves and recoverability of DAC for these policies on an aggregate basis using actual experience. We aggregate traditional life insurance products and immediate annuities with life contingencies in one analysis, and voluntary accident and health insurance in a separate analysis. In the event actual experience is significantly adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance must be expensed to the extent not recoverable and a premium deficiency reserve may be required if the remaining DAC balance is insufficient to absorb the deficiency. In 2016, 2015 and 2014, our reviews concluded that no premium deficiency adjustments were necessary.

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

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

Each reporting period, DAC amortization is recognized in proportion to AGP for that period adjusted for interest on the prior period DAC balance. This amortization process includes an assessment of AGP compared to EGP, the actual amount of business remaining in force and realized capital gains and losses on investments supporting the product liability. The impact of realized capital gains and losses on amortization of DAC depends upon which product liability is supported by the assets that give rise to the gain or loss. If the AGP is greater than EGP in the period, but the total EGP is unchanged, the amount of DAC amortization will generally increase, resulting in a current period decrease to earnings. The opposite result generally occurs when the AGP is less than the EGP in the period, but the total EGP is unchanged. However, when DAC amortization or a component of gross profits for a quarterly period is potentially negative (which would result in an increase of the DAC balance) as a result of negative AGP, the specific facts and circumstances surrounding the potential negative amortization are considered to determine whether it is appropriate for recognition in the consolidated financial statements. Negative amortization is only recorded when the increased DAC balance is determined to be recoverable based on facts and circumstances. For products whose supporting investments are exposed to capital losses in excess of our expectations which may cause periodic AGP to become temporarily negative, EGP and AGP utilized in DAC amortization may be modified to exclude the excess capital losses.

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

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

(\$ in millions)	2016	2015	2014
Investment margin	\$ (1)	\$ 2	\$ 11
Benefit margin	1	1	35
Expense margin	(2)	(2)	(54)
Net (deceleration) acceleration	<u>\$ (2)</u>	<u>\$ 1</u>	<u>\$ (8)</u>

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

In 2015, DAC amortization acceleration for changes in the investment margin component of EGP related to interest-sensitive life insurance and was due to lower projected investment returns. The acceleration related to benefit margin primarily related to interest-sensitive life insurance and was due to a true up of actual inforce data. The deceleration related to expense margin primarily related to interest-sensitive life insurance and was due to a decrease in projected expenses.

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

The following table displays the sensitivity of reasonably likely changes in assumptions included in the gross profit components of investment margin or benefit margin to amortization of the DAC balance as of December 31, 2016.

(\$ in millions)	Increase/(reduction) in DAC	
Increase in future investment margins of 25 basis points	\$	54
Decrease in future investment margins of 25 basis points	\$	(59)
Decrease in future life mortality by 1%	\$	15
Increase in future life mortality by 1%	\$	(15)

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

For additional detail related to DAC, see the Allstate Financial Segment section of the MD&A.

Reserve for property-liability insurance claims and claims expense estimation Reserves are established to provide for the estimated costs of paying claims and claims expenses under insurance policies we have issued. Property-Liability underwriting results are significantly influenced by estimates of property-liability insurance claims and claims expense reserves. These reserves are an estimate of amounts necessary to settle all outstanding claims, including IBNR, as of the financial statement date.

Characteristics of reserves Reserves are established independently of business segment management for each business segment and line of business based on estimates of the ultimate cost to settle claims, less losses that have been paid. The significant lines of business are auto, homeowners, and other personal lines for Allstate Protection, and asbestos, environmental, and other discontinued lines for Discontinued Lines and Coverages. Allstate Protection's claims are typically reported promptly with relatively little reporting lag between the date of occurrence and the date the loss is reported. Auto and homeowners liability losses generally take an average of about two years to settle, while auto physical damage, homeowners property and other personal lines have an average settlement time of less than one year. Discontinued Lines and Coverages involve long-tail losses, such as those related to asbestos and environmental claims, which often involve substantial reporting lags and extended times to settle.

Reserves are the difference between the estimated ultimate cost of losses incurred and the amount of paid losses as of the reporting date. Reserves are estimated for both reported and unreported claims, and include estimates of all expenses associated with processing and settling all incurred claims. We update most of our reserve estimates quarterly and as new information becomes available or as events emerge that may affect the resolution of unsettled claims. Changes in prior reserve estimates (reserve reestimates), which may be material, are determined by comparing updated estimates of ultimate losses to prior estimates, and the differences are recorded as property-liability insurance claims and claims expense in the Consolidated Statements of Operations in the period such changes are determined. Estimating the ultimate cost of claims and claims expenses is an inherently uncertain and complex process involving a high degree of judgment and is subject to the evaluation of numerous variables.

The actuarial methods used to develop reserve estimates Reserve estimates are derived by using several different actuarial estimation methods that are variations on one primary actuarial technique. The actuarial technique is known as a "chain ladder" estimation process in which historical loss patterns are applied to actual paid losses and reported losses (paid losses plus individual case reserves established by claim adjusters) for an accident year or a report year to create an estimate of how losses are likely to develop over time. An accident year refers to classifying claims based on the year in which the claims occurred. A report year refers to classifying claims based on the year in which the claims are reported. Both classifications are used to prepare estimates of required reserves for payments to be made in the future. The key assumptions affecting our reserve estimates comprise data elements including claim counts, paid losses, case reserves, and development factors calculated with this data.

In the chain ladder estimation technique, a ratio (development factor) is calculated which compares current period results to results in the prior period for each accident year. A three-year or two-year average development factor, based on historical results, is usually multiplied by the current period experience to estimate the development of losses of each accident year into the next time period. The development factors for the future time periods for each accident year are

compounded over the remaining future periods to calculate an estimate of ultimate losses for each accident year. The implicit assumption of this technique is that an average of historical development factors is predictive of future loss development, as the significant size of our experience database achieves a high degree of statistical credibility in actuarial projections of this type. The effects of inflation are implicitly considered in the reserving process, the implicit assumption being that a multi-year average development factor includes an adequate provision. The “chain ladder” estimation relies on the assumption that the past loss development patterns will persist in the future. This assumption may require modification when data changes due to changing claim reporting practices, changing claim settlement patterns, external regulatory or financial influences, or contractual coverage changes. In these situations, actuarial estimation techniques are applied to appropriately modify the “chain ladder” assumptions. These actuarial techniques are necessary to analyze the effects of changing loss data to develop modified development factor selections. The actuarial estimation techniques include exclusion of unusual losses or aberrations and adjustment of historical data to present conditions. Actuarially modified patterns of development are calculated with the adjusted historical data. Actuarial judgment is then applied to make appropriate development factor assumptions needed to develop a best estimate of gross ultimate losses. These developments are discussed further in the Allstate brand loss ratio disclosures in the Allstate Protection Segment section of the MD&A.

How reserve estimates are established and updated Reserve estimates are developed at a very detailed level, and the results of these numerous micro-level best estimates are aggregated to form a consolidated reserve estimate. For example, over one thousand actuarial estimates of the types described above are prepared each quarter to estimate losses for each line of insurance, major components of losses (such as coverages and perils), major states or groups of states and for reported losses and IBNR. The actuarial methods described above are used to analyze the settlement patterns of claims by determining the development factors for specific data elements that are necessary components of a reserve estimation process. Development factors are calculated quarterly and periodically throughout the year for data elements such as claim counts reported and settled, paid losses, and paid losses combined with case reserves. The calculation of development factors from changes in these data elements also impacts claim severity trends, which is a common industry reference used to explain changes in reserve estimates. The historical development patterns for these data elements are used as the assumptions to calculate reserve estimates.

Often, several different estimates are prepared for each detailed component, incorporating alternative analyses of changing claim settlement patterns and other influences on losses, from which we select our best estimate for each component, occasionally incorporating additional analyses and actuarial judgment, as described above. These micro-level estimates are not based on a single set of assumptions. Actuarial judgments that may be applied to these components of certain micro-level estimates generally do not have a material impact on the consolidated level of reserves. Moreover, this detailed micro-level process does not permit or result in a compilation of a company-wide roll up to generate a range of needed loss reserves that would be meaningful. Based on our review of these estimates, our best estimate of required reserves for each state/line/coverage component is recorded for each accident year, and the required reserves for each component are summed to create the reserve balance carried on our Consolidated Statements of Financial Position.

Reserves are reestimated quarterly and periodically throughout the year, by combining historical results with current actual results to calculate new development factors. This process incorporates the historic and latest actual trends, and other underlying changes in the data elements used to calculate reserve estimates. New development factors are likely to differ from previous development factors used in prior reserve estimates because actual results (claims reported or settled, losses paid, or changes to case reserves) occur differently than the implied assumptions contained in the previous development factor calculations. If claims reported, paid losses, or case reserve changes are greater or less than the levels estimated by previous development factors, reserve reestimates increase or decrease. When actual development of these data elements is different than the historical development pattern used in a prior period reserve estimate, a new reserve is determined. The difference between indicated reserves based on new reserve estimates and recorded reserves (the previous estimate) is the amount of reserve reestimate and is recognized as an increase or decrease in property-liability insurance claims and claims expense in the Consolidated Statements of Operations. Total Property-Liability net reserve reestimates, after-tax, impact on net income applicable to common shareholders were 0.6% favorable in 2016, 2.6% unfavorable in 2015 and 2.0% favorable in 2014. The 3-year average of net reserve reestimates as a percentage of total reserves was zero for Property-Liability, a favorable 0.6% for Allstate Protection and an unfavorable 5.9% for Discontinued Lines and Coverages, each of these results being consistent within a reasonable actuarial tolerance for our respective businesses. A more detailed discussion of reserve reestimates is presented in the Property-Liability Claims and Claims Expense Reserves section of the MD&A.

The following table shows net claims and claims expense reserves by segment and line of business as of December 31:

(\$ in millions)	2016	2015	2014
Allstate Protection			
Auto	\$ 13,530	\$ 12,459	\$ 11,698
Homeowners	1,989	1,937	1,849
Other lines	2,102	2,065	2,070
Total Allstate Protection	17,621	16,461	15,617
Discontinued Lines and Coverages			
Asbestos	912	960	1,014
Environmental	179	179	203
Other discontinued lines	354	377	395
Total Discontinued Lines and Coverages	1,445	1,516	1,612
Total Property-Liability	\$ 19,066	\$ 17,977	\$ 17,229

Allstate Protection reserve estimates

Factors affecting reserve estimates Reserve estimates are developed based on the processes and historical development trends described above. These estimates are considered in conjunction with known facts and interpretations of circumstances and factors including our experience with similar cases, actual claims paid, historical trends involving claim payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, changes in law and regulation, judicial decisions, and economic conditions. When we experience changes of the type previously mentioned, we may need to apply actuarial judgment in the determination and selection of development factors considered more reflective of the new trends, such as combining shorter or longer periods of historical results with current actual results to produce development factors based on two-year, three-year, or longer development periods to reestimate our reserves. For example, if a legal change is expected to have a significant impact on the development of claim severity for a coverage which is part of a particular line of insurance in a specific state, actuarial judgment is applied to determine appropriate development factors that will most accurately reflect the expected impact on that specific estimate. Another example would be when a change in economic conditions is expected to affect the cost of repairs to damaged autos or property for a particular line, coverage, or state, actuarial judgment is applied to determine appropriate development factors to use in the reserve estimate that will most accurately reflect the expected impacts on severity development.

As claims are reported, for certain liability claims of sufficient size and complexity, the field adjusting staff establishes case reserve estimates of ultimate cost, based on their assessment of facts and circumstances related to each individual claim. For other claims which occur in large volumes and settle in a relatively short time frame, it is not practical or efficient to set case reserves for each claim, and a statistical case reserve is set for these claims based on estimation techniques described above. In the normal course of business, we may also supplement our claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, and other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims.

Historically, the case reserves set by the field adjusting staff have not proven to be an entirely accurate estimate of the ultimate cost of claims. To provide for this, a development reserve is estimated using the processes described above, and allocated to pending claims as a supplement to case reserves. Typically, the case, including statistical case, and supplemental development reserves comprise about 90% of total reserves.

Another major component of reserves is IBNR, which comprises about 10% of total reserves. IBNR can be a small percentage of reserves for relatively short-term claims, such as auto physical damage claims, or a large percentage of reserves for claims that have uncertain payout requirements over a long period of time, such as auto injury and MCCA claims. All major components of reserves are affected by changes in claim frequency as well as claim severity.

Generally, the initial reserves for a new accident year are established based on actual claim frequency and severity assumptions for different business segments, lines and coverages based on historical relationships to relevant inflation indicators. Reserves for prior accident years are statistically determined using processes described above. Changes in auto claim frequency may result from changes in mix of business, the rate of distracted driving, miles driven or other macroeconomic factors. Changes in auto current year claim severity are generally influenced by inflation in the medical and auto repair sectors of the economy and the effectiveness and efficiency of our claim practices. We mitigate these effects through various loss management programs. Injury claims are affected largely by medical cost inflation while physical damage claims are affected largely by auto repair cost inflation and used car prices. For auto physical damage coverages, we monitor our rate of increase in average cost per claim against the Maintenance and Repair price index and the Parts and Equipment price index and other external indices. We believe our claim settlement initiatives, such

as improvements to the claim review and settlement process, the use of special investigative units to detect fraud and handle suspect claims, litigation management and defense strategies, as well as various other loss management initiatives underway, contribute to the mitigation of injury and physical damage severity trends.

Changes in homeowners current year claim severity are generally influenced by inflation in the cost of building materials, the cost of construction and property repair services, the cost of replacing home furnishings and other contents, the types of claims that qualify for coverage, deductibles, other economic and environmental factors and the effectiveness and efficiency of our claim practices. We employ various loss management programs to mitigate the effect of these factors.

As loss experience for the current year develops for each type of loss, it is monitored relative to initial assumptions until it is judged to have sufficient statistical credibility. From that point in time and forward, reserves are reestimated using statistical actuarial processes to reflect the impact actual loss trends have on development factors incorporated into the actuarial estimation processes. Statistical credibility is usually achieved by the end of the first calendar year; however, when trends for the current accident year exceed initial assumptions sooner, they are usually determined to be credible, and reserves are increased accordingly.

The very detailed processes for developing reserve estimates, and the lack of a need and existence of a common set of assumptions or development factors, limits aggregate reserve level testing for variability of data elements. However, by applying standard actuarial methods to consolidated historic accident year loss data for major loss types, comprising auto injury losses, auto physical damage losses and homeowner losses, we develop variability analyses consistent with the way we develop reserves by measuring the potential variability of development factors, as described in the section titled "Potential Reserve Estimate Variability" below.

Causes of reserve estimate uncertainty Since reserves are estimates of unpaid portions of claims and claims expenses that have occurred, including IBNR losses, the establishment of appropriate reserves, including reserves for catastrophe losses, requires regular reevaluation and refinement of estimates to determine our ultimate loss estimate.

At each reporting date, the highest degree of uncertainty in estimates for most of our losses arise from claims remaining to be settled for the current accident year and the most recent preceding accident year. The greatest degree of uncertainty exists in the current accident year because the current accident year contains the greatest proportion of losses that have not been reported or settled but must be estimated as of the current reporting date. Most of these losses relate to damaged property such as automobiles and homes, and medical care for injuries from accidents. During the first year after the end of an accident year, a large portion of the total losses for that accident year are settled. When accident year losses paid through the end of the first year following the initial accident year are incorporated into updated actuarial estimates, the trends inherent in the settlement of claims emerge more clearly. Consequently, this is the point in time at which we tend to make our largest reestimates of losses for an accident year. After the second year, the losses that we pay for an accident year typically relate to claims that are more difficult to settle, such as those involving serious injuries or litigation. Private passenger auto insurance provides a good illustration of the uncertainty of future loss estimates: our typical annual percentage payout of reserves remaining at December 31 for an accident year is approximately 45% in the first year after the end of the accident year, 20% in the second year, 15% in the third year, 10% in the fourth year, and the remaining 10% thereafter.

Reserves for catastrophe losses Property-Liability claims and claims expense reserves also include reserves for catastrophe losses. Catastrophe losses are an inherent risk of the property-liability insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in our results of operations and financial position. 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.

The estimation of claims and claims expense reserves for catastrophe losses also comprises estimates of losses from reported claims and IBNR, primarily for damage to property. In general, our estimates for catastrophe reserves are based on claim adjuster inspections and the application of historical loss development factors as described above. However, depending on the nature of the catastrophe, the estimation process can be further complicated. For example, for hurricanes, complications could include the inability of insureds to promptly report losses, limitations placed on claims adjusting staff affecting their ability to inspect losses, determining whether losses are covered by our homeowners policy (generally for damage caused by wind or wind driven rain) or specifically excluded coverage caused by flood, estimating additional living expenses, and assessing the impact of demand surge, exposure to mold damage, and the effects of numerous other considerations, including the timing of a catastrophe in relation to other events, such as at or near the end of a financial reporting period, which can affect the availability of information needed to estimate reserves

for that reporting period. In these situations, we may need to adapt our practices to accommodate these circumstances in order to determine a best estimate of our losses from a catastrophe. For example, to complete estimates for certain areas affected by catastrophes not yet inspected by our claims adjusting staff, or where we believed our historical loss development factors were not predictive, we rely on analysis of actual claim notices received compared to total PIF, as well as visual, governmental and third party information, including aerial photos using drones and satellites, area observations, and data on wind speed and flood depth to the extent available.

Potential reserve estimate variability The aggregation of numerous micro-level estimates for each business segment, line of insurance, major components of losses (such as coverages and perils), and major states or groups of states for reported losses and IBNR forms the reserve liability recorded in the Consolidated Statements of Financial Position. Because of this detailed approach to developing our reserve estimates, there is not a single set of assumptions that determine our reserve estimates at the consolidated level. Given the numerous micro-level estimates for reported losses and IBNR, management does not believe the processes that we follow will produce a statistically credible or reliable actuarial reserve range that would be meaningful. Reserve estimates, by their very nature, are very complex to determine and subject to significant judgment, and do not represent an exact determination for each outstanding claim. Accordingly, as actual claims, paid losses, and/or case reserve results emerge, our estimate of the ultimate cost to settle will be different than previously estimated.

To develop a statistical indication of potential reserve variability within reasonably likely possible outcomes, an actuarial technique (stochastic modeling) is applied to the countrywide consolidated data elements for paid losses and paid losses combined with case reserves separately for injury losses, auto physical damage losses, and homeowners losses excluding catastrophe losses. Based on the combined historical variability of the development factors calculated for these data elements, an estimate of the standard error or standard deviation around these reserve estimates is calculated within each accident year for the last twelve years for each type of loss. The variability of these reserve estimates within one standard deviation of the mean (a measure of frequency of dispersion often viewed to be an acceptable level of accuracy) is believed by management to represent a reasonable and statistically probable measure of potential variability. Based on our products and coverages, historical experience, the statistical credibility of our extensive data and stochastic modeling of actuarial chain ladder methodologies used to develop reserve estimates, we estimate that the potential variability of our Allstate Protection reserves, excluding reserves for catastrophe losses, within a reasonable probability of other possible outcomes, may be approximately plus or minus 4%, or plus or minus \$600 million in net income applicable to common shareholders. A lower level of variability exists for auto injury losses, which comprise approximately 80% of reserves, due to their relatively stable development patterns over a longer duration of time required to settle claims. Other types of losses, such as auto physical damage, homeowners losses and other personal lines losses, which comprise about 20% of reserves, tend to have greater variability but are settled in a much shorter period of time. Although this evaluation reflects most reasonably likely outcomes, it is possible the final outcome may fall below or above these amounts. Historical variability of reserve estimates is reported in the Property-Liability Claims and Claims Expense Reserves section of the MD&A.

Reserves for Michigan and New Jersey unlimited personal injury protection Property-Liability claims and claims expense reserves include reserves for Michigan unlimited personal injury protection which is a mandatory coverage that provides unlimited personal injury protection to covered insureds involved in certain motor vehicle accidents. The administration of this program is through a private, non-profit association created by the state of Michigan, the MCCA.

The comprehensive process employed to estimate MCCA covered losses involves a number of activities including the comprehensive review and interpretation of MCCA actuarial reports, other MCCA members' reports and our personal injury protection loss trends which have increased in severity over time. We conduct comprehensive claim file reviews to develop case reserve type estimates of specific claims, which have increased our view of future claim development and longevity of claimants. Each year, we update the actuarial estimate of our ultimate reserves and recoverables. We report our paid and unpaid claims and case reserves, which include our best estimate of the ultimate claim cost, excluding IBNR to the MCCA based on their requirements. The MCCA does not provide member companies with its estimate of a company's claim costs. We continue to update each comprehensive claim file case reserve estimate when there is a significant change in the status of the claimant, or once every three years if there have been no significant changes. A significant portion of incurred claim reserves can be attributed to a small number of catastrophic claims and thus a large portion of the recoverable is similarly concentrated.

We provide similar personal injury protection coverage in New Jersey for auto policies issued or renewed in New Jersey prior to 1991 that is administered by PLIGA. We use similar actuarial estimating techniques as for the MCCA exposures to estimate loss reserves for unlimited personal injury protection coverage for policies covered by PLIGA. We continue to update our estimates for these claims as the status of claimants changes. However unlimited coverage was no longer offered after 1991, therefore no new claimants are being added.

Reserve estimates by their nature are very complex to determine and subject to significant judgments, and do not represent an exact determination for each outstanding claim. Claims may be subject to litigation. As actual claims, paid losses and/or case reserve results emerge, our estimate of the ultimate cost to settle may be materially greater or less than previously estimated amounts.

Adequacy of reserve estimates We believe our net claims and claims expense reserves are appropriately established based on available methodologies, facts, technology, laws and regulations. We calculate and record a single best reserve estimate, in conformance with generally accepted actuarial standards, for each line of insurance, its components (coverages and perils) and state, for reported losses and for IBNR losses, and as a result we believe that no other estimate is better than our recorded amount. Due to the uncertainties involved, the ultimate cost of losses may vary materially from recorded amounts, which are based on our best estimates.

Discontinued Lines and Coverages reserve estimates

Characteristics of Discontinued Lines exposure Our exposure to asbestos, environmental and other discontinued lines claims arises principally from assumed reinsurance coverage written during the 1960s through the mid-1980s, including reinsurance on primary insurance written on large U.S. companies, and from direct excess insurance written from 1972 through 1985, including substantial excess general liability coverages on large U.S. companies. Additional exposure stems from direct primary commercial insurance written during the 1960s through the mid-1980s. Asbestos claims relate primarily to bodily injuries asserted by people who were exposed to asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up costs. Other discontinued lines exposures primarily relate to general liability and product liability mass tort claims, such as those for medical devices and other products, workers' compensation claims and claims for various other coverage exposures other than asbestos and environmental.

In 1986, the general liability policy form used by us and others in the property-liability industry was amended to introduce an "absolute pollution exclusion," which excluded coverage for environmental damage claims, and to add an asbestos exclusion. Most general liability policies issued prior to 1987 contain annual aggregate limits for product liability coverage. General liability policies issued in 1987 and thereafter contain annual aggregate limits for product liability coverage and annual aggregate limits for all coverages. Our experience to date is that these policy form changes have limited the extent of our exposure to environmental and asbestos claim risks.

Our exposure to liability for asbestos, environmental and other discontinued lines losses manifests differently depending on whether it arises from assumed reinsurance coverage, direct excess insurance or direct primary commercial insurance. The direct insurance coverage we provided that covered asbestos, environmental and other discontinued lines was substantially "excess" in nature.

Direct excess insurance and reinsurance involve coverage written by us for specific layers of protection above retentions and other insurance plans. The nature of excess coverage and reinsurance provided to other insurers limits our exposure to loss to specific layers of protection in excess of policyholder retention on primary insurance plans. Our exposure is further limited by the significant reinsurance that we had purchased on our direct excess business.

Our assumed reinsurance business involved writing generally small participations in other insurers' reinsurance programs. The reinsured losses in which we participate may be a proportion of all eligible losses or eligible losses in excess of defined retentions. The majority of our assumed reinsurance exposure, approximately 85%, is for excess of loss coverage, while the remaining 15% is for pro-rata coverage.

Our direct primary commercial insurance business did not include coverage to large asbestos manufacturers. This business comprises a cross section of policyholders engaged in many diverse business sectors located throughout the country.

How reserve estimates are established and updated We conduct an annual review in the third quarter to evaluate and establish asbestos, environmental and other discontinued lines reserves. Changes to 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 asbestos reserves based on assessments of the characteristics of exposure (i.e. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, and determines environmental reserves based on assessments of the characteristics of exposure (i.e. environmental damages, respective shares of liability of potentially responsible parties, appropriateness and cost of remediation) to pollution and related clean-up costs. The number and cost of these claims is affected by intense advertising by trial lawyers seeking asbestos plaintiffs, and entities with asbestos exposure seeking bankruptcy protection as a result of asbestos liabilities, initially causing a delay in the reporting of claims, often followed by an acceleration and an increase in claims and claims expenses as settlements occur.

After evaluating our insureds' probable liabilities for asbestos and/or environmental claims, we evaluate our insureds' coverage programs for such claims. We consider our insureds' total available insurance coverage, including the coverage we issued. We also consider relevant judicial interpretations of policy language and applicable coverage defenses or determinations, if any.

Evaluation of both the insureds' estimated liabilities and our exposure to the insureds depends heavily on an analysis of the relevant legal issues and litigation environment. This analysis is conducted by our specialized claims adjusting staff and legal counsel. Based on these evaluations, case reserves are established by claims adjusting staff and actuarial analysis is employed to develop an IBNR reserve, which includes estimated potential reserve development and claims that have occurred but have not been reported. As of both December 31, 2016 and 2015, IBNR was 57% of combined net asbestos and environmental reserves.

For both asbestos and environmental reserves, we also evaluate our historical direct net loss and expense paid and incurred experience to assess any emerging trends, fluctuations or characteristics suggested by the aggregate paid and incurred activity.

Other Discontinued Lines and Coverages The following table shows reserves for other discontinued lines which provide for remaining loss and loss expense liabilities related to business no longer written by us, other than asbestos and environmental, as of December 31.

(\$ in millions)	2016	2015	2014
Other mass torts	\$ 142	\$ 162	\$ 167
Workers' compensation	76	88	94
Commercial and other	136	127	134
Other discontinued lines	<u>\$ 354</u>	<u>\$ 377</u>	<u>\$ 395</u>

Other mass torts describes direct excess and reinsurance general liability coverage provided for cumulative injury losses other than asbestos and environmental. Workers' compensation and commercial and other include run-off from discontinued direct primary, direct excess and reinsurance commercial insurance operations of various coverage exposures other than asbestos and environmental. Reserves are based on considerations similar to those described above, as they relate to the characteristics of specific individual coverage exposures.

Potential reserve estimate variability Establishing Discontinued Lines and Coverages net loss reserves for asbestos, environmental and other discontinued lines claims is subject to uncertainties that are much greater than those presented by other types of property-liability claims. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure and unresolved legal issues regarding policy coverage; unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits; plaintiffs' evolving and expanding theories of liability; availability and collectability of recoveries from reinsurance; retrospectively determined premiums and other contractual agreements; estimates of the extent and timing of any contractual liability; the impact of bankruptcy protection sought by various asbestos producers and other asbestos defendants; and other uncertainties. There are also complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Our reserves for asbestos and environmental exposures could be affected by tort reform, class action litigation, and other potential legislation and judicial decisions. Environmental exposures could also be affected by a change in the existing federal Superfund law and similar state statutes. There can be no assurance that any reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of asbestos or environmental claims. We believe these issues are not likely to be resolved in the near future, and the ultimate costs may vary materially from the amounts currently recorded resulting in material changes in loss reserves. Historical variability of reserve estimates is demonstrated in the Property-Liability Claims and Claims Expense Reserves section of the MD&A.

Adequacy of reserve estimates Management believes its net loss reserves for environmental, asbestos and other discontinued lines exposures are appropriately established based on available facts, technology, laws, regulations, and assessments of other pertinent factors and characteristics of exposure (i.e. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, assuming no change in the legal, legislative or economic environment. Due to the uncertainties and factors described above, management believes it is not practicable to develop a meaningful range for any such additional net loss reserves that may be required.

Further discussion of reserve estimates For further discussion of these estimates and quantification of the impact of reserve estimates, reserve reestimates and assumptions, see Notes 8 and 14 to the consolidated financial statements and the Property-Liability Claims and Claims Expense Reserves section of the MD&A.

Reserve for life-contingent contract benefits estimation Due to the long term nature of traditional life insurance, life-contingent immediate annuities and voluntary accident and health insurance products, benefits are payable over many years; accordingly, the reserves are calculated as the present value of future expected benefits to be paid, reduced by the present value of future expected net premiums. Long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses are used when establishing the reserve for life-contingent contract benefits payable under these insurance policies. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by characteristics such as type of coverage, year of issue and policy duration. Future investment yield assumptions are determined based upon prevailing investment yields as well as estimated reinvestment yields. Mortality, morbidity and policy termination assumptions are based on our experience and industry experience. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium-paying period. These assumptions are established at the time the policy is issued, are consistent with assumptions for determining DAC amortization for these policies, and are generally not changed during the policy coverage period. However, if actual experience emerges in a manner that is significantly adverse relative to the original assumptions, adjustments to DAC or reserves may be required resulting in a charge to earnings which could have a material effect on our operating results and financial condition.

We periodically review the adequacy of reserves and recoverability of DAC for these policies on an aggregate basis using actual experience. In the event actual experience is significantly adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance must be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required. In 2016, 2015 and 2014, our reviews concluded that no premium deficiency adjustments were necessary. In 2016, there was an increase in projected profit from traditional life insurance and immediate annuities with life contingencies had a projected profit compared to projected losses in the prior year. While there was an unfavorable change in mortality assumptions for immediate annuities with life contingencies as a result of the mortality study described below, there was a favorable change in the long-term investment yield assumptions due to the increase in performance-based investments and equity securities. The investment strategy changes for immediate annuities are discussed further in the Allstate Financial Segment section of the MD&A. The favorable impact of higher long-term investment yield assumptions more than offset the impact of unfavorable mortality assumptions. The net sufficiency represents approximately 17% of applicable reserves as of December 31, 2016 and substantially relates to traditional life insurance.

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. In 2016, 2015 and 2014, our reviews concluded that there were no projected losses following projected profits in each long-term projection.

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. 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 are favorably impacting mortality rates. The results of the study were included in the premium deficiency and profits followed by losses evaluations described above.

We will continue to monitor the experience of our traditional life insurance and immediate annuities. We anticipate that mortality, investment and reinvestment yields, and policy terminations are the factors that would be most likely to require premium deficiency adjustments to these reserves or related DAC. Mortality rates and investment and reinvestment yields are the factors that would be most likely to require a profits followed by losses liability accrual.

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

REGULATION AND LEGAL PROCEEDINGS

We are subject to extensive regulation and we are involved in various legal and regulatory actions, all of which have an effect on specific aspects of our business. For a detailed discussion of the legal and regulatory actions in which we are involved, see Note 14 of the consolidated financial statements.

PENDING ACCOUNTING STANDARDS

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

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

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(\$ in millions, except per share data)

	Year Ended December 31,		
	2016	2015	2014
Revenues			
Property-liability insurance premiums (net of reinsurance ceded of \$987, \$1,006 and \$1,030)	\$ 31,307	\$ 30,309	\$ 28,929
Life and annuity premiums and contract charges (net of reinsurance ceded of \$309, \$332 and \$416)	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
	<u>36,534</u>	<u>35,653</u>	<u>35,239</u>
Costs and expenses			
Property-liability insurance claims and claims expense (net of reinsurance ceded of \$1,116, \$602 and \$1,393)	22,221	21,034	19,428
Life and annuity contract benefits (net of reinsurance ceded of \$208, \$219 and \$356)	1,857	1,803	1,765
Interest credited to contractholder funds (net of reinsurance ceded of \$26, \$25 and \$26)	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
	<u>33,785</u>	<u>32,374</u>	<u>30,929</u>
Gain (loss) on disposition of operations	5	3	(74)
Income from operations before income tax expense	<u>2,754</u>	<u>3,282</u>	<u>4,236</u>
Income tax expense	877	1,111	1,386
Net income	<u>1,877</u>	<u>2,171</u>	<u>2,850</u>
Preferred stock dividends	116	116	104
Net income applicable to common shareholders	<u>\$ 1,761</u>	<u>\$ 2,055</u>	<u>\$ 2,746</u>
Earnings per common share:			
Net income applicable to common shareholders per common share - Basic	\$ 4.72	\$ 5.12	\$ 6.37
Weighted average common shares - Basic	372.8	401.1	431.4
Net income applicable to common shareholders per common share - Diluted	\$ 4.67	\$ 5.05	\$ 6.27
Weighted average common shares - Diluted	377.3	406.8	438.2
Cash dividends declared per common share	<u>\$ 1.32</u>	<u>\$ 1.20</u>	<u>\$ 1.12</u>

See notes to consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ in millions)

	Year Ended December 31,		
	2016	2015	2014
Net income	\$ 1,877	\$ 2,171	\$ 2,850
Other comprehensive income (loss), after-tax			
Changes in:			
Unrealized net capital gains and losses	433	(1,306)	280
Unrealized foreign currency translation adjustments	10	(58)	(40)
Unrecognized pension and other postretirement benefit cost	(104)	48	(725)
Other comprehensive income (loss), after-tax	<u>339</u>	<u>(1,316)</u>	<u>(485)</u>
Comprehensive income	<u>\$ 2,216</u>	<u>\$ 855</u>	<u>\$ 2,365</u>

See notes to consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ in millions, except par value data)

	December 31,	
	2016	2015
Assets		
Investments		
Fixed income securities, at fair value (amortized cost \$56,576 and \$57,201)	\$ 57,839	\$ 57,948
Equity securities, at fair value (cost \$5,157 and \$4,806)	5,666	5,082
Mortgage loans	4,486	4,338
Limited partnership interests	5,814	4,874
Short-term, at fair value (amortized cost \$4,288 and \$2,122)	4,288	2,122
Other	3,706	3,394
Total investments	81,799	77,758
Cash	436	495
Premium installment receivables, net	5,597	5,544
Deferred policy acquisition costs	3,954	3,861
Reinsurance recoverables, net	8,745	8,518
Accrued investment income	567	569
Property and equipment, net	1,065	1,024
Goodwill	1,219	1,219
Other assets	1,835	2,010
Separate Accounts	3,393	3,658
Total assets	\$ 108,610	\$ 104,656
Liabilities		
Reserve for property-liability insurance claims and claims expense	\$ 25,250	\$ 23,869
Reserve for life-contingent contract benefits	12,239	12,247
Contractholder funds	20,260	21,295
Unearned premiums	12,583	12,202
Claim payments outstanding	879	842
Deferred income taxes	487	90
Other liabilities and accrued expenses	6,599	5,304
Long-term debt	6,347	5,124
Separate Accounts	3,393	3,658
Total liabilities	88,037	84,631
Commitments and Contingent Liabilities (Note 7, 8 and 14)		
Shareholders' equity		
Preferred stock and additional capital paid-in, \$1 par value, 25 million shares authorized, 72.2 thousand issued and outstanding, \$1,805 aggregate liquidation preference	1,746	1,746
Common stock, \$.01 par value, 2.0 billion shares authorized and 900 million issued, 366 million and 381 million shares outstanding	9	9
Additional capital paid-in	3,303	3,245
Retained income	40,678	39,413
Deferred ESOP expense	(6)	(13)
Treasury stock, at cost (534 million and 519 million shares)	(24,741)	(23,620)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	57	56
Other unrealized net capital gains and losses	1,091	608
Unrealized adjustment to DAC, DSI and insurance reserves	(95)	(44)
Total unrealized net capital gains and losses	1,053	620
Unrealized foreign currency translation adjustments	(50)	(60)
Unrecognized pension and other postretirement benefit cost	(1,419)	(1,315)
Total accumulated other comprehensive loss	(416)	(755)
Total shareholders' equity	20,573	20,025
Total liabilities and shareholders' equity	\$ 108,610	\$ 104,656

See notes to consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(\$ in millions)

	Year Ended December 31,		
	2016	2015	2014
Preferred stock par value	\$ —	\$ —	\$ —
Preferred stock additional capital paid-in			
Balance, beginning of year	1,746	1,746	780
Preferred stock issuance	—	—	966
Balance, end of year	1,746	1,746	1,746
Common stock	9	9	9
Additional capital paid-in			
Balance, beginning of year	3,245	3,199	3,143
Equity incentive plans activity	58	46	56
Balance, end of year	3,303	3,245	3,199
Retained income			
Balance, beginning of year	39,413	37,842	35,580
Net income	1,877	2,171	2,850
Dividends on common stock	(496)	(484)	(484)
Dividends on preferred stock	(116)	(116)	(104)
Balance, end of year	40,678	39,413	37,842
Deferred ESOP expense			
Balance, beginning of year	(13)	(23)	(31)
Payments	7	10	8
Balance, end of year	(6)	(13)	(23)
Treasury stock			
Balance, beginning of year	(23,620)	(21,030)	(19,047)
Shares acquired	(1,341)	(2,804)	(2,306)
Shares reissued under equity incentive plans, net	220	214	323
Balance, end of year	(24,741)	(23,620)	(21,030)
Accumulated other comprehensive income (loss)			
Balance, beginning of year	(755)	561	1,046
Change in unrealized net capital gains and losses	433	(1,306)	280
Change in unrealized foreign currency translation adjustments	10	(58)	(40)
Change in unrecognized pension and other postretirement benefit cost	(104)	48	(725)
Balance, end of year	(416)	(755)	561
Total shareholders' equity	\$ 20,573	\$ 20,025	\$ 22,304

See notes to consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities			
Net income	\$ 1,877	\$ 2,171	\$ 2,850
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and other non-cash items	382	371	366
Realized capital gains and losses	90	(30)	(694)
Loss on extinguishment of debt	—	—	1
(Gain) loss on disposition of operations	(5)	(3)	74
Interest credited to contractholder funds	726	761	919
Changes in:			
Policy benefits and other insurance reserves	631	473	541
Unearned premiums	362	638	766
Deferred policy acquisition costs	(165)	(239)	(220)
Premium installment receivables, net	(42)	(134)	(257)
Reinsurance recoverables, net	(264)	(178)	(1,068)
Income taxes	417	(119)	205
Other operating assets and liabilities	(16)	(95)	(247)
Net cash provided by operating activities	<u>3,993</u>	<u>3,616</u>	<u>3,236</u>
Cash flows from investing activities			
Proceeds from sales			
Fixed income securities	25,061	28,693	34,609
Equity securities	5,546	3,754	6,755
Limited partnership interests	881	1,101	1,473
Mortgage loans	—	6	10
Other investments	262	545	406
Investment collections			
Fixed income securities	4,533	4,432	3,736
Mortgage loans	501	538	1,106
Other investments	421	293	191
Investment purchases			
Fixed income securities	(27,990)	(30,758)	(38,759)
Equity securities	(5,950)	(4,960)	(5,443)
Limited partnership interests	(1,450)	(1,343)	(1,398)
Mortgage loans	(646)	(687)	(501)
Other investments	(885)	(902)	(972)
Change in short-term investments, net	(2,446)	385	272
Change in other investments, net	(51)	(52)	46
Purchases of property and equipment, net	(313)	(303)	(288)
Disposition (acquisition) of operations	—	—	378
Net cash (used in) provided by investing activities	<u>(2,526)</u>	<u>742</u>	<u>1,621</u>
Cash flows from financing activities			
Proceeds from issuance of long-term debt	1,236	—	—
Repayments of long-term debt	(17)	(20)	(1,006)
Proceeds from issuance of preferred stock	—	—	965
Contractholder fund deposits	1,049	1,052	1,184
Contractholder fund withdrawals	(2,087)	(2,327)	(3,446)
Dividends paid on common stock	(486)	(483)	(477)
Dividends paid on preferred stock	(116)	(116)	(87)
Treasury stock purchases	(1,337)	(2,808)	(2,301)
Shares reissued under equity incentive plans, net	164	130	266
Excess tax benefits on share-based payment arrangements	32	45	41
Other	36	7	(14)
Net cash used in financing activities	<u>(1,526)</u>	<u>(4,520)</u>	<u>(4,875)</u>
Net decrease in cash	<u>(59)</u>	<u>(162)</u>	<u>(18)</u>
Cash at beginning of year	<u>495</u>	<u>657</u>	<u>675</u>
Cash at end of year	<u>\$ 436</u>	<u>\$ 495</u>	<u>\$ 657</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

Basis of presentation

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

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

Nature of operations

Allstate is engaged, principally in the United States, in the property-liability insurance and life insurance business. Allstate's primary business is the sale of private passenger auto and homeowners insurance. The Company also sells several other personal property and casualty insurance products, select commercial property and casualty coverages, life insurance and voluntary accident and health insurance. Allstate primarily distributes its products through exclusive agencies, financial specialists, independent agencies, contact centers and the internet.

The Allstate Protection segment principally sells private passenger auto and homeowners insurance, with earned premiums accounting for 86% of Allstate's 2016 consolidated revenues. Allstate was the country's second largest personal property and casualty insurer as of December 31, 2015. Allstate Protection, through several companies, is authorized to sell certain property-liability products in all 50 states, the District of Columbia and Puerto Rico. The Company is also authorized to sell certain insurance products in Canada. For 2016, the top geographic locations for premiums earned by the Allstate Protection segment were Texas, California, New York and Florida. No other jurisdiction accounted for more than 5% of premiums earned for Allstate Protection.

Allstate has exposure to catastrophes, an inherent risk of the property-liability insurance business, which have contributed, and will continue to contribute, to material year-to-year fluctuations in the Company's results of operations and financial position (see Note 8). The nature and level of catastrophic loss caused by natural events (high winds, winter storms, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes and volcanoes) and man-made events (terrorism and industrial accidents) experienced in any period cannot be predicted and could be material to results of operations and financial position. The Company considers the greatest areas of potential catastrophe losses due to hurricanes to generally be major metropolitan centers in counties along the eastern and gulf coasts of the United States. The Company considers the greatest areas of potential catastrophe losses due to earthquakes and fires following earthquakes to be major metropolitan areas near fault lines in the states of California, Oregon, Washington, South Carolina, Missouri, Kentucky and Tennessee. The Company also has exposure to asbestos, environmental and other discontinued lines claims (see Note 14).

The Allstate Financial segment sells traditional, interest-sensitive and variable life insurance and voluntary accident and health insurance products. The Company previously offered and continues to have in force fixed annuities such as deferred and immediate annuities. The Company 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 Financial, through several companies, is authorized to sell life insurance and retirement products in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. Voluntary accident and health insurance products are also sold in Canada. For 2016, the top geographic locations for direct statutory premiums and annuity considerations for the Allstate Financial segment were New York, Texas, Florida and California. No other jurisdiction accounted for more than 5% of direct statutory premiums and annuity considerations for Allstate Financial. Allstate Financial distributes its products through Allstate exclusive agencies and exclusive financial specialists, and workplace enrolling independent agents.

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

yields. Credit spread risk is the risk that the Company will incur a loss due to adverse changes in credit spreads. This risk arises from many of the Company's primary activities, as the Company invests substantial funds in spread-sensitive fixed income assets. Equity price risk is the risk that the Company will incur losses due to adverse changes in the general levels of the equity markets.

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

2. Summary of Significant Accounting Policies

Investments

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

Equity securities primarily include common stocks, exchange traded and mutual funds, non-redeemable preferred stocks and real estate investment trust equity investments. Equity securities are designated as available for sale and are carried at fair value. The difference between cost and fair value, net of deferred income taxes, is reflected as a component of accumulated other comprehensive income.

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

Investments in limited partnership interests include interests in private equity funds and co-investments, real estate funds and joint ventures, and other funds. Where the Company's interest is so minor that it exercises virtually no influence over operating and financial policies, investments in limited partnership interests are accounted for in accordance with the cost method of accounting; all other investments in limited partnership interests are accounted for in accordance with the equity method of accounting ("EMA").

Short-term investments, including commercial paper, U.S. Treasury bills, money market funds and other short-term investments, are carried at fair value. Other investments primarily consist of bank loans, policy loans, agent loans, real estate and derivatives. Bank loans are primarily senior secured corporate loans and are carried at amortized cost. Policy loans are carried at unpaid principal balances and were \$904 million and \$905 million as of December 31, 2016 and 2015, respectively. Agent loans are loans issued to exclusive Allstate agents and are carried at unpaid principal balances, net of valuation allowances and unamortized deferred fees or costs. Real estate is carried at cost less accumulated depreciation. Derivatives are carried at fair value.

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

from EMA limited partnership interests is recognized based on the Company's share of the partnerships' net income, including unrealized gains and losses, and is generally recognized on a three month delay due to the availability of the related financial statements.

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

Derivative and embedded derivative financial instruments

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

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

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

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

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

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

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

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

Securities loaned

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

The Company receives cash collateral for securities loaned in an amount generally equal to 102% and 105% of the fair value of domestic and foreign securities, respectively, and records the related obligations to return the collateral in other liabilities and accrued expenses. The carrying value of these obligations approximates fair value because of their relatively short-term nature. The Company monitors the market value of securities loaned on a daily basis and obtains additional collateral as necessary under the terms of the agreements to mitigate counterparty credit risk. The Company maintains the right and ability to repossess the securities loaned on short notice.

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

Property-liability premiums are deferred and earned on a pro-rata basis over the terms of the policies, typically periods of six or twelve months. The portion of premiums written applicable to the unexpired terms of the policies is recorded as unearned premiums. Premium installment receivables, net, represent premiums written and not yet collected, net of an allowance for uncollectible premiums. The Company regularly evaluates premium installment receivables and adjusts its valuation allowance as appropriate. The valuation allowance for uncollectible premium installment receivables was \$84 million and \$90 million as of December 31, 2016 and 2015, respectively.

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

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

Interest-sensitive life contracts, such as universal life and single premium life, are insurance contracts whose terms are not fixed and guaranteed. The terms that may be changed include premiums paid by the contractholder, interest credited to the contractholder account balance and contract charges assessed against the contractholder account

balance. Premiums from these contracts are reported as contractholder fund deposits. Contract charges consist of fees assessed against the contractholder account balance for the cost of insurance (mortality risk), contract administration and surrender of the contract prior to contractually specified dates. These contract charges are recognized as revenue when assessed against the contractholder account balance. Life and annuity contract benefits include life-contingent benefit payments in excess of the contractholder account balance.

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

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

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

Deferred policy acquisition and sales inducement costs

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

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

For interest-sensitive life insurance and fixed annuities, DAC and DSI are amortized in proportion to the incidence of the total present value of gross profits, which includes both actual historical gross profits ("AGP") and estimated future gross profits ("EGP") expected to be earned over the estimated lives of the contracts. The amortization is net of interest on the prior period DAC balance using rates established at the inception of the contracts. Actual amortization periods generally range from 15-30 years; however, incorporating estimates of the rate of customer surrenders, partial withdrawals and deaths generally results in the majority of the DAC being amortized during the surrender charge period,

which is typically 10-20 years for interest-sensitive life and 5-10 years for fixed annuities. The cumulative DAC and DSI amortization is reestimated and adjusted by a cumulative charge or credit to income when there is a difference between the incidence of actual versus expected gross profits in a reporting period or when there is a change in total EGP. When DAC or DSI amortization or a component of gross profits for a quarterly period is potentially negative (which would result in an increase of the DAC or DSI balance) as a result of negative AGP, the specific facts and circumstances surrounding the potential negative amortization are considered to determine whether it is appropriate for recognition in the consolidated financial statements. Negative amortization is only recorded when the increased DAC or DSI balance is determined to be recoverable based on facts and circumstances. Recapitalization of DAC and DSI is limited to the originally deferred costs plus interest.

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

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

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

Customers of the Company may exchange one insurance policy or investment contract for another offered by the Company, or make modifications to an existing investment, life or property-liability contract issued by the Company. These transactions are identified as internal replacements for accounting purposes. Internal replacement transactions determined to result in replacement contracts that are substantially unchanged from the replaced contracts are accounted for as continuations of the replaced contracts. Unamortized DAC and DSI related to the replaced contracts continue to be deferred and amortized in connection with the replacement contracts. For interest-sensitive life and investment contracts, the EGP of the replacement contracts are treated as a revision to the EGP of the replaced contracts in the determination of amortization of DAC and DSI. For traditional life and property-liability insurance policies, any changes to unamortized DAC that result from replacement contracts are treated as prospective revisions. Any costs associated with the issuance of replacement contracts are characterized as maintenance costs and expensed as incurred. Internal replacement transactions determined to result in a substantial change to the replaced contracts are accounted for as an extinguishment of the replaced contracts, and any unamortized DAC and DSI related to the replaced contracts are eliminated with a corresponding charge to amortization of deferred policy acquisition costs or interest credited to contractholder funds, respectively.

The costs assigned to the right to receive future cash flows from certain business purchased from other insurers are also classified as DAC in the Consolidated Statements of Financial Position. The costs capitalized represent the present value of future profits expected to be earned over the lives of the contracts acquired. These costs are amortized as profits emerge over the lives of the acquired business and are periodically evaluated for recoverability. The present value of future profits was \$53 million and \$58 million as of December 31, 2016 and 2015, respectively. Amortization expense of the present value of future profits was \$5 million, \$8 million and \$13 million in 2016, 2015 and 2014, respectively.

Reinsurance

In the normal course of business, the Company seeks to limit aggregate and single exposure to losses on large risks by purchasing reinsurance. The Company has also used reinsurance to effect the disposition of certain blocks of business. The Company also participates in various reinsurance mechanisms, including industry pools and facilities, which are backed by the financial resources of the property-liability insurance company market participants. The amounts reported as reinsurance recoverables include amounts billed to reinsurers on losses paid as well as estimates of amounts expected to be recovered from reinsurers on insurance liabilities and contractholder funds that have not yet been paid. Reinsurance recoverables on unpaid losses are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Insurance liabilities are reported gross of reinsurance recoverables. Reinsurance premiums are generally reflected in income in a manner consistent with the

recognition of premiums on the reinsured contracts. For catastrophe coverage, the cost of reinsurance premiums is recognized ratably over the contract period to the extent coverage remains available. Reinsurance does not extinguish the Company's primary liability under the policies written. Therefore, the Company regularly evaluates the financial condition of its reinsurers, including their activities with respect to claim settlement practices and commutations, and establishes allowances for uncollectible reinsurance as appropriate.

Goodwill

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired. The goodwill balances were \$823 million and \$396 million as of both December 31, 2016 and December 31, 2015 for the Allstate Protection segment and the Allstate Financial segment, respectively. The Company's reporting units are equivalent to its 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. The Company performs its annual goodwill impairment testing during the fourth quarter of each year based upon data as of the close of the third quarter. The Company also reviews goodwill for impairment whenever events or changes in circumstances, such as deteriorating or adverse market conditions, indicate that it is more likely than not that the carrying amount of goodwill may exceed its implied fair value.

To estimate the fair value of its reporting units, the Company may utilize a combination of widely accepted valuation techniques including a stock price and market capitalization analysis, discounted cash flow calculations and peer company price to earnings multiples analysis. The stock price and market capitalization analysis takes into consideration the quoted market price of the Company's 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 discounted cash flow analysis utilizes long term assumptions for revenue growth, capital growth, earnings projections including those used in the Company's strategic plan, and an appropriate discount rate. The peer company price to earnings multiples analysis takes into consideration the price to earnings multiples of peer companies for each reporting unit and estimated income from the Company's strategic plan.

Goodwill impairment evaluations indicated no impairment as of December 31, 2016 or 2015.

Property and equipment

Property and equipment is carried at cost less accumulated depreciation. Included in property and equipment are capitalized costs related to computer software licenses and software developed for internal use. These costs generally consist of certain external payroll and payroll related costs. Property and equipment depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 3 to 10 years for equipment and 40 years for real property. Depreciation expense is reported in operating costs and expenses. Accumulated depreciation on property and equipment was \$2.16 billion and \$2.09 billion as of December 31, 2016 and 2015, respectively. Depreciation expense on property and equipment was \$267 million, \$255 million and \$228 million in 2016, 2015 and 2014, respectively. The Company reviews its property and equipment for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Income taxes

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

Reserve for property-liability insurance claims and claims expense

The reserve for property-liability insurance claims and claims expense is the estimate of amounts necessary to settle all reported and unreported claims for the ultimate cost of insured property-liability losses, based upon the facts of each case and the Company's experience with similar cases. Estimated amounts of salvage and subrogation are deducted from the reserve for claims and claims expense. The establishment of appropriate reserves, including reserves for catastrophe losses, is an inherently uncertain and complex process. Reserve estimates are primarily derived using an actuarial estimation process in which historical loss patterns are applied to actual paid losses and reported losses (paid losses plus individual case reserves established by claim adjusters) for an accident or report year to create an estimate of how losses are likely to develop over time. Development factors are calculated quarterly and periodically throughout the year for data elements such as claims reported and settled, paid losses, and paid losses combined with case reserves. The historical development patterns for these data elements are used as the assumptions to calculate reserve estimates, including the reserves for reported and unreported claims. Reserve estimates are regularly reviewed and updated, using the most current information available. Any resulting reestimates are reflected in current results of operations.

Reserve for life-contingent contract benefits

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

Contractholder funds

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

Separate accounts

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

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

Legal contingencies

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

Long-term debt

Long-term debt includes senior notes, senior debentures, subordinated debentures and junior subordinated debentures issued by the Corporation. Unamortized debt issuance costs are reported in long-term debt and are amortized over the expected period the debt will remain outstanding.

Deferred Employee Stock Ownership Plan ("ESOP") expense

Deferred ESOP expense represents the remaining unrecognized cost of shares acquired by the Allstate ESOP to pre-fund a portion of the Company's contribution to the Allstate 401(k) Savings Plan.

Equity incentive plans

The Company has equity incentive plans under which the Company grants nonqualified stock options, restricted stock units and performance stock awards ("equity awards") to certain employees and directors of the Company. The Company measures the fair value of equity awards at the award date and recognizes the expense over the shorter of the period in which the requisite service is rendered or retirement eligibility is attained. The expense for performance stock awards is adjusted each period to reflect the performance factor most likely to be achieved at the end of the performance period. The Company uses a binomial lattice model to determine the fair value of employee stock options.

Off-balance sheet financial instruments

Commitments to invest, commitments to purchase private placement securities, commitments to extend loans, financial guarantees and credit guarantees have off-balance sheet risk because their contractual amounts are not recorded in the Company's Consolidated Statements of Financial Position (see Note 7 and Note 14).

Consolidation of variable interest entities ("VIEs")

The Company consolidates VIEs when it is the primary beneficiary. A primary beneficiary is the variable interest holder in a VIE with both the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE.

Foreign currency translation

The local currency of the Company's foreign subsidiaries is deemed to be the functional currency of the country in which these subsidiaries operate. The financial statements of the Company's foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the end of a reporting period for assets and liabilities and at average exchange rates during the period for results of operations. The unrealized gains and losses from the translation of the net assets are recorded as unrealized foreign currency translation adjustments and included in accumulated other comprehensive income. Changes in unrealized foreign currency translation adjustments are included in other comprehensive income. Gains and losses from foreign currency transactions are reported in operating costs and expenses and have not been material.

Earnings per common share

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

The computation of basic and diluted earnings per common share for the years ended December 31 is presented in the following table.

(\$ in millions, except per share data)	2016	2015	2014
Numerator:			
Net income	\$ 1,877	\$ 2,171	\$ 2,850
Less: Preferred stock dividends	116	116	104
Net income applicable to common shareholders ⁽¹⁾	<u>\$ 1,761</u>	<u>\$ 2,055</u>	<u>\$ 2,746</u>
Denominator:			
Weighted average common shares outstanding	372.8	401.1	431.4
Effect of dilutive potential common shares:			
Stock options	3.2	4.0	4.7
Restricted stock units (non-participating) and performance stock awards	<u>1.3</u>	<u>1.7</u>	<u>2.1</u>
Weighted average common and dilutive potential common shares outstanding	<u>377.3</u>	<u>406.8</u>	<u>438.2</u>
Earnings per common share – Basic	\$ 4.72	\$ 5.12	\$ 6.37
Earnings per common share – Diluted	\$ 4.67	\$ 5.05	\$ 6.27

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

The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per common share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect. Options to purchase 3.8 million, 2.2 million and 3.0 million Allstate common shares, with exercise prices ranging from \$53.91 to \$71.29, \$57.98 to \$71.29 and \$49.96 to \$67.61, were outstanding in 2016, 2015 and 2014, respectively, but were not included in the computation of diluted earnings per common share in those years.

Adopted accounting standards

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

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

Amendments to the Consolidation Analysis

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

Disclosures about Short-Duration Contracts

In May 2015, the FASB issued guidance requiring expanded disclosures for insurance entities that issue short-duration contracts. The expanded disclosures are designed to provide additional insight into an insurance entity's significant estimates made in measuring the liability for unpaid claims and claim adjustment expenses. The disclosures include information about incurred and paid claims development by accident year, on a net basis after reinsurance, for the number of years claims incurred typically remain outstanding, not to exceed ten years. Each period presented in the disclosure about claims development that precedes the current reporting period is considered required supplementary information. The expanded disclosures also include information about significant changes in methodologies and assumptions, a reconciliation of incurred and paid claims development to the carrying amount of the liability for unpaid claims and claim adjustment expenses, the total amount of incurred but not reported liabilities plus expected development, the incidence of claims including the methodology used to determine the incidence of claims, and claim duration. The guidance is effective for annual periods beginning after December 15, 2015, and interim periods beginning after December 15, 2016, and is to be applied retrospectively. The new guidance affects disclosures only and therefore, the adoption as of December 31, 2016 had no impact on the Company's results of operations or financial position.

Pending accounting standards

Revenue from Contracts with Customers

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

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued guidance requiring equity investments, including equity securities and limited partnership interests, that are not accounted for under the equity method of accounting or result in consolidation to be measured at fair value with changes in fair value recognized in net income. Equity investments without readily determinable fair values may be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. When a qualitative assessment of equity investments without readily determinable fair values indicates that impairment exists, the carrying value is required to be adjusted to fair value, if lower. The guidance clarifies that an entity should evaluate the realizability of a deferred tax asset related to available-for-sale fixed income securities in combination with the entity's other deferred tax assets. The guidance also changes certain disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2017, and is to be applied through a cumulative-effect adjustment to beginning retained income as of the beginning of the period of adoption. The new guidance related to equity investments without readily determinable fair values is to be applied prospectively as of the date of adoption. The Company is in the process of evaluating the impact of adoption. The most significant impacts, using values as of December 31, 2016, are expected to be the change in accounting for equity securities where \$509 million of pre-tax unrealized net capital

gains would be reclassified from accumulated other comprehensive income to retained income and cost method limited partnership interests (excluding limited partnership interests accounted for on a cost recovery basis) where the carrying value would increase by approximately \$178 million, pre-tax, with the adjustment recorded in retained income.

Accounting for Leases

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

Employee Share-Based Payment Accounting

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

Transition to Equity Method Accounting

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

Measurement of Credit Losses on Financial Instruments

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

effective for interim and annual periods beginning after December 15, 2019, and for most affected instruments must be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to beginning retained income. The Company is in the process of evaluating the impact of adoption.

Goodwill Impairment

In January 2017, the FASB issued guidance to simplify the accounting for goodwill impairment that removes the second step of the goodwill impairment test that requires a hypothetical purchase price allocation. Under the new guidance, goodwill impairment will be measured and recognized as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill allocated to the reporting unit. The revised guidance does not affect the reporting entity's ability to first assess qualitative factors by reporting unit to determine whether it is necessary to perform the quantitative goodwill impairment test. The guidance is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The guidance is to be applied on a prospective basis, with the effects, if any, recognized in net income in the period of adoption. The impact to the Company upon adoption is dependent upon the excess, if any, of carrying value of the Company's reporting units over their respective fair values, a measure that is not currently determinable.

3. Acquisition and Disposition

On November 28, 2016, the Company 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, for approximately \$1.4 billion in cash. SquareTrade provides protection plans for consumer appliances and electronics, such as TVs, smartphones and computers. This will broaden Allstate's unique product offerings to better meet consumers' needs. The transaction closed on January 3, 2017.

Due to the limited time since the closing date, the initial accounting for the acquisition is incomplete. As a result, the Company is unable to provide amounts recognized as of the closing date for the major classes of assets acquired and liabilities assumed. The Company will include this information in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017.

On April 1, 2014, the Company sold Lincoln Benefit Life Company ("LBL"), LBL's life insurance business generated through independent master brokerage agencies, and all of LBL's deferred fixed annuity and long-term care insurance business to Resolution Life Holdings, Inc. The gross sale price was \$797 million, representing \$596 million of cash and the retention of tax benefits. The loss on disposition in 2014 was \$101 million, pre-tax (\$60 million, after-tax) and included a \$22 million, pre-tax, reduction in goodwill.

4. Supplemental Cash Flow Information

Non-cash investing activities include \$326 million, \$131 million and \$120 million related to mergers and exchanges completed with equity securities and modifications of certain mortgage loans, fixed income securities and other investments in 2016, 2015 and 2014, respectively, and a \$89 million obligation to fund a limited partnership investment in 2015. Non-cash financing activities include \$41 million, \$74 million and \$47 million related to the issuance of Allstate common shares for vested equity awards in 2016, 2015 and 2014, respectively. Non-cash financing activities also include \$34 million related to debt acquired in conjunction with the purchase of an investment in 2016.

Liabilities for collateral received in conjunction with the Company's securities lending program were \$1.12 billion, \$829 million and \$780 million as of December 31, 2016, 2015 and 2014, respectively, and are reported in other liabilities and accrued expenses. Obligations to return cash collateral for over-the-counter ("OTC") and cleared derivatives were \$5 million, \$11 million and \$2 million as of December 31, 2016, 2015 and 2014, respectively, and are reported in other liabilities and accrued expenses or other investments. The accompanying cash flows are included in cash flows from operating activities in the Consolidated Statements of Cash Flows along with the activities resulting from management of the proceeds, which for the years ended December 31 are as follows:

(\$ in millions)	2016	2015	2014
Net change in proceeds managed			
Net change in fixed income securities	\$ (584)	\$ —	\$ —
Net change in short-term investments	295	(59)	(167)
Operating cash flow used	(289)	(59)	(167)
Net change in cash	—	1	9
Net change in proceeds managed	\$ (289)	\$ (58)	\$ (158)
Net change in liabilities			
Liabilities for collateral, beginning of year	\$ (840)	\$ (782)	\$ (624)
Liabilities for collateral, end of year	(1,129)	(840)	(782)
Operating cash flow provided	\$ 289	\$ 58	\$ 158

5. Investments

Fair values

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

(\$ in millions)	Amortized cost	Gross unrealized		Fair value
		Gains	Losses	
December 31, 2016				
U.S. government and agencies	\$ 3,572	\$ 74	\$ (9)	\$ 3,637
Municipal	7,116	304	(87)	7,333
Corporate	42,742	1,178	(319)	43,601
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	<u>\$ 56,576</u>	<u>\$ 1,710</u>	<u>\$ (447)</u>	<u>\$ 57,839</u>
December 31, 2015				
U.S. government and agencies	\$ 3,836	\$ 90	\$ (4)	\$ 3,922
Municipal	7,032	389	(20)	7,401
Corporate	41,674	1,032	(879)	41,827
Foreign government	983	50	—	1,033
ABS	2,359	11	(43)	2,327
RMBS	857	100	(10)	947
CMBS	438	32	(4)	466
Redeemable preferred stock	22	3	—	25
Total fixed income securities	<u>\$ 57,201</u>	<u>\$ 1,707</u>	<u>\$ (960)</u>	<u>\$ 57,948</u>

Scheduled maturities

The scheduled maturities for fixed income securities are as follows as of December 31, 2016:

(\$ in millions)	Amortized cost	Fair value
Due in one year or less	\$ 4,873	\$ 4,898
Due after one year through five years	27,836	28,307
Due after five years through ten years	16,448	16,612
Due after ten years	5,337	5,853
	<u>54,494</u>	<u>55,670</u>
ABS, RMBS and CMBS	2,082	2,169
Total	<u>\$ 56,576</u>	<u>\$ 57,839</u>

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

Net investment income

Net investment income for the years ended December 31 is as follows:

(\$ in millions)	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	<u>\$ 3,042</u>	<u>\$ 3,156</u>	<u>\$ 3,459</u>

Realized capital gains and losses

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

(\$ in millions)	2016	2015	2014
Fixed income securities	\$ (91)	\$ 212	\$ 130
Equity securities	23	(50)	582
Mortgage loans	—	6	2
Limited partnership interests	(21)	(93)	13
Derivatives	3	(21)	(38)
Other	(4)	(24)	5
Realized capital gains and losses	<u>\$ (90)</u>	<u>\$ 30</u>	<u>\$ 694</u>

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

(\$ 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	<u>\$ (90)</u>	<u>\$ 30</u>	<u>\$ 694</u>

Gross gains of \$631 million, \$915 million and \$1.10 billion and gross losses of \$461 million, \$399 million and \$169 million were realized on sales of fixed income and equity securities during 2016, 2015 and 2014, respectively.

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

(\$ in millions)	2016			2015			2014		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:									
Municipal	\$ —	\$ —	\$ —	\$ (17)	\$ 4	\$ (13)	\$ (10)	\$ —	\$ (10)
Corporate	(33)	9	(24)	(61)	11	(50)	(7)	—	(7)
ABS	(6)	—	(6)	(33)	22	(11)	(12)	1	(11)
RMBS	—	(1)	(1)	1	(1)	—	6	(4)	2
CMBS	(15)	2	(13)	(1)	—	(1)	(1)	—	(1)
Total fixed income securities	(54)	10	(44)	(111)	36	(75)	(24)	(3)	(27)
Equity securities	(194)	—	(194)	(279)	—	(279)	(196)	—	(196)
Mortgage loans	—	—	—	4	—	4	5	—	5
Limited partnership interests	(56)	—	(56)	(51)	—	(51)	(27)	—	(27)
Other	(9)	—	(9)	(15)	—	(15)	—	—	—
Other-than-temporary impairment losses	<u>\$ (313)</u>	<u>\$ 10</u>	<u>\$ (303)</u>	<u>\$ (452)</u>	<u>\$ 36</u>	<u>\$ (416)</u>	<u>\$ (242)</u>	<u>\$ (3)</u>	<u>\$ (245)</u>

The total amount of other-than-temporary impairment losses included in accumulated other comprehensive income at the time of impairment for fixed income securities, which were not included in earnings, are presented in the following table. The amount excludes \$221 million and \$233 million as of December 31, 2016 and 2015, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

(\$ in millions)	December 31, 2016	December 31, 2015
Municipal	\$ (8)	\$ (9)
Corporate	(7)	(7)
ABS	(21)	(23)
RMBS	(90)	(102)
CMBS	(7)	(6)
Total	<u>\$ (133)</u>	<u>\$ (147)</u>

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

(\$ in millions)	2016	2015	2014
Beginning balance	\$ (392)	\$ (380)	\$ (513)
Additional credit loss for securities previously other-than-temporarily impaired	(21)	(30)	(6)
Additional credit loss for securities not previously other-than-temporarily impaired	(23)	(45)	(18)
Reduction in credit loss for securities disposed or collected	117	60	95
Change in credit loss due to accretion of increase in cash flows	1	3	3
Reduction in credit loss for securities sold in LBL disposition	—	—	59
Ending balance	<u>\$ (318)</u>	<u>\$ (392)</u>	<u>\$ (380)</u>

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

Unrealized net capital gains and losses

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

(\$ in millions)	Fair value	Gross unrealized		Unrealized net gains (losses)
December 31, 2016		Gains	Losses	
Fixed income securities	\$ 57,839	\$ 1,710	\$ (447)	\$ 1,263
Equity securities	5,666	594	(85)	509
Short-term investments	4,288	—	—	—
Derivative instruments ⁽¹⁾	5	5	(3)	2
EMA limited partnerships ⁽²⁾				(4)
Unrealized net capital gains and losses, pre-tax				1,770
Amounts recognized for:				
Insurance reserves ⁽³⁾				—
DAC and DSI ⁽⁴⁾				(146)
Amounts recognized				(146)
Deferred income taxes				(571)
Unrealized net capital gains and losses, after-tax				\$ 1,053

⁽¹⁾ Included in the fair value of derivative instruments is \$5 million classified as assets.

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

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

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

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

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

Change in unrealized net capital gains and losses

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

(\$ in millions)	2016	2015	2014
Fixed income securities	\$ 516	\$ (2,021)	\$ 866
Equity securities	233	(136)	(212)
Derivative instruments	(4)	8	16
EMA limited partnerships	—	1	(2)
Investments classified as held for sale	—	—	(190)
Total	745	(2,148)	478
Amounts recognized for:			
Insurance reserves	—	28	(28)
DAC and DSI	(79)	112	(21)
Amounts recognized	(79)	140	(49)
Deferred income taxes	(233)	702	(149)
Increase (decrease) in unrealized net capital gains and losses, after-tax	\$ 433	\$ (1,306)	\$ 280

Portfolio monitoring

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

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

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

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

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

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

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

(\$ in millions)	Less than 12 months			12 months or more			Total unrealized losses
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	
December 31, 2016							
Fixed income securities							
U.S. government and agencies	46	\$ 943	\$ (9)	—	\$ —	\$ —	\$ (9)
Municipal	1,310	3,073	(76)	8	29	(11)	(87)
Corporate	862	13,343	(256)	83	678	(63)	(319)
Foreign government	41	225	(4)	—	—	—	(4)
ABS	31	222	(1)	14	109	(10)	(11)
RMBS	89	53	(1)	179	91	(7)	(8)
CMBS	15	59	(4)	4	15	(5)	(9)
Redeemable preferred stock	1	—	—	—	—	—	—
Total fixed income securities	2,395	17,918	(351)	288	922	(96)	(447)
Equity securities	195	654	(56)	46	165	(29)	(85)
Total fixed income and equity securities	2,590	\$ 18,572	\$ (407)	334	\$ 1,087	\$ (125)	\$ (532)
Investment grade fixed income securities	2,202	\$ 15,678	\$ (293)	201	\$ 493	\$ (51)	\$ (344)
Below investment grade fixed income securities	193	2,240	(58)	87	429	(45)	(103)
Total fixed income securities	2,395	\$ 17,918	\$ (351)	288	\$ 922	\$ (96)	\$ (447)
December 31, 2015							
Fixed income securities							
U.S. government and agencies	53	\$ 1,874	\$ (4)	—	\$ —	\$ —	\$ (4)
Municipal	222	810	(6)	9	36	(14)	(20)
Corporate	1,361	17,915	(696)	111	1,024	(183)	(879)
Foreign government	9	44	—	—	—	—	—
ABS	133	1,733	(24)	20	324	(19)	(43)
RMBS	88	69	—	176	125	(10)	(10)
CMBS	13	75	(2)	1	2	(2)	(4)
Total fixed income securities	1,879	22,520	(732)	317	1,511	(228)	(960)
Equity securities	265	1,397	(107)	37	143	(32)	(139)
Total fixed income and equity securities	2,144	\$ 23,917	\$ (839)	354	\$ 1,654	\$ (260)	\$ (1,099)
Investment grade fixed income securities	1,405	\$ 17,521	\$ (362)	225	\$ 972	\$ (105)	\$ (467)
Below investment grade fixed income securities	474	4,999	(370)	92	539	(123)	(493)
Total fixed income securities	1,879	\$ 22,520	\$ (732)	317	\$ 1,511	\$ (228)	\$ (960)

As of December 31, 2016, \$444 million of the \$532 million unrealized losses are related to securities with an unrealized loss position less than 20% of amortized cost or cost, the degree of which suggests that these securities do not pose a high risk of being other-than-temporarily impaired. Of the \$444 million, \$318 million are related to unrealized losses on investment grade fixed income securities and \$55 million are related to equity securities. Of the remaining \$71 million, \$47 million have been in an unrealized loss position for less than 12 months. Investment grade is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P Global Ratings ("S&P"), a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third party rating. Unrealized losses on investment grade securities are principally related to an increase in market yields which may include increased risk-free interest rates and/or wider credit spreads since the time of initial purchase.

As of December 31, 2016, the remaining \$88 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost. Investment grade fixed income securities comprising \$26 million of these unrealized losses were evaluated based on factors such as discounted cash flows and the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations. Of the \$88 million, \$32 million are related to below investment grade fixed income securities and \$30 million are related to equity securities. Of these amounts, \$14 million are related to below investment grade fixed income securities that had been in an unrealized loss position greater than or equal to 20% of amortized cost for a period of twelve or more consecutive months as of December 31, 2016.

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

As of December 31, 2016, the Company has not made the decision to sell and it is not more likely than not the Company will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis. As of December 31, 2016, the Company had the intent and ability to hold equity securities with unrealized losses for a period of time sufficient for them to recover.

Limited partnerships

As of December 31, 2016 and 2015, the carrying value of equity method limited partnerships totaled \$4.53 billion and \$3.72 billion, respectively. The Company recognizes an impairment loss for equity method limited partnerships when evidence demonstrates that the loss is other than temporary. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment.

As of December 31, 2016 and 2015, the carrying value for cost method limited partnerships was \$1.28 billion and \$1.15 billion, respectively. To determine if an other-than-temporary impairment has occurred, the Company evaluates whether an impairment indicator has occurred in the period that may have a significant adverse effect on the carrying value of the investment. Impairment indicators may include: significantly reduced valuations of the investments held by the limited partnerships; actual recent cash flows received being significantly less than expected cash flows; reduced valuations based on financing completed at a lower value; completed sale of a material underlying investment at a price significantly lower than expected; or any other adverse events since the last financial statements received that might affect the fair value of the investee's capital. Additionally, the Company's portfolio monitoring process includes a quarterly review of all cost method limited partnerships to identify instances where the net asset value is below established thresholds for certain periods of time, as well as investments that are performing below expectations, for further impairment consideration. If a cost method limited partnership is other-than-temporarily impaired, the carrying value is written down to fair value, generally estimated to be equivalent to the reported net asset value.

Mortgage loans

The Company's mortgage loans are commercial mortgage loans collateralized by a variety of commercial real estate property types located across the United States and totaled, net of valuation allowance, \$4.49 billion and \$4.34 billion as of December 31, 2016 and 2015, respectively. Substantially all of the commercial mortgage loans are non-recourse to the borrower.

The following table shows the principal geographic distribution of commercial real estate represented in the Company's mortgage loan portfolio. No other state represented more than 5% of the portfolio as of December 31.

(% of mortgage loan portfolio carrying value)	2016	2015
California	19.3%	21.3%
Texas	10.5	9.7
New Jersey	8.2	8.7
Illinois	6.7	7.1
Florida	5.4	5.3

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

(% of mortgage loan portfolio carrying value)	2016	2015
Apartment complex	27.6 %	26.4 %
Office buildings	23.9	22.7
Retail	20.4	21.3
Warehouse	17.0	18.4
Other	11.1	11.2
Total	100.0 %	100.0 %

The contractual maturities of the mortgage loan portfolio as of December 31, 2016 are as follows:

(\$ in millions)	Number of loans	Carrying value	Percent
2017	28	\$ 295	6.6%
2018	29	336	7.5
2019	10	267	6.0
2020	14	190	4.2
Thereafter	222	3,398	75.7
Total	303	\$ 4,486	100.0%

Mortgage loans are evaluated for impairment on a specific loan basis through a quarterly credit monitoring process and review of key credit quality indicators. Mortgage loans are considered impaired when it is probable that the Company will not collect the contractual principal and interest. Valuation allowances are established for impaired loans to reduce the carrying value to the fair value of the collateral less costs to sell or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate. Impaired mortgage loans may not have a valuation allowance when the fair value of the collateral less costs to sell is higher than the carrying value. Valuation allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell or present value of the loan's expected future repayment cash flows. Mortgage loans are charged off against their corresponding valuation allowances when there is no reasonable expectation of recovery. The impairment evaluation is non-statistical in respect to the aggregate portfolio but considers facts and circumstances attributable to each loan. It is not considered probable that additional impairment losses, beyond those identified on a specific loan basis, have been incurred as of December 31, 2016.

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

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

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

(\$ in millions)	2016			2015		
	Fixed rate mortgage loans	Variable rate mortgage loans	Total	Fixed rate mortgage loans	Variable rate mortgage loans	Total
Debt service coverage ratio distribution						
Below 1.0	\$ 60	\$ —	\$ 60	\$ 64	\$ —	\$ 64
1.0 - 1.25	324	—	324	382	—	382
1.26 - 1.50	1,293	—	1,293	1,219	—	1,219
Above 1.50	2,765	39	2,804	2,667	—	2,667
Total non-impaired mortgage loans	\$ 4,442	\$ 39	\$ 4,481	\$ 4,332	\$ —	\$ 4,332

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

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

(\$ in millions)	2016	2015
Impaired mortgage loans with a valuation allowance	\$ 5	\$ 6
Impaired mortgage loans without a valuation allowance	—	—
Total impaired mortgage loans	\$ 5	\$ 6
Valuation allowance on impaired mortgage loans	\$ 3	\$ 3

The average balance of impaired loans was \$6 million, \$11 million and \$27 million during 2016, 2015 and 2014, respectively.

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

(\$ in millions)	2016	2015	2014
Beginning balance	\$ 3	\$ 8	\$ 21
Net decrease in valuation allowance	—	(4)	(5)
Charge offs	—	(1)	(8)
Ending balance	\$ 3	\$ 3	\$ 8

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

Municipal bonds

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

(% of municipal bond portfolio carrying value)	2016	2015
Texas	10.0%	9.2%
California	7.2	6.3
New York	6.8	7.7
Florida	5.7	5.6
Washington	5.6	5.6
Michigan	5.4	3.9

Concentration of credit risk

As of December 31, 2016, the Company is not exposed to any credit concentration risk of a single issuer and its affiliates greater than 10% of the Company's shareholders' equity, other than the U.S. government and its agencies.

Securities loaned

The Company's business activities include securities lending programs with third parties, mostly large banks. As of December 31, 2016 and 2015, fixed income and equity securities with a carrying value of \$1.08 billion and \$798 million, respectively, were on loan under these agreements. Interest income on collateral, net of fees, was \$6 million in 2016 and \$2 million in each of 2015 and 2014.

Other investment information

Included in fixed income securities are below investment grade assets totaling \$8.62 billion and \$8.64 billion as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, fixed income securities and short-term investments with a carrying value of \$168 million were on deposit with regulatory authorities as required by law.

As of December 31, 2016, the carrying value of fixed income securities and other investments that were non-income producing was \$70 million.

6. Fair Value of Assets and Liabilities

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

- Level 1:* Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access.
- Level 2:* Assets and liabilities whose values are based on the following:
 - (a) Quoted prices for similar assets or liabilities in active markets;
 - (b) Quoted prices for identical or similar assets or liabilities in markets that are not active; or
 - (c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.
- Level 3:* Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Unobservable inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the assets and liabilities.

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

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

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

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

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

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

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

Level 1 measurements

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

Level 2 measurements

- Fixed income securities:

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

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

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

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

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

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

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

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

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

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

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

Level 3 measurements

- Fixed income securities:

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

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

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

- Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements.
- Other investments: Certain OTC derivatives, such as interest rate caps, certain credit default swaps and certain options (including swaptions), are valued using models that are widely accepted in the financial services industry. These are categorized as Level 3 as a result of the significance of non-market observable inputs such as volatility. Other primary inputs include interest rate yield curves and credit spreads.
- Contractholder funds: Derivatives embedded in certain life and annuity contracts are valued internally using models widely accepted in the financial services industry that determine a single best estimate of fair value for the embedded derivatives within a block of contractholder liabilities. The models primarily use stochastically determined cash flows based on the contractual elements of embedded derivatives, projected option cost and applicable market data, such as interest rate yield curves and equity index volatility assumptions. These are categorized as Level 3 as a result of the significance of non-market observable inputs.

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

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

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2016.

(\$ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of December 31, 2016
Assets					
Fixed income securities:					
U.S. government and agencies	\$ 2,918	\$ 719	\$ —		\$ 3,637
Municipal	—	7,208	125		7,333
Corporate - public	—	31,414	78		31,492
Corporate - privately placed	—	11,846	263		12,109
Foreign government	—	1,075	—		1,075
ABS - CDO	—	650	27		677
ABS - consumer and other	—	452	42		494
RMBS	—	727	1		728
CMBS	—	248	22		270
Redeemable preferred stock	—	24	—		24
Total fixed income securities	2,918	54,363	558		57,839
Equity securities	5,247	256	163		5,666
Short-term investments	850	3,423	15		4,288
Other investments: Free-standing derivatives	—	119	1	\$ (9)	111
Separate account assets	3,393	—	—		3,393
Other assets	—	—	1		1
Total recurring basis assets	12,408	58,161	738	(9)	71,298
Non-recurring basis ⁽¹⁾	—	—	24		24
Total assets at fair value	\$ 12,408	\$ 58,161	\$ 762	\$ (9)	\$ 71,322
% of total assets at fair value	17.4%	81.5%	1.1%	—%	100.0%
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	\$ —	\$ —	\$ (290)		\$ (290)
Other liabilities: Free-standing derivatives	(1)	(68)	(3)	\$ 28	(44)
Total liabilities at fair value	\$ (1)	\$ (68)	\$ (293)	\$ 28	\$ (334)
% of total liabilities at fair value	0.3%	20.4%	87.7%	(8.4)%	100.0%

⁽¹⁾ Includes \$24 million of limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments.

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2015:

(\$ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of December 31, 2015
Assets					
Fixed income securities:					
U.S. government and agencies	\$ 3,056	\$ 861	\$ 5		\$ 3,922
Municipal	—	7,240	161		7,401
Corporate - public	—	30,356	46		30,402
Corporate - privately placed	—	10,923	502		11,425
Foreign government	—	1,033	—		1,033
ABS - CDO	—	716	61		777
ABS - consumer and other	—	1,500	50		1,550
RMBS	—	946	1		947
CMBS	—	446	20		466
Redeemable preferred stock	—	25	—		25
Total fixed income securities	3,056	54,046	846		57,948
Equity securities	4,786	163	133		5,082
Short-term investments	615	1,507	—		2,122
Other investments: Free-standing derivatives	—	65	1	\$ (13)	53
Separate account assets	3,658	—	—		3,658
Other assets	2	—	1		3
Total recurring basis assets	12,117	55,781	981	(13)	68,866
Non-recurring basis ⁽¹⁾	—	—	55		55
Total assets at fair value	\$ 12,117	\$ 55,781	\$ 1,036	\$ (13)	\$ 68,921
% of total assets at fair value	17.6%	80.9%	1.5%	—%	100.0%
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ —	\$ —	\$ (299)		\$ (299)
Other liabilities: Free-standing derivatives	(1)	(23)	(8)	\$ 7	(25)
Total liabilities at fair value	\$ (1)	\$ (23)	\$ (307)	\$ 7	\$ (324)
% of total liabilities at fair value	0.3%	7.1%	94.8%	(2.2)%	100.0%

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

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

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

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

As of December 31, 2016 and 2015, Level 3 fair value measurements of fixed income securities total \$558 million and \$846 million, respectively, and include \$307 million and \$625 million, respectively, of securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and \$80 million and \$96 million, respectively, of municipal fixed income securities that are not rated by third party credit rating agencies. The Company does not develop the unobservable inputs used in measuring fair value; therefore, these are not included in the table above. However, an increase (decrease) in credit spreads for fixed income securities valued based on non-binding broker quotes would result in a lower (higher) fair value, and an increase (decrease) in the credit rating of municipal bonds that are not rated by third party credit rating agencies would result in a higher (lower) fair value.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the year ended December 31, 2016.

(\$ in millions)

(\$ in millions)	Balance as of December 31, 2015	Total gains (losses) included in:		Transfers into Level 3	Transfers out of Level 3
		Net income ⁽¹⁾	OCI		
Assets					
Fixed income securities:					
U.S. government and agencies	\$ 5	\$ —	\$ —	\$ —	\$ (4)
Municipal	161	12	(10)	6	(23)
Corporate - public	46	—	—	41	(43)
Corporate - privately placed	502	15	18	16	(398)
ABS - CDO	61	1	6	10	(43)
ABS - consumer and other	50	—	(3)	3	(35)
RMBS	1	1	—	—	—
CMBS	20	—	—	—	(1)
Total fixed income securities	846	29	11	76	(547)
Equity securities	133	(32)	12	—	(12)
Short-term investments	—	—	—	—	—
Free-standing derivatives, net	(7)	6	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	\$ 973	\$ 3	\$ 23	\$ 76	\$ (559)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	\$ (299)	\$ 5	\$ —	\$ —	\$ —
Total recurring Level 3 liabilities	\$ (299)	\$ 5	\$ —	\$ —	\$ —

	Purchases	Sales	Issues	Settlements	Balance as of December 31, 2016
Assets					
Fixed income securities:					
U.S. government and agencies	\$ —	\$ —	\$ —	\$ (1)	\$ —
Municipal	22	(40)	—	(3)	125
Corporate - public	47	(11)	—	(2)	78
Corporate - privately placed	181	(15)	—	(56)	263
ABS - CDO	40	(3)	—	(45)	27
ABS - consumer and other	35	(5)	—	(3)	42
RMBS	—	(1)	—	—	1
CMBS	5	—	—	(2)	22
Total fixed income securities	330	(75)	—	(112)	558
Equity securities	65	(4)	—	1	163
Short-term investments	15	—	—	—	15
Free-standing derivatives, net	—	—	—	(1)	(2) ⁽²⁾
Other assets	—	—	—	—	1
Total recurring Level 3 assets	\$ 410	\$ (79)	\$ —	\$ (112)	\$ 735
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	\$ —	\$ —	\$ (3)	\$ 7	\$ (290)
Total recurring Level 3 liabilities	\$ —	\$ —	\$ (3)	\$ 7	\$ (290)

⁽¹⁾ The effect to net income totals \$8 million and is reported in the Consolidated Statements of Operations as follows: \$(9) million in realized capital gains and losses, \$12 million in net investment income, \$(4) million in interest credited to contractholder funds and \$9 million in life and annuity contract benefits.

⁽²⁾ Comprises \$1 million of assets and \$3 million of liabilities.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the year ended December 31, 2015.

(\$ in millions)

(\$ in millions)		Total gains (losses) included in:		Transfers into Level 3	Transfers out of Level 3
	Balance as of December 31, 2014	Net income ⁽¹⁾	OCI		
Assets					
Fixed income securities:					
U.S. government and agencies	\$ 6	\$ —	\$ —	\$ —	\$ —
Municipal	270	(4)	(7)	3	(2)
Corporate - public	214	—	—	—	(175)
Corporate - privately placed	677	13	(20)	13	(106)
ABS - CDO	104	(1)	4	43	(52)
ABS - consumer and other	92	(1)	—	—	(98)
RMBS	1	—	—	—	—
CMBS	23	—	—	—	—
Total fixed income securities	1,387	7	(23)	59	(433)
Equity securities	83	(3)	(5)	—	—
Short-term investments	5	—	—	—	—
Free-standing derivatives, net	(7)	1	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	\$ 1,469	\$ 5	\$ (28)	\$ 59	\$ (433)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts					
	\$ (323)	\$ 19	\$ —	\$ —	\$ —
Total recurring Level 3 liabilities	\$ (323)	\$ 19	\$ —	\$ —	\$ —

	Purchases	Sales	Issues	Settlements	Balance as of December 31, 2015
Assets					
Fixed income securities:					
U.S. government and agencies	\$ —	\$ —	\$ —	\$ (1)	\$ 5
Municipal	—	(91)	—	(8)	161
Corporate - public	11	—	—	(4)	46
Corporate - privately placed	79	(74)	—	(80)	502
ABS - CDO	—	(2)	—	(35)	61
ABS - consumer and other	70	(5)	—	(8)	50
RMBS	—	—	—	—	1
CMBS	12	—	—	(15)	20
Total fixed income securities	172	(172)	—	(151)	846
Equity securities	69	(11)	—	—	133
Short-term investments	35	(40)	—	—	—
Free-standing derivatives, net	—	—	—	(1)	(7) ⁽²⁾
Other assets	—	—	—	—	1
Total recurring Level 3 assets	\$ 276	\$ (223)	\$ —	\$ (152)	\$ 973
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts					
	\$ —	\$ —	\$ (2)	\$ 7	\$ (299)
Total recurring Level 3 liabilities	\$ —	\$ —	\$ (2)	\$ 7	\$ (299)

⁽¹⁾ The effect to net income totals \$24 million and is reported in the Consolidated Statements of Operations as follows: \$(8) million in realized capital gains and losses, \$13 million in net investment income, \$26 million in interest credited to contractholder funds and \$(7) million in life and annuity contract benefits.

⁽²⁾ Comprises \$1 million of assets and \$8 million of liabilities.

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

(\$ in millions)	Balance as of December 31, 2013	Total gains (losses) included in:		Transfers into Level 3	Transfers out of Level 3
		Net income ⁽¹⁾	OCI		
Assets					
Fixed income securities:					
U.S. government and agencies	\$ 7	\$ —	\$ —	\$ —	\$ —
Municipal	343	(2)	18	—	(17)
Corporate	1,109	24	(14)	89	(125)
ABS	192	1	2	49	(144)
RMBS	2	—	—	—	—
CMBS	43	(1)	—	5	(4)
Redeemable preferred stock	1	—	—	—	—
Total fixed income securities	1,697	22	6	143	(290)
Equity securities	132	22	(16)	—	(2)
Short-term investments	—	—	—	—	—
Free-standing derivatives, net	(5)	—	—	—	—
Other assets	—	1	—	—	—
Assets held for sale	362	(1)	2	4	(2)
Total recurring Level 3 assets	\$ 2,186	\$ 44	\$ (8)	\$ 147	\$ (294)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	\$ (307)	\$ (8)	\$ —	\$ —	\$ —
Liabilities held for sale	(246)	17	—	—	—
Total recurring Level 3 liabilities	\$ (553)	\$ 9	\$ —	\$ —	\$ —

	Sold in LBL disposition ⁽³⁾	Purchases/ Issues ⁽⁴⁾	Sales	Settlements	Balance as of December 31, 2014
Assets					
Fixed income securities:					
U.S. government and agencies	\$ —	\$ —	\$ —	\$ (1)	\$ 6
Municipal	—	6	(74)	(4)	270
Corporate	—	64	(140)	(116)	891
ABS	—	119	—	(23)	196
RMBS	—	—	—	(1)	1
CMBS	4	8	(1)	(31)	23
Redeemable preferred stock	—	—	(1)	—	—
Total fixed income securities	4	197	(216)	(176)	1,387
Equity securities	—	83	(136)	—	83
Short-term investments	—	45	(40)	—	5
Free-standing derivatives, net	—	2	—	(4)	(7) ⁽²⁾
Other assets	—	—	—	—	1
Assets held for sale	(351)	—	(8)	(6)	—
Total recurring Level 3 assets	\$ (347)	\$ 327	\$ (400)	\$ (186)	\$ 1,469
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	\$ —	\$ (14)	\$ —	\$ 6	\$ (323)
Liabilities held for sale	230	(4)	—	3	—
Total recurring Level 3 liabilities	\$ 230	\$ (18)	\$ —	\$ 9	\$ (323)

⁽¹⁾ The effect to net income totals \$53 million and is reported in the Consolidated Statements of Operations as follows: \$34 million in realized capital gains and losses, \$13 million in net investment income, \$(5) million in interest credited to contractholder funds, \$15 million in life and annuity contract benefits and \$(4) million in loss on disposition of operations.

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

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

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

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

There were no transfers between Level 1 and Level 2 during 2016, 2015 or 2014.

Transfers into Level 3 during 2016, 2015 and 2014 included situations where a fair value quote was not provided by the Company's independent third-party valuation service provider and as a result the price was stale or had been replaced with a broker quote where the inputs had not been corroborated to be market observable resulting in the security being classified as Level 3. Transfers out of Level 3 during 2016, 2015 and 2014 included situations where a broker quote was used in the prior period and a fair value quote became available from the Company's independent third-party valuation service provider in the current period. A quote utilizing the new pricing source was not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities were not significant.

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

(\$ in millions)	2016	2015	2014
Assets			
Fixed income securities:			
Municipal	\$ 2	\$ (12)	\$ (7)
Corporate	2	11	11
ABS	—	2	1
RMBS	—	—	(1)
Total fixed income securities	4	1	4
Equity securities	(32)	(4)	—
Free-standing derivatives, net	5	1	5
Other assets	—	—	1
Total recurring Level 3 assets	\$ (23)	\$ (2)	\$ 10
Liabilities			
Contractholder funds: Derivatives embedded in life and annuity contracts	\$ 5	\$ 19	\$ (8)
Liabilities held for sale	—	—	17
Total recurring Level 3 liabilities	\$ 5	\$ 19	\$ 9

The amounts in the table above represent the change in unrealized gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total \$(18) million in 2016 and are reported as follows: \$(36) million in realized capital gains and losses, \$13 million in net investment income, \$(4) million in interest credited to contractholder funds and \$9 million in life and annuity contract benefits. These gains and losses total \$17 million in 2015 and are reported as follows: \$(20) million in realized capital gains and losses, \$18 million in net investment income, \$26 million in interest credited to contractholder funds and \$(7) million in life and annuity contract benefits. These gains and losses total \$19 million in 2014 and are reported as follows: \$(3) million in realized capital gains and losses, \$12 million in net investment income, \$(5) million in interest credited to contractholder funds and \$15 million in life and annuity contract benefits.

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

Financial assets

(\$ in millions)	December 31, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
Mortgage loans	\$ 4,486	\$ 4,514	\$ 4,338	\$ 4,489
Cost method limited partnerships	1,282	1,493	1,154	1,450
Bank loans	1,669	1,677	1,565	1,527
Agent loans	467	467	422	408

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

Financial liabilities

(\$ in millions)

	December 31, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	\$ 11,313	\$ 12,009	\$ 12,424	\$ 12,874
Long-term debt	6,347	6,920	5,124	5,648
Liability for collateral	1,129	1,129	840	840

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

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

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

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

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

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

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

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

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

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

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

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive or pay to terminate the derivative contracts at the reporting date. The carrying value amounts for OTC derivatives are further adjusted for the effects, if any, of enforceable master netting agreements and are presented on a net basis, by counterparty agreement, in the Consolidated Statements of Financial Position. For certain exchange traded and cleared derivatives, margin deposits are required as well as daily cash settlements of margin accounts. As of December 31, 2016, the Company pledged \$9 million of cash in the form of margin deposits.

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

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

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Consolidated Statement of Financial Position as of December 31, 2016.

(\$ in millions, except number of contracts)

		Volume ⁽¹⁾		Fair value, net	Gross asset	Gross liability
		Notional amount	Number of contracts			
Balance sheet location						
Asset derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other investments	\$ 49	n/a	\$ 5	\$ 5	\$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other investments	65	n/a	1	1	—
Equity and index contracts						
Options	Other investments	—	3,972	88	88	—
Financial futures contracts	Other assets	—	261	—	—	—
Foreign currency contracts						
Foreign currency forwards	Other investments	759	n/a	—	24	(24)
Credit default contracts						
Credit default swaps — buying protection	Other investments	87	n/a	(4)	—	(4)
Credit default swaps — selling protection	Other investments	140	n/a	2	2	—
Other contracts						
Other contracts	Other assets	3	n/a	1	1	—
Subtotal		1,054	4,233	88	116	(28)
Total asset derivatives		\$ 1,103	4,233	\$ 93	\$ 121	\$ (28)
Liability derivatives						
Derivatives not designated as accounting hedging instruments						
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	\$ —	4,848	\$ (39)	\$ —	(39)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	391	n/a	(34)	—	(34)
Guaranteed withdrawal benefits	Contractholder funds	290	n/a	(9)	—	(9)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,751	n/a	(247)	—	(247)
Credit default contracts						
Credit default swaps — buying protection	Other liabilities & accrued expenses	136	n/a	(2)	—	(2)
Credit default swaps — selling protection	Other liabilities & accrued expenses	105	n/a	(3)	—	(3)
Subtotal		2,673	4,848	(334)	—	(334)
Total liability derivatives		2,673	4,848	(334)	\$ —	\$ (334)
Total derivatives		\$ 3,776	9,081	\$ (241)		

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

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

(\$ in millions, except number of contracts)

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

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

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

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

(\$ in millions)

	<u>Gross amount</u>	<u>Offsets</u>		<u>Net amount on balance sheet</u>	<u>Securities collateral (received) pledged</u>	<u>Net amount</u>
		<u>Counter- party netting</u>	<u>Cash collateral (received) pledged</u>			
December 31, 2016						
Asset derivatives	\$ 31	\$ (28)	\$ 19	\$ 22	\$ (9)	\$ 13
Liability derivatives	(33)	28	—	(5)	4	(1)
December 31, 2015						
Asset derivatives	\$ 21	\$ (8)	\$ (5)	\$ 8	\$ (4)	\$ 4
Liability derivatives	(25)	8	(1)	(18)	9	(9)

The following table provides a summary of the impacts of the Company's foreign currency contracts in cash flow hedging relationships for the years ended December 31. Amortization of net gains from accumulated other comprehensive income related to cash flow hedges is expected to be a gain of \$2 million during the next twelve months. There was no hedge ineffectiveness reported in realized gains and losses in 2016, 2015 or 2014.

(\$ in millions)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Gain recognized in OCI on derivatives during the period	\$ —	\$ 10	\$ 12
Gain (loss) recognized in OCI on derivatives during the term of the hedging relationship	2	6	(2)
Gain (loss) reclassified from AOCI into income (net investment income)	1	(1)	(2)
Gain (loss) reclassified from AOCI into income (realized capital gains and losses)	3	3	(2)

The following tables present gains and losses from valuation and settlements reported on derivatives not designated as accounting hedging instruments in the Consolidated Statements of Operations. In 2016, 2015 and 2014, the Company had no derivatives used in fair value hedging relationships.

(\$ in millions)

	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Loss on disposition of operations	Total gain (loss) recognized in net income on derivatives
2016						
Equity and index contracts	\$ (12)	\$ —	\$ 18	\$ 19	\$ —	\$ 25
Embedded derivative financial instruments	—	9	—	—	—	9
Foreign currency contracts	17	—	—	(35)	—	(18)
Credit default contracts	(5)	—	—	—	—	(5)
Total	<u>\$ —</u>	<u>\$ 9</u>	<u>\$ 18</u>	<u>\$ (16)</u>	<u>\$ —</u>	<u>\$ 11</u>
2015						
Interest rate contracts	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ 1
Equity and index contracts	1	—	(9)	(1)	—	(9)
Embedded derivative financial instruments	—	(7)	31	—	—	24
Foreign currency contracts	(24)	—	—	(8)	—	(32)
Credit default contracts	(2)	—	—	—	—	(2)
Total	<u>\$ (24)</u>	<u>\$ (7)</u>	<u>\$ 22</u>	<u>\$ (9)</u>	<u>\$ —</u>	<u>\$ (18)</u>
2014						
Interest rate contracts	\$ (10)	\$ —	\$ —	\$ —	\$ (4)	\$ (14)
Equity and index contracts	(18)	—	38	9	—	29
Embedded derivative financial instruments	—	15	(14)	—	—	1
Foreign currency contracts	(9)	—	—	(8)	—	(17)
Credit default contracts	1	—	—	—	—	1
Other contracts	—	—	(2)	—	—	(2)
Total	<u>\$ (36)</u>	<u>\$ 15</u>	<u>\$ 22</u>	<u>\$ 1</u>	<u>\$ (4)</u>	<u>\$ (2)</u>

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements (“MNAs”) and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions that permit either party to net payments due for transactions and collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of December 31, 2016, counterparties pledged \$13 million in cash and securities to the Company, and the Company pledged \$27 million in cash and securities to counterparties as collateral posted under MNAs for contracts without credit-risk-contingent features. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives, including futures and certain option contracts, are traded on organized exchanges which require margin deposits and guarantee the execution of trades, thereby mitigating any potential credit risk.

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

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

Rating ⁽¹⁾	2016				2015			
	Number of counter-parties	Notional amount ⁽²⁾	Credit exposure ⁽²⁾	Exposure, net of collateral ⁽²⁾	Number of counter-parties	Notional amount ⁽²⁾	Credit exposure ⁽²⁾	Exposure, net of collateral ⁽²⁾
AA-	2	\$ 80	\$ 2	\$ 2	—	\$ —	\$ —	\$ —
A+	5	698	20	9	1	82	5	—
A	—	—	—	—	5	375	9	6
A-	1	110	1	1	1	41	3	—
BBB+	—	—	—	—	2	49	—	1
Total	8	\$ 888	\$ 23	\$ 12	9	\$ 547	\$ 17	\$ 7

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

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

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

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

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

(\$ in millions)	2016	2015
Gross liability fair value of contracts containing credit-risk-contingent features	\$ 9	\$ 21
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(7)	(3)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	—	(13)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	\$ 2	\$ 5

Credit derivatives – selling protection

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

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

(\$ in millions)	Notional amount					Fair value
	AA	A	BBB	BB and lower	Total	
December 31, 2016						
Single name						
Corporate debt	\$ 20	\$ 10	\$ 35	\$ —	\$ 65	\$ 1
First-to-default Basket						
Municipal	—	—	100	—	100	(3)
Index						
Corporate debt	1	19	50	10	80	1
Total	<u>\$ 21</u>	<u>\$ 29</u>	<u>\$ 185</u>	<u>\$ 10</u>	<u>\$ 245</u>	<u>\$ (1)</u>
December 31, 2015						
Single name						
Corporate debt	\$ 20	\$ 10	\$ 45	\$ —	\$ 75	\$ 1
First-to-default Basket						
Municipal	—	—	100	—	100	(8)
Index						
Corporate debt	1	20	52	7	80	1
Total	<u>\$ 21</u>	<u>\$ 30</u>	<u>\$ 197</u>	<u>\$ 7</u>	<u>\$ 255</u>	<u>\$ (6)</u>

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

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

Off-balance sheet financial instruments

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

(\$ in millions)	2016	2015
Commitments to invest in limited partnership interests	\$ 2,979	\$ 2,551
Private placement commitments	69	89
Municipal bond forward commitments	—	36
Other loan commitments	83	46

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

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

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

Municipal bond forward commitments represent purchases of newly issued debt securities with a settlement period in excess of a standard period of generally 30-60 days. The Company enters into these agreements in the normal course of business.

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

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

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

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

Activity in the reserve for property-liability insurance claims and claims expense is summarized as follows:

(\$ in millions)	2016	2015	2014
Balance as of January 1	\$ 23,869	\$ 22,923	\$ 21,857
Less reinsurance recoverables	5,892	5,694	4,664
Net balance as of January 1	17,977	17,229	17,193
Incurred claims and claims expense related to:			
Current year	22,238	20,953	19,512
Prior years	(17)	81	(84)
Total incurred	22,221	21,034	19,428
Claims and claims expense paid related to:			
Current year	14,222	13,660	12,924
Prior years	6,910	6,626	6,468
Total paid	21,132	20,286	19,392
Net balance as of December 31	19,066	17,977	17,229
Plus reinsurance recoverables	6,184	5,892	5,694
Balance as of December 31	\$ 25,250	\$ 23,869	\$ 22,923

Incurred claims and claims expense represents the sum of paid losses and reserve changes in the calendar year. This expense includes losses from catastrophes of \$2.57 billion, \$1.72 billion and \$1.99 billion in 2016, 2015 and 2014, respectively, net of reinsurance and other recoveries (see Note 10). Catastrophes are an inherent risk of the property-liability insurance business that have contributed to, and will continue to contribute to, material year-to-year fluctuations in the Company's results of operations and financial position.

The Company calculates and records a single best reserve estimate for losses from catastrophes, in conformance with generally accepted actuarial standards. As a result, management believes that no other estimate is better than the recorded amount. Due to the uncertainties involved, including the factors described above, the ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. Accordingly, management believes that it is not practical to develop a meaningful range for any such changes in losses incurred.

During 2016, incurred claims and claims expense related to prior years was primarily composed of net decreases in auto reserves of \$155 million primarily due to claim severity development for bodily injury coverage that was better than expected, net decreases in homeowners reserves of \$24 million due to favorable non-catastrophe reserve reestimates, net increases in other reserves of \$57 million primarily due to unfavorable commercial business non-catastrophe losses, and net increases in Discontinued Lines and Coverages reserves of \$105 million. Incurred claims and claims expense includes unfavorable catastrophe loss reestimates of \$6 million, net of reinsurance and other recoveries.

During 2015, incurred claims and claims expense related to prior years was primarily composed of net increases in auto reserves of \$30 million primarily due to claim severity development for bodily injury coverage that was more than expected and litigation settlements, net decreases in homeowners reserves of \$24 million due to favorable non-catastrophe reserve reestimates, net increases in other reserves of \$22 million, and net increases in Discontinued Lines and Coverages reserves of \$53 million. Incurred claims and claims expense includes favorable catastrophe loss reestimates of \$15 million, net of reinsurance and other recoveries.

During 2014, incurred claims and claims expense related to prior years was primarily composed of net decreases in auto reserves of \$238 million primarily due to claim severity development that was better than expected, net increases in homeowners reserves of \$29 million due to unfavorable non-catastrophe reserve reestimates, net increases in other reserves of \$13 million, and net increases in Discontinued Lines and Coverages reserves of \$112 million. Incurred claims and claims expense includes unfavorable catastrophe loss reestimates of \$43 million, net of reinsurance and other recoveries.

The following presents information about incurred and paid claims development as of December 31, 2016, net of reinsurance, as well as the cumulative number of reported claims and the total of IBNR reserves plus expected development on reported claims included in the net incurred claims amounts. See Note 2 for the accounting policy and methodology for determining reserves for claims and claims expense, including both reported and IBNR claims. The cumulative number of reported claims is identified by coverage and excludes reported claims for industry pools and facilities where information is not available. The information about incurred and paid claims development for the 2012 to 2015 years, and the average annual percentage payout of incurred claims by age as of December 31, 2016, is presented as required supplementary information.

Auto Insurance

(\$ in millions, except number of reported claims)	Incurred claims and allocated claim adjustment expenses, net of reinsurance					IBNR reserves plus expected development on reported claims	Cumulative number of reported claims	
	For the years ended December 31,							
	(unaudited)	(unaudited)	(unaudited)	(unaudited)				As of December 31, 2016
	Accident year	2012	2013	2014	2015			2016
2012	\$ 11,299	\$ 11,187	\$ 11,079	\$ 11,046	\$ 11,015	\$ 444	5,801,971	
2013	—	11,329	11,269	11,273	11,204	888	5,890,375	
2014	—	—	12,166	12,220	12,121	1,603	6,335,312	
2015	—	—	—	13,521	13,466	2,963	6,754,829	
2016	—	—	—	—	14,265	5,896	6,572,689	
					\$ 62,071			

**Cumulative paid claims and allocated claims adjustment expenses,
net of reinsurance**

For the years ended December 31,					
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Accident year	2012	2013	2014	2015	2016
2012	\$ 6,818	\$ 8,760	\$ 9,660	\$ 10,251	\$ 10,571
2013	—	6,662	8,826	9,770	10,316
2014	—	—	7,312	9,586	10,518
2015	—	—	—	8,027	10,503
2016	—	—	—	—	8,369
				Total	\$ 50,277
All outstanding liabilities before 2012, net of reinsurance					1,167
Liabilities for claims and claim adjustment expenses, net of reinsurance					\$ 12,961

Average annual percentage payout of incurred claims by age, net of reinsurance, as of December 31, 2016

	1 year	2 years	3 years	4 years	5 years
Auto insurance	60.2%	19.1%	8.0%	5.2%	3.1%

Homeowners Insurance

(\$ in millions,
except number
of reported
claims)

Incurred claims and allocated claim adjustment expenses, net of reinsurance						IBNR reserves plus expected development on reported claims	Cumulative number of reported claims
For the years ended December 31,						As of December 31, 2016	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
Accident year	2012	2013	2014	2015	2016		
2012	\$ 3,833	\$ 3,915	\$ 3,930	\$ 3,913	\$ 3,891	\$ 63	1,003,156
2013	—	3,091	3,163	3,156	3,135	97	682,525
2014	—	—	3,600	3,644	3,646	172	764,101
2015	—	—	—	3,565	3,615	323	717,025
2016	—	—	—	—	3,964	1,020	755,683
					\$ 18,251		

**Cumulative paid claims and allocated claims adjustment
expenses, net of reinsurance**

For the years ended December 31,					
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Accident year	2012	2013	2014	2015	2016
2012	\$ 2,942	\$ 3,606	\$ 3,742	\$ 3,802	\$ 3,828
2013	—	2,283	2,878	2,991	3,038
2014	—	—	2,730	3,358	3,474
2015	—	—	—	2,584	3,293
2016	—	—	—	—	2,944
				Total	\$ 16,577
All outstanding liabilities before 2012, net of reinsurance					187
Liabilities for claims and claim adjustment expenses, net of reinsurance					\$ 1,861

Average annual percentage payout of incurred claims by age, net of reinsurance, as of December 31, 2016

	1 year	2 years	3 years	4 years	5 years
Homeowners insurance	74.2%	19.1%	2.8%	1.4%	0.7%

The reconciliation of the net incurred and paid claims development tables above to the reserve for property-liability insurance claims and claims expense in the Consolidated Statement of Financial Position as of December 31, 2016 is as follows:

(\$ in millions)

Net outstanding liabilities:	
Auto insurance	\$ 12,961
Homeowners insurance	1,861
Other personal lines	1,310
Commercial lines	597
Other business lines	22
Discontinued Lines and Coverages ⁽¹⁾	1,382
Unallocated loss adjustment expenses	933
Net reserve for property-liability insurance claims and claims expense	<u>19,066</u>
Reinsurance recoverable:	
Auto insurance	5,422
Homeowners insurance	9
Other personal lines	212
Commercial lines	21
Other business lines	10
Discontinued Lines and Coverages	508
Unallocated loss adjustment expenses	2
Total reinsurance recoverable	<u>6,184</u>
Gross reserve for property-liability insurance claims and claims expense	<u>\$ 25,250</u>

⁽¹⁾ Discontinued Lines and Coverages includes business in run-off. All of the claims relate to accident years more than 10 years ago. IBNR reserves represent \$800 million of the total reserves as of December 31, 2016.

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

For further discussion of asbestos and environmental reserves, see Note 14.

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

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

(\$ in millions)	2016	2015
Immediate fixed annuities:		
Structured settlement annuities	\$ 6,681	\$ 6,673
Other immediate fixed annuities	1,941	2,041
Traditional life insurance	2,643	2,584
Accident and health insurance	873	844
Other	101	105
Total reserve for life-contingent contract benefits	<u>\$ 12,239</u>	<u>\$ 12,247</u>

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

Product	Mortality	Interest rate	Estimation method
Structured settlement annuities	U.S. population with projected calendar year improvements; mortality rates adjusted for each impaired life based on reduction in life expectancy	Interest rate assumptions range from 2.9% to 9.0%	Present value of contractually specified future benefits
Other immediate fixed annuities	1983 group annuity mortality table with internal modifications; 1983 individual annuity mortality table; Annuity 2000 mortality table with internal modifications; Annuity 2000 mortality table; 1983 individual annuity mortality table with internal modifications	Interest rate assumptions range from 0% to 11.5%	Present value of expected future benefits based on historical experience
Traditional life insurance	Actual company experience plus loading	Interest rate assumptions range from 2.5% to 11.3%	Net level premium reserve method using the Company's withdrawal experience rates; includes reserves for unpaid claims
Accident and health insurance	Actual company experience plus loading	Interest rate assumptions range from 3.0% to 7.0%	Unearned premium; additional contract reserves for mortality risk and unpaid claims
Other: Variable annuity guaranteed minimum death benefits ⁽¹⁾	Annuity 2012 mortality table with internal modifications	Interest rate assumptions range from 2.0% to 5.8%	Projected benefit ratio applied to cumulative assessments

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

To the extent that unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve is recorded for certain immediate annuities with life contingencies. A liability is included in the reserve for life-contingent contract benefits with respect to this deficiency. The offset to this liability is recorded as a reduction of the unrealized net capital gains included in accumulated other comprehensive income. This liability was zero as of both December 31, 2016 and 2015.

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

(\$ in millions)	2016	2015
Interest-sensitive life insurance	\$ 8,062	\$ 7,975
Investment contracts:		
Fixed annuities	11,933	12,974
Funding agreements backing medium-term notes	—	85
Other investment contracts	265	261
Total contractholder funds	\$ 20,260	\$ 21,295

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

Product	Interest rate	Withdrawal/surrender charges
Interest-sensitive life insurance	Interest rates credited range from 0% to 10.5% for equity-indexed life (whose returns are indexed to the S&P 500) and 1.0% to 6.0% for all other products	Either a percentage of account balance or dollar amount grading off generally over 20 years
Fixed annuities	Interest rates credited range from 0% to 9.8% for immediate annuities; (8.0)% to 13.3% for equity-indexed annuities (whose returns are indexed to the S&P 500); and 0.1% to 6.0% for all other products	Either a declining or a level percentage charge generally over ten years or less. Additionally, approximately 17.9% of fixed annuities are subject to market value adjustment for discretionary withdrawals
Other investment contracts: Guaranteed minimum income, accumulation and withdrawal benefits on variable ⁽¹⁾ and fixed annuities and secondary guarantees on interest-sensitive life insurance and fixed annuities	Interest rates used in establishing reserves range from 1.5% to 10.3%	Withdrawal and surrender charges are based on the terms of the related interest-sensitive life insurance or fixed annuity contract

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

Contractholder funds as of December 31, 2015 included funding agreements held by a VIE, Allstate Life Global Funding, that issued medium-term notes. The VIE's primary assets were funding agreements used exclusively to back medium-term note programs.

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

(\$ in millions)	2016	2015	2014
Balance, beginning of year	\$ 21,295	\$ 22,529	\$ 24,304
Classified as held for sale, beginning balance	—	—	10,945
Total, including those classified as held for sale	21,295	22,529	35,249
Deposits	1,164	1,203	1,333
Interest credited	722	760	919
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	8	(30)	36
Sold in LBL disposition	—	—	(10,662)
Balance, end of year	\$ 20,260	\$ 21,295	\$ 22,529

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

Absent any contract provision wherein the Company guarantees either a minimum return or account value upon death, a specified contract anniversary date, partial withdrawal or annuitization, variable annuity and variable life insurance contractholders bear the investment risk that the separate accounts' funds may not meet their stated investment objectives. The account balances of variable annuities contracts' separate accounts with guarantees included \$2.93 billion and \$3.22 billion of equity, fixed income and balanced mutual funds and \$364 million and \$341 million of money market mutual funds as of December 31, 2016 and 2015, respectively.

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

(\$ in millions)

	December 31,	
	2016	2015
<i>In the event of death</i>		
Separate account value	\$ 3,298	\$ 3,560
Net amount at risk ⁽¹⁾	\$ 585	\$ 675
Average attained age of contractholders	70 years	69 years
<i>At annuitization (includes income benefit guarantees)</i>		
Separate account value	\$ 915	\$ 967
Net amount at risk ⁽²⁾	\$ 265	\$ 281
Weighted average waiting period until annuitization options available	None	None
<i>For cumulative periodic withdrawals</i>		
Separate account value	\$ 267	\$ 294
Net amount at risk ⁽³⁾	\$ 10	\$ 10
<i>Accumulation at specified dates</i>		
Separate account value	\$ 310	\$ 371
Net amount at risk ⁽⁴⁾	\$ 26	\$ 31
Weighted average waiting period until guarantee date	3 years	4 years

⁽¹⁾ Defined as the estimated current guaranteed minimum death benefit in excess of the current account balance as of the balance sheet date.

⁽²⁾ Defined as the estimated present value of the guaranteed minimum annuity payments in excess of the current account balance.

⁽³⁾ Defined as the estimated current guaranteed minimum withdrawal balance (initial deposit) in excess of the current account balance as of the balance sheet date.

⁽⁴⁾ Defined as the estimated present value of the guaranteed minimum accumulation balance in excess of the current account balance.

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

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

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

The following table summarizes the liabilities for guarantees.

(\$ in millions)	Liability for guarantees related to death benefits and interest-sensitive life products	Liability for guarantees related to income benefits	Liability for guarantees related to accumulation and withdrawal benefits	Total
Balance, December 31, 2015 ⁽¹⁾	\$ 223	\$ 68	\$ 75	\$ 366
Less reinsurance recoverables	106	64	52	222
Net balance as of December 31, 2015	117	4	23	144
Incurred guarantee benefits	26	—	11	37
Paid guarantee benefits	—	—	—	—
Net change	26	—	11	37
Net balance as of December 31, 2016	143	4	34	181
Plus reinsurance recoverables	101	40	43	184
Balance, December 31, 2016 ⁽²⁾	\$ 244	\$ 44	\$ 77	\$ 365
Balance, December 31, 2014 ⁽³⁾	\$ 195	\$ 95	\$ 60	\$ 350
Less reinsurance recoverables	98	91	45	234
Net balance as of December 31, 2014	97	4	15	116
Incurred guarantee benefits	20	—	8	28
Paid guarantee benefits	—	—	—	—
Net change	20	—	8	28
Net balance as of December 31, 2015	117	4	23	144
Plus reinsurance recoverables	106	64	52	222
Balance, December 31, 2015 ⁽¹⁾	\$ 223	\$ 68	\$ 75	\$ 366

⁽¹⁾ Included in the total liability balance as of December 31, 2015 are reserves for variable annuity death benefits of \$105 million, variable annuity income benefits of \$65 million, variable annuity accumulation benefits of \$38 million, variable annuity withdrawal benefits of \$14 million and other guarantees of \$144 million.

⁽²⁾ Included in the total liability balance as of December 31, 2016 are reserves for variable annuity death benefits of \$100 million, variable annuity income benefits of \$40 million, variable annuity accumulation benefits of \$34 million, variable annuity withdrawal benefits of \$9 million and other guarantees of \$182 million.

⁽³⁾ Included in the total liability balance as of December 31, 2014 are reserves for variable annuity death benefits of \$96 million, variable annuity income benefits of \$92 million, variable annuity accumulation benefits of \$32 million, variable annuity withdrawal benefits of \$13 million and other guarantees of \$117 million.

10. Reinsurance

The effects of reinsurance on property-liability insurance premiums written and earned and life and annuity premiums and contract charges for the years ended December 31 are as follows:

(\$ in millions)	2016	2015	2014
Property-liability insurance premiums written			
Direct	\$ 32,614	\$ 31,924	\$ 30,686
Assumed	47	39	48
Ceded	(1,061)	(1,092)	(1,120)
Property-liability insurance premiums written, net of reinsurance	\$ 31,600	\$ 30,871	\$ 29,614
Property-liability insurance premiums earned			
Direct	\$ 32,249	\$ 31,274	\$ 29,914
Assumed	45	41	45
Ceded	(987)	(1,006)	(1,030)
Property-liability insurance premiums earned, net of reinsurance	\$ 31,307	\$ 30,309	\$ 28,929
Life and annuity premiums and contract charges			
Direct	\$ 1,766	\$ 1,641	\$ 1,944
Assumed	818	849	629
Ceded	(309)	(332)	(416)
Life and annuity premiums and contract charges, net of reinsurance	\$ 2,275	\$ 2,158	\$ 2,157

Property-Liability

The Company purchases reinsurance after evaluating the financial condition of the reinsurer, as well as the terms and price of coverage. Developments in the insurance and reinsurance industries have fostered a movement to segregate asbestos, environmental and other discontinued lines exposures into separate legal entities with dedicated capital. Regulatory bodies in certain cases have supported these actions. The Company is unable to determine the impact, if any, that these developments will have on the collectability of reinsurance recoverables in the future.

Property-Liability reinsurance recoverable

Total amounts recoverable from reinsurers as of December 31, 2016 and 2015 were \$6.28 billion and \$5.98 billion, respectively, including \$93 million and \$86 million, respectively, related to property-liability losses paid by the Company and billed to reinsurers, and \$6.18 billion and \$5.89 billion, respectively, estimated by the Company with respect to ceded unpaid losses (including IBNR), which are not billable until the losses are paid.

With the exception of the recoverable balances from the Michigan Catastrophic Claims Association ("MCCA"), Lloyd's of London, New Jersey Property-Liability Insurance Guaranty Association ("PLIGA") and other industry pools and facilities, the largest reinsurance recoverable balance the Company had outstanding was \$61 million and \$62 million from Westport Insurance Corporation as of December 31, 2016 and 2015, respectively. No other amount due or estimated to be due from any single property-liability reinsurer was in excess of \$35 million and \$32 million as of December 31, 2016 and 2015, respectively.

The allowance for uncollectible reinsurance was \$84 million and \$80 million as of December 31, 2016 and 2015, respectively, and is primarily related to the Company's Discontinued Lines and Coverages segment.

Industry pools and facilities

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. The 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. The 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 is obligated to fund the ultimate liability for member companies (companies actively writing motor vehicle coverage in Michigan and those with runoff policies) qualifying claims and claims expenses. The MCCA operates similar to a reinsurance program and is annually funded by participating member companies (companies actively writing motor vehicle coverage in Michigan) through a per vehicle annual assessment. The MCCA has been legally authorized to annually assess participating member companies pursuant to enabling legislation that describes both the annual determination and assessment. This assessment is recorded as a component of the premiums charged to the Company's customers. These assessments paid to the MCCA provide funds for the indemnification for losses described above. The MCCA is required to assess 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 prepares statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the State of Michigan Department of Insurance and Financial Services ("MI DOI"). The MI DOI has granted the MCCA a statutory permitted practice that expires in 2019 to discount its liabilities for loss and loss adjustment expense. As of June 30, 2016, the date of its most recent annual financial report, the MCCA had cash and invested assets of \$18.48 billion and an accumulated deficit of \$1.74 billion. The permitted practice reduced the accumulated deficit by \$42.27 billion.

Allstate sells and administers policies as a participant in the National Flood Insurance Program ("NFIP"). The amounts recoverable as of December 31, 2016 and 2015 were \$77 million and \$27 million, respectively. Ceded premiums earned include \$274 million, \$293 million and \$312 million in 2016, 2015 and 2014, respectively. Ceded losses incurred include \$537 million, \$120 million and \$38 million in 2016, 2015 and 2014, respectively. Under the arrangement, the Federal Government pays all covered claims and certain qualifying claim expenses.

The PLIGA, as the statutory administrator of the New Jersey Unsatisfied Claim and Judgment Fund ("UCJF"), 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. The fund 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 in excess of \$75,000 and capped at \$250,000 for policies issued or renewed from January 1, 1991 to December 31, 2004. The amounts recoverable as of December 31, 2016 and 2015 were \$506 million and \$500 million, respectively.

Ceded premiums earned under the Florida Hurricane Catastrophe Fund ("FHCF") agreement were \$12 million, \$13 million and \$11 million in 2016, 2015 and 2014, respectively. There were no ceded losses incurred in 2016, 2015 or 2014. The Company has access to reimbursement provided by the FHCF for 90% of qualifying personal property losses that exceed its current retention of \$58 million for the 2 largest hurricanes and \$19 million for other hurricanes, up to a maximum total of \$185 million effective from June 1, 2016 to May 31, 2017. There were no amounts recoverable from the FHCF as of December 31, 2016 or 2015.

Catastrophe reinsurance

The Company has the following catastrophe reinsurance agreements in effect as of December 31, 2016:

- The majority of our program comprises multi-year contracts, primarily placed in the traditional reinsurance market, such that one third of the program is renewed every year. The duration of the contracts in the program vary from one to seven-year terms.
- Coverage is generally purchased on a broad geographic, product line and multiple peril loss basis.
- The Company purchases reinsurance from traditional reinsurance companies as well as the insurance linked securities market (i.e. "PCS Agreements").
- Florida property and New Jersey property and auto are each covered by separate agreements, as the risk of loss is different and our subsidiaries operating in these states are separately capitalized.

The Nationwide Per Occurrence Excess Catastrophe Reinsurance program (the "Nationwide program") provides \$4.55 billion of reinsurance coverage subject to a \$500 million retention and is subject to the amount of reinsurance placed in each of its ten layers. The Nationwide program comprises four agreements: The Per Occurrence Excess Catastrophe Reinsurance agreement, the 2013-1 Property Claim Services ("PCS") Excess Catastrophe Reinsurance agreement, the 2014-1 PCS Excess Catastrophe Reinsurance agreement, and the Gap Fill Layer Catastrophe Reinsurance agreement.

- The Per Occurrence Excess Catastrophe Reinsurance agreement, which is placed in the traditional reinsurance market, reinsures personal lines property and automobile excess catastrophe losses caused by multiple perils in every state, except Florida's personal lines property excess catastrophe losses and both personal lines property and automobile excess catastrophe losses in New Jersey. The program comprises layers one through six and a portion of layer nine. Coverage for each of the first through fifth layers comprises three contracts, with each contract providing one-third of 95% of the total layer limit and expiring May 31, 2017, May 31, 2018 and May 31, 2019. The sixth layer is 95% placed and comprises one contract expiring May 31, 2022. The contracts for layers one through six provide \$3.07 billion in per occurrence reinsurance limits subject to a \$500 million retention.

Coverage for a portion of the ninth layer is provided by one contract expiring May 31, 2022, which provides 29% of \$446 million or \$131 million in limits in excess of \$3.75 billion. Unlike the contracts expiring May 31, 2017 and May 31, 2018, the newly placed contracts expiring May 31, 2019 include coverage for automobile losses in Florida. The sixth layer and ninth layer contracts contain comparable contract terms and conditions as layers one through five. Unlike layer one through five contracts, the sixth and ninth layer contracts each contain an annual variable reset option which allows for the adjustment of each contract's attachment and exhaustion levels within specified limits. The variable reset option requires a premium adjustment. The contracts for each of the first through fifth layers include one reinstatement of limits, per year, with premium required. The sixth and ninth layer contracts each contain one reinstatement of limits over their seven year term with premium required. Reinsurance premiums for all contracts are subject to redetermination for exposure changes on an annual basis.

- The 2013-1 PCS Excess Catastrophe Reinsurance agreement reinsures personal lines property and automobile excess catastrophe losses caused by hurricanes in 28 states and the District of Columbia, and earthquakes, including fires following earthquakes, in California, New York and Washington and comprises portions of layers eight and nine of the program. The agreement comprises two contracts that expire May 3, 2017: a Class B Excess Catastrophe Reinsurance contract which provides 44% of \$338 million or \$150 million in limits in excess of a \$3.22 billion attachment point, and a Class A Excess Catastrophe Reinsurance contract which provides 45% of \$447 million or \$200 million in limits excess of a \$3.75 billion attachment point. This agreement is placed with a Bermuda insurance company, Sanders Re Ltd. ("Sanders Re"), which obtained funding from the insurance linked securities ("ILS") market to collateralize the agreement's limit. Amounts payable under the agreement are based on insured industry losses as reported by PCS and further indexed by annual pay-out factors specific to personal lines property and automobile exposures in the agreement's covered areas. Reinsurance recoveries under the 2013-1 PCS agreement are limited to our ultimate net loss from a PCS reported hurricane or earthquake event, in excess of each contract's specific attachment point and subject to each contract's limit. The contracts do not include a reinstatement of limits.

- The 2014-1 PCS Excess Catastrophe Reinsurance agreement reinsures personal lines property and automobile excess catastrophe losses caused by hurricanes in 29 states and the District of Columbia, and earthquakes, including fires following earthquakes, in California, New York and Washington and comprises portions of the eight, ninth and tenth layer of the program. The agreement comprises three contracts: a Class D Excess Catastrophe Reinsurance contract provides 51% of \$603 million or \$305 million in limits in excess of a \$3.15 billion attachment point, a Class C Excess Catastrophe Reinsurance contract provides 26% of \$447 million or \$115 million in limits in excess of a \$3.75 billion attachment point, and a Class B Excess Catastrophe Reinsurance contract provides 95% of \$347 million or \$330 million in limits excess of a \$4.20 billion attachment point. This agreement is also placed with Sanders Re which obtained ILS market funding to collateralize the agreement's limit and the provisions regarding amounts payable and reinsurance recoveries as described above for the 2013-1 PCS agreement. Each contract's risk period begins on May 22, 2014, with two of the three contracts' risk periods expiring on May 21, 2018 and one contract's risk period expiring on May 21, 2019. The contracts comprising the agreement contain a variable reset option which the ceding entities may invoke for risk periods subsequent to the first risk period and which allows for the annual adjustment of each contract's attachment and exhaustion levels within specified limits. The variable reset option requires a premium adjustment. The contracts do not include a reinstatement of limits.
- The Gap Fill contract reinsures personal lines property and automobile excess catastrophe losses caused by multiple perils in all states, except Florida's personal lines property excess catastrophe losses and both personal lines property and automobile excess catastrophe losses in New Jersey. The contract expires May 31, 2017 and provides one annual limit of \$175 million in excess of a \$2.75 billion retention. Recoveries under the sixth and ninth layers of The Nationwide Per Occurrence Excess Catastrophe and the PCS Excess Catastrophe Reinsurance agreements, as described above, inure to the benefit of this contract. The contract is placed in the traditional reinsurance market and does not include a reinstatement of limits. Reinsurance premium is subject to redetermination for exposure changes.

The following programs are designed apart from the Nationwide program to address distinct exposures in certain states and markets. These programs are described below and are disregarded when determining coverage under the contracts included in the Nationwide program.

The Florida Excess Catastrophe Reinsurance agreement comprises five contracts, as described below, which reinsure Castle Key Insurance Company ("CKIC") and Castle Key Indemnity Company's ("CKI", and together with CKIC, "Castle Key") for personal lines property excess catastrophe losses in Florida. The agreement includes two contracts placed in the traditional market, CKIC's and CKI's reimbursement contracts with the Florida Hurricane Catastrophe Fund ("mandatory FHCF contracts"), and the Sanders Re 2014-2 Contract ("Sanders Re 2014-2 contract") placed in the ILS markets.

- The below FHCF contract reinsures personal lines property excess catastrophe losses caused by multiple perils in Florida. The contract provides limits of \$40 million in excess of \$20 million and is 100% placed. The first reinstatement of limits is prepaid and the second or final reinstatement requires additional premium. Reinsurance premium is subject to redetermination for exposure changes.
- The mandatory FHCF contracts reinsure qualifying personal lines property losses caused by storms the National Hurricane Center declares to be hurricanes. The contracts provide 90% of \$191 million of limits in excess of a provisional retention with no reinstatement of limits. The limits and retentions of the mandatory FHCF contracts are calculated independently for CKIC and CKI and are subject to re-measurement based on June 30, 2016 exposure data. For each of the two largest hurricanes, the provisional retention is \$60 million and retention equal to one third of that amount, or approximately \$20 million, is applicable to all other hurricanes for the season beginning June 1, 2016. In addition, the FHCF's retention is subject to adjustment upward or downward to an actual retention based on submitted exposures to the FHCF by all participants.
- The Excess contract reinsures personal lines property excess catastrophe losses caused by multiple perils in Florida. The contract provides limits of \$254 million in excess of a \$20 million retention. Recoveries from the Below FHCF contract and Mandatory FHCF contracts inure to the benefit of this contract, resulting in the Excess contract providing reinsurance for loss occurrences not subject to reimbursement under the FHCF contracts but reinsured under the multiple peril Excess contract. The contract does not include a reinstatement of limits. Reinsurance premium is subject to redetermination for exposure.
- The Sanders Re 2014-2 contract reinsures qualifying personal lines property losses caused by a named storm event, a severe thunderstorm event, or an earthquake event in Florida. The contract provides limits of \$200 million in excess of \$60 million and \$425 million which is equivalent to the mandatory FHCF coverage as if 100% placed and reinsurance limits provided by the excess contract above the mandatory FHCF coverage, for the

June 1, 2016 to May 31, 2017 risk period. These events are defined in the Sanders Re 2014-2 contract as events declared by various reporting agencies, including PCS. Should PCS cease to report on severe thunderstorms, then such event will be deemed a severe thunderstorm if Castle Key has assigned a catastrophe code to such severe thunderstorm. Sanders Re obtained funding from the ILS market to provide collateral equal to the contract's limit. The contract does not include a reinstatement of limits.

Losses recoverable under the Company's New Jersey, Pennsylvania, Kentucky and California reinsurance agreements, described below.

- The New Jersey Excess Catastrophe Reinsurance agreement comprises three contracts that reinsure personal lines property and automobile excess catastrophe losses in New Jersey caused by multiple perils. The contracts expire May 31, 2017, May 31, 2018 and May 31, 2019, and provide 31.67%, 31.66% and 31.67%, respectively, of \$400 million of limits excess of a provisional \$169 million retention, a \$162 million retention, and a \$150 million retention, respectively. Each contract includes one reinstatement of limits per contract year with premium due. The reinsurance premium and retention are subject to redetermination for exposure changes on an annual basis.
- The Pennsylvania Excess Catastrophe Reinsurance agreement comprises a three-year term contract that reinsures personal lines property excess catastrophe losses in Pennsylvania caused by multi-perils. The agreement expires May 31, 2018 and provides three limits of \$100 million excess of a \$100 million retention subject to two limits being available in any one contract year and is 95% placed. The reinsurance premium and retention are not subject to redetermination for exposure changes.
- The Kentucky Earthquake Excess Catastrophe Reinsurance agreement is a three-year contract that reinsures personal lines property excess catastrophe losses in Kentucky caused by earthquakes and fires following earthquakes. The contract expires May 31, 2017 and provides \$25 million in excess of a \$5 million retention with two limits being available in any one contract year and is 95% placed. The reinsurance premium and retention are not subject to redetermination for exposure changes.
- The E&S Earthquake agreement comprises one contract which reinsures personal lines property catastrophe losses in California caused by the peril of earthquake and insured by our excess and surplus lines insurer. The contract expires June 30, 2018. Unlike the contracts comprising the Nationwide Program, the E&S Earthquake agreement provides reinsurance on a 100% quota share basis with no retention. The agreement reinsures only shake damage resulting from the earthquake peril.

The Company ceded premiums earned of \$381 million, \$414 million and \$437 million under catastrophe reinsurance agreements in 2016, 2015 and 2014, respectively.

Asbestos, environmental and other

Reinsurance recoverables include \$174 million and \$183 million from Lloyd's of London as of December 31, 2016 and 2015, respectively. Lloyd's of London, through the creation of Equitas Limited, implemented a restructuring to solidify its capital base and to segregate claims for years prior to 1993. In 2007, Berkshire Hathaway's subsidiary, National Indemnity Company, assumed responsibility for the Equitas claim liabilities through a loss portfolio transfer reinsurance agreement and continues to runoff the Equitas claims.

Allstate Financial

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

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

Period	Retention limits
April 2015 through current	Single life: \$2 million per life Joint life: no longer offered
April 2011 through March 2015	Single life: \$5 million per life, \$3 million age 70 and over, and \$10 million for contracts that meet specific criteria Joint life: \$8 million per life, and \$10 million for contracts that meet specific criteria
July 2007 through March 2011	\$5 million per life, \$3 million age 70 and over, and \$10 million for contracts that meet specific criteria
September 1998 through June 2007	\$2 million per life, in 2006 the limit was increased to \$5 million for instances when specific criteria were met
August 1998 and prior	Up to \$1 million per life

In addition, Allstate Financial has used reinsurance to effect the disposition of certain blocks of business. Allstate Financial had reinsurance recoverables of \$1.41 billion and \$1.44 billion as of December 31, 2016 and 2015, respectively, due from Prudential related to the disposal of substantially all of its variable annuity business that was effected through reinsurance agreements. In 2016, life and annuity premiums and contract charges of \$78 million, contract benefits of \$21 million, interest credited to contractholder funds of \$20 million, and operating costs and expenses of \$15 million were ceded to Prudential. In 2015, life and annuity premiums and contract charges of \$94 million, contract benefits of \$40 million, interest credited to contractholder funds of \$21 million, and operating costs and expenses of \$18 million were ceded to Prudential. In 2014, life and annuity premiums and contract charges of \$109 million, contract benefits of \$36 million, interest credited to contractholder funds of \$21 million, and operating costs and expenses of \$20 million were ceded to Prudential. In addition, as of December 31, 2016 and 2015, Allstate Financial had reinsurance recoverables of \$144 million and \$148 million, respectively, due from subsidiaries of Citigroup (Triton Insurance and American Health and Life Insurance) and Scottish Re (U.S.) Inc. in connection with the disposition of substantially all of the direct response distribution business in 2003.

Allstate Financial is the assuming reinsurer for LBL's life insurance business sold through the Allstate agency channel and LBL's payout annuity business in force prior to the sale of LBL on April 1, 2014. Under the terms of the reinsurance agreement, the Company is required to have a trust with assets greater than or equal to the statutory reserves ceded by LBL to the Company, measured on a monthly basis. As of December 31, 2016, the trust held \$5.94 billion of investments, which are reported in the Consolidated Statement of Financial Position.

As of December 31, 2016, the gross life insurance in force was \$442.36 billion of which \$90.01 billion was ceded to the unaffiliated reinsurers.

Allstate Financial's reinsurance recoverables on paid and unpaid benefits as of December 31 are summarized in the following table.

(\$ in millions)	2016	2015
Annuities	\$ 1,424	\$ 1,457
Life insurance	860	897
Other	184	185
Total Allstate Financial	<u>\$ 2,468</u>	<u>\$ 2,539</u>

As of both December 31, 2016 and 2015, approximately 92% of Allstate Financial's reinsurance recoverables are due from companies rated A- or better by S&P.

11. Deferred Policy Acquisition and Sales Inducement Costs

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

(\$ in millions)

	2016		
	Allstate Financial	Property- Liability	Total
Balance, beginning of year	\$ 1,832	\$ 2,029	\$ 3,861
Acquisition costs deferred	291	4,426	4,717
Amortization charged to income	(283)	(4,267)	(4,550)
Effect of unrealized gains and losses	(74)	—	(74)
Balance, end of year	<u>\$ 1,766</u>	<u>\$ 2,188</u>	<u>\$ 3,954</u>

	2015		
	Allstate Financial	Property- Liability	Total
Balance, beginning of year	\$ 1,705	\$ 1,820	\$ 3,525
Acquisition costs deferred	285	4,311	4,596
Amortization charged to income	(262)	(4,102)	(4,364)
Effect of unrealized gains and losses	104	—	104
Balance, end of year	<u>\$ 1,832</u>	<u>\$ 2,029</u>	<u>\$ 3,861</u>

	2014		
	Allstate Financial	Property- Liability	Total
Balance, beginning of year	\$ 1,747	\$ 1,625	\$ 3,372
Classified as held for sale, beginning balance	743	—	743
Total, including those classified as held for sale	2,490	1,625	4,115
Acquisition costs deferred	280	4,070	4,350
Amortization charged to income	(260)	(3,875)	(4,135)
Effect of unrealized gains and losses	(98)	—	(98)
Sold in LBL disposition	(707)	—	(707)
Balance, end of year	<u>\$ 1,705</u>	<u>\$ 1,820</u>	<u>\$ 3,525</u>

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

(\$ in millions)

	2016	2015	2014
Balance, beginning of year	\$ 45	\$ 44	\$ 42
Classified as held for sale, beginning balance	—	—	28
Total, including those classified as held for sale	45	44	70
Sales inducements deferred	1	3	4
Amortization charged to income	(5)	(4)	(4)
Effect of unrealized gains and losses	(1)	2	(3)
Sold in LBL disposition	—	—	(23)
Balance, end of year	<u>\$ 40</u>	<u>\$ 45</u>	<u>\$ 44</u>

12. Capital Structure

Debt

Total debt outstanding as of December 31 consisted of the following:

(\$ in millions)	2016	2015
6.75% Senior Debentures, due 2018	\$ 176	\$ 176
7.45% Senior Notes, due 2019 ⁽¹⁾	317	317
3.15% Senior Notes, due 2023 ⁽¹⁾	500	500
3.28% Senior Notes, due 2026 ⁽¹⁾	550	—
6.125% Senior Notes, due 2032 ⁽¹⁾	159	159
5.35% Senior Notes due 2033 ⁽¹⁾	323	323
5.55% Senior Notes due 2035 ⁽¹⁾	546	546
5.95% Senior Notes, due 2036 ⁽¹⁾	386	386
6.90% Senior Debentures, due 2038	165	165
5.20% Senior Notes, due 2042 ⁽¹⁾	62	62
4.50% Senior Notes, due 2043 ⁽¹⁾	500	500
4.20% Senior Notes, due 2046 ⁽¹⁾	700	—
5.10% Subordinated Debentures, due 2053	500	500
5.75% Subordinated Debentures, due 2053	800	800
6.125% Junior Subordinated Debentures, due 2067	224	241
6.50% Junior Subordinated Debentures, due 2067	500	500
Long-term debt total principal	6,408	5,175
Debt issuance costs	(61)	(51)
Total long-term debt	6,347	5,124
Short-term debt ⁽²⁾	—	—
Total debt	\$ 6,347	\$ 5,124

⁽¹⁾ Senior Notes are subject to redemption at the Company's option in whole or in part at any time at the greater of either 100% of the principal amount plus accrued and unpaid interest to the redemption date or the discounted sum of the present values of the remaining scheduled payments of principal and interest and accrued and unpaid interest to the redemption date.

⁽²⁾ The Company classifies any borrowings which have a maturity of twelve months or less at inception as short-term debt.

Debt maturities for each of the next five years and thereafter as of December 31, 2016 are as follows:

(\$ in millions)	
2017	\$ —
2018	176
2019	317
2020	—
2021	—
Thereafter	5,915
Total long-term debt principal	\$ 6,408

On December 8, 2016, the Company 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.

During 2016, 2015 and 2014, the Company repurchased principal debt amounts of \$17 million, \$11 million and \$10 million, respectively. The Company recognized a loss on extinguishment of \$1 million, pre-tax, in 2014, representing the excess of the repurchase price over the principal repaid, the write-off of the unamortized debt issuance costs and other costs related to the repurchase transactions.

The Subordinated Debentures may be redeemed (i) in whole at any time or in part from time to time on or after January 15, 2023 for the 5.10% Subordinated Debentures and August 15, 2023 for the 5.75% Subordinated Debentures at their principal amount plus accrued and unpaid interest to, but excluding, the date of redemption; provided that if the Subordinated Debentures are not redeemed in whole, at least \$25 million aggregate principal amount must remain outstanding, or (ii) in whole, but not in part, prior to January 15, 2023 for the 5.10% Subordinated Debentures and August 15, 2023 for the 5.75% Subordinated Debentures, within 90 days after the occurrence of certain tax and rating

agency events, at their principal amount or, if greater, a make-whole redemption price, plus accrued and unpaid interest to, but excluding, the date of redemption. The 5.75% Subordinated Debentures have this make-whole redemption price provision only when a reduction of equity credit assigned by a rating agency has occurred.

Interest on the 5.10% Subordinated Debentures is payable quarterly at the stated fixed annual rate to January 14, 2023, or any earlier redemption date, and then at an annual rate equal to the three-month LIBOR plus 3.165%. Interest on the 5.75% Subordinated Debentures is payable semi-annually at the stated fixed annual rate to August 14, 2023, or any earlier redemption date, and then quarterly at an annual rate equal to the three-month LIBOR plus 2.938%. The Company may elect to defer payment of interest on the Subordinated Debentures for one or more consecutive interest periods that do not exceed five years. During a deferral period, interest will continue to accrue on the Subordinated Debentures at the then-applicable rate and deferred interest will compound on each interest payment date. If all deferred interest on the Subordinated Debentures is paid, the Company can again defer interest payments.

The Company has outstanding \$500 million of Series A 6.50% and \$224 million of Series B 6.125% Fixed-to-Floating Rate Junior Subordinated Debentures (together the "Debentures"). The scheduled maturity dates for the Debentures are May 15, 2057 and May 15, 2037 for Series A and Series B, respectively, with a final maturity date of May 15, 2067. The Debentures may be redeemed (i) in whole or in part, at any time on or after May 15, 2037 or May 15, 2017 for Series A and Series B, respectively, at their principal amount plus accrued and unpaid interest to the date of redemption, or (ii) in certain circumstances, in whole or in part, prior to May 15, 2037 and May 15, 2017 for Series A and Series B, respectively, at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, a make-whole price.

Interest on the Debentures is payable semi-annually at the stated fixed annual rate to May 15, 2037 and May 15, 2017 for Series A and Series B, respectively, and then payable quarterly at an annual rate equal to the three-month LIBOR plus 2.12% and 1.935% for Series A and Series B, respectively. The Company may elect at one or more times to defer payment of interest on the Debentures for one or more consecutive interest periods that do not exceed 10 years. Interest compounds during such deferral periods at the rate in effect for each period. The interest deferral feature obligates the Company in certain circumstances to issue common stock or certain other types of securities if it cannot otherwise raise sufficient funds to make the required interest payments. The Company has reserved 75 million shares of its authorized and unissued common stock to satisfy this obligation.

The terms of the Company's outstanding subordinated debentures prohibit the Company from declaring or paying any dividends or distributions on common or preferred stock or redeeming, purchasing, acquiring, or making liquidation payments on common stock or preferred stock if the Company has elected to defer interest payments on the subordinated debentures, subject to certain limited exceptions.

In connection with the issuance of the Debentures, the Company entered into replacement capital covenants ("RCCs"). These covenants were not intended for the benefit of the holders of the Debentures and could not be enforced by them. Rather, they were for the benefit of holders of one or more other designated series of the Company's indebtedness ("covered debt"), currently the 7.45% Senior Notes due 2019. Pursuant to the RCCs, the Company has agreed that it will not repay, redeem, or purchase the Debentures on or before May 15, 2067 and May 15, 2047 for Series A and Series B, respectively, (or such earlier date on which the RCCs terminate by their terms) unless, subject to certain limitations, the Company has received net cash proceeds in specified amounts from the sale of common stock or certain other qualifying securities. The promises and covenants contained in the RCC will not apply if (i) S&P upgrades the Company's issuer credit rating to A or above, (ii) the Company redeems the Debentures due to a tax event, (iii) after notice of redemption has been given by the Company and a market disruption event occurs preventing the Company from raising proceeds in accordance with the RCCs, or (iv) the Company repurchases or redeems up to 10% of the outstanding principal of the Debentures in any one-year period, provided that no more than 25% will be so repurchased, redeemed or purchased in any ten-year period.

The RCCs terminate in 2067 and 2047 for Series A and Series B, respectively. The RCCs will terminate prior to their scheduled termination date if (i) the applicable series of Debentures is no longer outstanding and the Company has fulfilled its obligations under the RCCs or they are no longer applicable, (ii) the holders of a majority of the then-outstanding principal amount of the then-effective series of covered debt consent to agree to the termination of the RCCs, (iii) the Company does not have any series of outstanding debt that is eligible to be treated as covered debt under the RCCs, (iv) the applicable series of Debentures is accelerated as a result of an event of default, (v) certain rating agency or change in control events occur, (vi) S&P, or any successor thereto, no longer assigns a solicited rating on senior debt issued or guaranteed by the Company, or (vii) the termination of the RCCs would have no effect on the equity credit provided by S&P with respect to the Debentures. An event of default, as defined by the supplemental indenture, includes default in the payment of interest or principal and bankruptcy proceedings.

To manage short-term liquidity, the Company maintains a commercial paper program and a credit facility as a potential source of funds. These include a \$1.00 billion unsecured revolving credit facility and a commercial paper program with a borrowing limit of \$1.00 billion. In April 2016, the Company extended the maturity date of the facility to April 2021. This facility contains an increase provision that would allow up to an additional \$500 million of borrowing. This facility has a

financial covenant requiring the Company not to exceed a 37.5% debt to capitalization ratio as defined in the agreement. Although the right to borrow under the facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of the Company's senior unsecured, unguaranteed long-term debt. The total amount outstanding at any point in time under the combination of the commercial paper program and the credit facility cannot exceed the amount that can be borrowed under the credit facility. No amounts were outstanding under the credit facility as of December 31, 2016 or 2015. The Company had no commercial paper outstanding as of December 31, 2016 or 2015.

The Company paid \$287 million, \$289 million and \$332 million of interest on debt in 2016, 2015 and 2014, respectively.

The Company had \$132 million and \$107 million of investment-related debt that is reported in other liabilities and accrued expenses as of December 31, 2016 and 2015, respectively. This includes a commitment to fund a limited partnership of \$45 million and \$89 million and debt related to other investments of \$87 million and \$18 million as of December 31, 2016 and 2015, respectively. The Company has an outstanding line of credit to fund the limited partnership.

During 2015, the Company filed a universal shelf registration statement with the Securities and Exchange Commission ("SEC") that expires in 2018. The registration statement covers an unspecified amount of securities and can be used to issue debt securities, common stock, preferred stock, depository shares, warrants, stock purchase contracts, stock purchase units and securities of trust subsidiaries.

Common stock

The Company had 900 million shares of issued common stock of which 366 million shares were outstanding and 534 million shares were held in treasury as of December 31, 2016. In 2016, the Company reacquired 20 million shares at an average cost of \$66.45 and reissued 5 million net shares under equity incentive plans.

Preferred stock

The following table summarizes the Company's outstanding preferred stock as of December 31, 2016. All represent noncumulative perpetual preferred stock with a \$1.00 par value per share and a liquidation preference of \$25,000 per share.

(\$ in millions, except per share data)

	Shares	Aggregate liquidation preference	Dividend rate	Dividend Per Share			Aggregate Dividend Payment		
				2016	2015	2014	2016	2015	2014
Series A	11,500	\$ 287.5	5.625%	\$ 1.41	\$ 1.41	\$ 1.41	\$ 16	\$ 16	\$ 16
Series C	15,400	385.0	6.750%	1.69	1.69	1.69	26	26	26
Series D	5,400	135.0	6.625%	1.66	1.66	1.79	9	9	10
Series E	29,900	747.5	6.625%	1.66	1.66	1.44	49	49	43
Series F	10,000	250.0	6.250%	1.56	1.56	0.92	16	16	9
Total	72,200	\$ 1,805					\$ 116	\$ 116	\$ 104

In March 2014, the Company issued 29,900 shares of 6.625% Noncumulative Perpetual Preferred Stock, Series E, for gross proceeds of \$747.5 million. In June 2014, the Company issued 10,000 shares of 6.25% Noncumulative Perpetual Preferred Stock, Series F, for gross proceeds of \$250 million. The proceeds of both issuances were used for general corporate purposes.

The preferred stock ranks senior to the Company's common stock with respect to the payment of dividends and liquidation rights. The Company will pay dividends on the preferred stock on a noncumulative basis only when, as and if declared by the Company's board of directors (or a duly authorized committee of the board) and to the extent that the Company has legally available funds to pay dividends. If dividends are declared on the preferred stock, they will be payable quarterly in arrears at an annual fixed rate. Dividends on the preferred stock are not cumulative. Accordingly, in the event dividends are not declared on the preferred stock for payment on any dividend payment date, then those dividends will cease to be payable. If the Company has not declared a dividend before the dividend payment date for any dividend period, the Company has no obligation to pay dividends for that dividend period, whether or not dividends are declared for any future dividend period. No dividends may be paid or declared on the Company's common stock and no shares of the Company's common stock may be repurchased unless the full dividends for the latest completed dividend period on the preferred stock have been declared and paid or provided for.

The Company is prohibited from declaring or paying dividends on preferred stock in excess of the amount of net proceeds from an issuance of common stock taking place within 90 days before a dividend declaration date if, on that dividend declaration date, either: (1) the risk-based capital ratios of the largest U.S. property-casualty insurance subsidiaries that collectively account for 80% or more of the net written premiums of U.S. property-casualty insurance business on a weighted

average basis were less than 175% of their company action level risk-based capital as of the end of the most recent year; or (2) consolidated net income for the four-quarter period ending on the preliminary quarter end test date (the quarter that is two quarters prior to the most recently completed quarter) is zero or negative and consolidated shareholders' equity (excluding accumulated other comprehensive income, and subject to certain other adjustments relating to changes in U.S. GAAP) as of each of the preliminary quarter test date and the most recently completed quarter has declined by 20% or more from its level as measured at the end of the benchmark quarter (the date that is ten quarters prior to the most recently completed quarter). If the Company fails to satisfy either of these tests on any dividend declaration date, the restrictions on dividends will continue until the Company is able again to satisfy the test on a dividend declaration date. In addition, in the case of a restriction arising under (2) above, the restrictions on dividends will continue until consolidated shareholders' equity (excluding accumulated other comprehensive income, and subject to certain other adjustments relating to changes in U.S. GAAP) has increased, or has declined by less than 20%, in either case as compared to its level at the end of the benchmark quarter for each dividend payment date as to which dividend restrictions were imposed.

The preferred stock does not have voting rights except with respect to certain changes in the terms of the preferred stock, in the case of certain dividend nonpayments, certain other fundamental corporate events, mergers or consolidations and as otherwise provided by law. If and when dividends have not been declared and paid in full for at least six quarterly dividend periods or their equivalent (whether or not consecutive), the authorized number of directors then constituting our board of directors will be increased by two. The holders of the preferred stock, together with the holders of all other affected classes and series of voting parity stock, voting as a single class, will be entitled to elect the two additional members of the board of directors of the Company, subject to certain conditions. The board of directors shall at no time have more than two preferred stock directors.

The preferred stock is perpetual and has no maturity date. The preferred stock is redeemable at the Company's option in whole or in part, on or after June 15, 2018 for Series A, October 15, 2018 for Series C, April 15, 2019 for Series D and E, and October 15, 2019 for Series F, at a redemption price of \$25,000 per share of preferred stock, plus declared and unpaid dividends. Prior to June 15, 2018 for Series A, October 15, 2018 for Series C, April 15, 2019 for Series D and E, and October 15, 2019 for Series F, the preferred stock is redeemable at the Company's option, in whole but not in part, within 90 days of the occurrence of certain rating agency events at a redemption price equal to \$25,000 per share or, if greater, a make-whole redemption price, plus declared and unpaid dividends.

13. Company Restructuring

The Company undertakes various programs to reduce expenses. These programs generally involve a reduction in staffing levels, and in certain cases, office closures. Restructuring and related charges primarily include employee termination and relocation benefits, and post-exit rent expenses in connection with these programs, and non-cash charges resulting from pension benefit payments made to agents and certain legal expenses incurred in connection with the 1999 reorganization of Allstate's multiple agency programs to a single exclusive agency program. The expenses related to these activities are included in the Consolidated Statements of Operations as restructuring and related charges, and totaled \$30 million, \$39 million and \$18 million in 2016, 2015 and 2014, respectively. Restructuring expenses in 2016 related to programs and actions designed to transform business operations within the organization.

The following table presents changes in the restructuring liability in 2016.

(\$ in millions)	Employee costs	Exit costs	Total liability
Balance as of December 31, 2015	\$ 1	\$ 1	\$ 2
Expense incurred	8	6	14
Payments applied against liability	(9)	(5)	(14)
Balance as of December 31, 2016	\$ —	\$ 2	\$ 2

The payments applied against the liability for employee costs primarily reflect severance costs, and the payments for exit costs generally consist of post-exit rent expenses and contract termination penalties. As of December 31, 2016, the cumulative amount incurred to date for active programs totaled \$78 million for employee costs and \$66 million for exit costs.

14. Commitments, Guarantees and Contingent Liabilities

Leases

The Company leases certain office facilities, computer and office equipment, aircraft and automobiles. Total rent expense for all leases was \$147 million, \$179 million and \$187 million in 2016, 2015 and 2014, respectively.

Minimum rental commitments under operating leases with an initial or remaining term of more than one year as of December 31, 2016 are as follows:

(\$ in millions)

2017	\$	122
2018		103
2019		88
2020		71
2021		53
Thereafter		169
Total	\$	<u>606</u>

Shared markets and state facility assessments

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

Florida Citizens

Castle Key is subject to assessments from Citizens Property Insurance Corporation in the state of Florida ("FL Citizens"), which was initially created by the state of Florida to provide insurance to property owners unable to obtain coverage in the private insurance market. FL Citizens, at the discretion and direction of its Board of Governors ("FL Citizens Board"), can levy a regular assessment on assessable insurers and assessable insureds for a deficit in any calendar year up to a maximum of the greater of: 2% of the projected deficit or 2% of the aggregate statewide direct written premium for the prior calendar year. The base of assessable insurers includes all property and casualty premiums in the state, except workers' compensation, medical malpractice, accident and health insurance and policies written under the NFIP. An insurer may recoup a regular assessment through a surcharge to policyholders. In order to recoup this assessment, an insurer must file for a policy surcharge with the Florida Office of Insurance Regulation ("FL OIR") at least fifteen days prior to imposing the surcharge on policies. If a deficit remains after the regular assessment, FL Citizens can also levy emergency assessments in the current and subsequent years. Companies are required to collect the emergency assessments directly from residential property policyholders and remit to FL Citizens as collected. Pursuant to an Order issued by the FL OIR, the emergency assessment is zero for all policies issued or renewed on or after July 1, 2015.

Louisiana Citizens

The Company is also subject to assessments from Louisiana Citizens Property Insurance Corporation ("LA Citizens"). LA Citizens can levy a regular assessment on participating companies for a deficit in any calendar year up to a maximum of the greater of 10% of the calendar year deficit or 10% of Louisiana direct property premiums industry-wide for the prior calendar year. If the plan year deficit exceeds the amount that can be recovered through Regular Assessments, LA Citizens may fund the remaining deficit by issuing revenue assessment bonds in the capital markets. LA Citizens then declares Emergency Assessments each year to provide debt service on the bonds until they are retired. Companies writing assessable lines must surcharge their policyholders Emergency Assessments in the percentage established annually by LA Citizens and must remit amounts collected to the bond trustee on a quarterly basis.

Florida Hurricane Catastrophe Fund

Castle Key participates in the mandatory coverage provided by the FHCF and therefore has access to reimbursements on certain qualifying Florida hurricane losses from the FHCF (see Note 10), has exposure to assessments and pays annual premiums to the FHCF for this reimbursement protection. The FHCF has the authority to issue bonds to pay its obligations to insurers participating in the mandatory coverage in excess of its capital balances. Payment of these bonds is funded by emergency assessments on all property and casualty premiums in the state, except workers' compensation, medical malpractice, accident and health insurance and policies written under the NFIP. The FHCF emergency assessments are limited to 6% of premiums per year beginning the first year in which reimbursements require bonding, and up to a total of 10% of premiums per year for assessments in the second and subsequent years, if required to fund additional bonding. The FHCF issued \$625 million in bonds in 2008, and the FL OIR ordered an emergency assessment of 1% of premiums collected for all policies renewed January 1, 2007 through December 31, 2010. The FHCF issued \$676 million in bonds in

2010 and the FL OIR ordered an emergency assessment of 1.3% of premiums collected for all policies written or renewed January 1, 2011 through December 31, 2014. Pursuant to an Order issued by the FL OIR, the emergency assessment is zero for all policies issued or renewed on or after January 1, 2015. The FHCF issued \$2 billion in pre-event bonds in 2013 to build their capacity to reimburse member companies' claims. The FHCF plans to fund these pre-event bonds through current FHCF cash flows.

Facilities such as FL Citizens, LA Citizens and the FHCF are generally designed so that the ultimate cost is borne by policyholders; however, the exposure to assessments from these facilities and the availability of recoupments or premium rate increases may not offset each other in the Company's financial statements. Moreover, even if they do offset each other, they may not offset each other in financial statements for the same fiscal period due to the ultimate timing of the assessments and recoupments or premium rate increases, as well as the possibility of policies not being renewed in subsequent years.

California Earthquake Authority

Exposure to certain potential losses from earthquakes in California is limited by the Company's participation in the California Earthquake Authority ("CEA"), which provides insurance for California earthquake losses. The CEA is a privately-financed, publicly-managed state agency created to provide insurance coverage for earthquake damage. Insurers selling homeowners insurance in California are required to offer earthquake insurance to their customers either through their company or by participation in the CEA. The Company's homeowners policies continue to include coverages for losses caused by explosions, theft, glass breakage and fires following an earthquake, which are not underwritten by the CEA.

As of September 30, 2016, the CEA's capital balance was approximately \$5.32 billion. Should losses arising from an earthquake cause a deficit in the CEA, additional \$680 million would be obtained from the proceeds of revenue bonds the CEA may issue, an existing \$4.78 billion reinsurance layer, and finally, if needed, assessments on participating insurance companies. Participating insurers are required to pay an assessment, currently estimated not to exceed \$1.66 billion, if the capital of the CEA falls below \$350 million. Participating insurers are required to pay a second additional assessment, currently estimated not to exceed \$128 million, if aggregate CEA earthquake losses exceed \$12.57 billion and the capital of the CEA falls below \$350 million. Within the limits previously described, the assessment could be intended to restore the CEA's capital to a level of \$350 million. There is no provision that allows insurers to recover assessments through a premium surcharge or other mechanism. The CEA's projected aggregate claim paying capacity is \$12.57 billion as of September 30, 2016 and if an event were to result in claims greater than its capacity, affected policyholders may be paid a prorated portion of their covered losses, paid on an installment basis, or no payments may be made if the claim paying capacity of the CEA is insufficient.

All future assessments on participating CEA insurers are based on their CEA insurance market share as of December 31 of the preceding year. As of December 31, 2015, the Company's market share of the CEA was 12.1%. The Company does not expect its CEA market share to materially change. At this level, the Company's maximum possible CEA assessment would be \$217 million during 2017. These amounts are re-evaluated by the board of directors of the CEA on an annual basis. Accordingly, assessments from the CEA for a particular quarter or annual period may be material to the results of operations and cash flows, but not the financial position of the Company. Management believes the Company's exposure to earthquake losses in California has been significantly reduced as a result of its participation in the CEA.

Texas Windstorm Insurance Association

The Company participates as a member of the Texas Windstorm Insurance Association ("TWIA") which provides wind and hail coverage to coastal risks unable to procure coverage in the voluntary market. Wind and hail coverage is written on a TWIA-issued policy. TWIA follows a funding structure first utilizing currently available funds set aside from periods (including current and prior years). Under the current law, to the extent losses exceed premiums received from policyholders, TWIA utilizes a combination of reinsurance and TWIA issued securities to fund its payments of losses. Reinsurance is procured annually in an amount determined by the TWIA board. Once those currently available funds and available reinsurance are utilized, TWIA could issue up to \$1 billion of securities, which will be repaid by billing policyholders and assessing participating insurers. The Company's current participation ratio is approximately 13% based upon its proportion of the premiums written. The TWIA board has not indicated the likelihood of any possible future assessments to insurers at this time. However, assessments from TWIA for a particular quarter or annual period may be material to the results of operations and cash flows, but not the financial position of the Company.

New Jersey Property-Liability Insurance Guaranty Association

The PLIGA, as the statutory administrator of the UCJF, 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. The fund 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 in excess of \$75,000 and capped at \$250,000 for policies issued or renewed from January 1, 1991 to December 31,

2004. 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. Assessments paid to PLIGA totaled \$6.7 million in 2016.

North Carolina Reinsurance Facility

The North Carolina Reinsurance Facility ("NCRF") provides automobile liability insurance to drivers that insurers are not otherwise willing to insure. All insurers licensed to write automobile insurance in North Carolina are members of the NCRF. Premiums, losses and expenses are ceded to the NCRF. North Carolina law allows the NCRF to recoup operating losses through a surcharge to policyholders. As of September 30, 2016, the NCRF reported a deficit of \$261.1 million in members' equity. The NCRF implemented a loss recoupment surcharge on all private passenger policies becoming effective October 1, 2016 through March 31, 2017. The loss recoupment surcharge will be adjusted at March 31, 2017 and discontinued once losses are recovered. The NCRF results are shared by the member companies in proportion to their respective North Carolina automobile liability writings. As a result, the NCRF also has the ability to assess members Companies for recoupment of losses calculated on a pro-rata basis across member companies based on participation ratios, determined annually.

North Carolina Joint Underwriters Association

The North Carolina Joint Underwriters Association ("NCJUA") was created to provide property insurance for properties (other than the state's beach and coastal areas) that insurers are not otherwise willing to insure. All insurers licensed to write property insurance in North Carolina are members of the NCJUA. Premiums, losses and expenses of the NCJUA are shared by the member companies in proportion to their respective North Carolina property insurance writings. Member companies participate in plan deficits or surpluses based on their participation ratios, which are determined annually. The Company had a \$2.5 million receivable from the NCJUA at December 31, 2016, representing our participation in the NCJUA's surplus of \$28.1 million for all open years.

North Carolina Insurance Underwriting Association

The North Carolina Insurance Underwriting Association ("NCIUA") provides windstorm and hail coverage as well as homeowners policies for properties located in the state's beach and coastal areas that insurers are not otherwise willing to insure. All insurers licensed to write residential and commercial property insurance in North Carolina are members of the NCIUA. Members are assessed in proportion to their North Carolina residential and commercial property insurance writings, which is determined annually and varies by coverage, for plan deficits. As of September 30, 2016, the NCIUA had a surplus of \$1.3 billion. No member company shall be entitled to the distribution of any portion of the Association's surplus. Legislation in 2009 capped insurers' assessments for losses incurred in any calendar year at \$1 billion. Subsequent to an industry assessment of \$1 billion, if the plan continues to require funding, it may authorize insurers to assess a 10% surcharge on each property insurance policy statewide located in the state's beach and coastal areas to be remitted to the plan.

Guaranty funds

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. Amounts assessed to each company are typically related to its proportion of business written in each state. The Company's policy is to accrue assessments when the entity for which the insolvency relates has met its state of domicile's statutory definition of insolvency, the amount of the loss is reasonably estimable and the related premium upon which the assessment is based is written. In most states, the definition is met with a declaration of financial insolvency by a court of competent jurisdiction. In certain states there must also be a final order of liquidation. As of December 31, 2016 and 2015, the liability balance included in other liabilities and accrued expenses was \$4 million and \$13 million, respectively. The related premium tax offsets included in other assets were \$9 million and \$14 million as of December 31, 2016 and 2015, respectively.

Guarantees

The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective December 31, 2016, the Company's maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be \$46 million as of December 31, 2016. The remaining term of each residual value guarantee is equal to the term of the underlying lease that ranges from less than one year to four years. Historically, the Company has not made any material payments pursuant to these guarantees.

Related to the sale of LBL on April 1, 2014, ALIC agreed to indemnify Resolution Life Holdings, Inc. in connection with certain representations, warranties and covenants of ALIC, and certain liabilities specifically excluded from the transaction, subject to specific contractual limitations regarding ALIC's maximum obligation. Management does not believe these indemnifications will have a material effect on results of operations, cash flows or financial position of the Company.

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

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

The aggregate liability balance related to all guarantees was not material as of December 31, 2016.

Regulation and Compliance

The Company is subject to extensive laws, regulations, administrative directives, and regulatory actions. From time to time, regulatory authorities or legislative bodies seek to influence and restrict premium rates, require premium refunds to policyholders, require reinstatement of terminated policies, prescribe rules or guidelines on how affiliates compete in the marketplace, restrict the ability of insurers to cancel or non-renew policies, require insurers to continue to write new policies or limit their ability to write new policies, limit insurers' ability to change coverage terms or to impose underwriting standards, impose additional regulations regarding agent and broker compensation, regulate the nature of and amount of investments, impose fines and penalties for unintended errors or mistakes, and otherwise expand overall regulation of insurance products and the insurance industry. In addition, the Company is subject to laws and regulations administered and enforced by federal agencies and other organizations, including but not limited to the Securities and Exchange Commission, the Financial Industry Regulatory Authority, the Department of Labor, the U.S. Equal Employment Opportunity Commission, and the U.S. Department of Justice. The Company has established procedures and policies to facilitate compliance with laws and regulations, to foster prudent business operations, and to support financial reporting. The Company routinely reviews its practices to validate compliance with laws and regulations and with internal procedures and policies. As a result of these reviews, from time to time the Company may decide to modify some of its procedures and policies. Such modifications, and the reviews that led to them, may be accompanied by payments being made and costs being incurred. The ultimate changes and eventual effects of these actions on the Company's business, if any, are uncertain.

Legal and regulatory proceedings and inquiries

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

Background

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

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

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

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

Accrual and disclosure policy

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

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

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

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

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

The Company currently estimates that the aggregate range of reasonably possible loss in excess of the amount accrued, if any, for the disclosed matters where such an estimate is possible is zero to \$875 million, pre-tax. This disclosure is not an indication of expected loss, if any. Under accounting guidance, an event is "reasonably possible" if "the chance of the future event or events occurring is more than remote but less than likely" and an event is "remote" if "the chance of the future event or events occurring is slight." This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimate will change from time to time, and actual results may vary significantly from the current estimate. The estimate does not include matters or losses for which an estimate is not possible. Therefore, this estimate represents an estimate

of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum possible loss exposure. Information is provided below regarding the nature of all of the disclosed matters and, where specified, the amount, if any, of plaintiff claims associated with these loss contingencies.

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

Claims related proceedings

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

The first case is *Christopher Williams, et al. v. Allstate Insurance Company*. The *Williams* case is pending in Los Angeles Superior Court and was filed in December 2007. The case involves two classes. The first class includes auto field physical damage adjusters employed in the state of California from January 1, 2005 to the date of final judgment, to the extent the Company failed to pay for off-the-clock work to those adjusters who performed certain duties prior to their first assignments. The other class includes all non-exempt employees in California from December 19, 2006 until June 2011 who received pay statements from Allstate which allegedly did not comply with California law. On April 13, 2016, the court granted the Company's motion to decertify both classes; both classes are thus dissolved unless and until the appellate court orders the classes recertified. On May 17, 2016, plaintiffs filed their notice of appeal. Plaintiff's opening brief was filed on November 22, 2016. Allstate's response is due April 24, 2017.

The second case is *Jack Jimenez, et al. v. Allstate Insurance Company*. *Jimenez* was filed in the U.S. District Court for the Central District of California in September 2010. The plaintiffs allege that they worked off-the-clock; they also allege other California Labor Code violations resulting from purported unpaid overtime. In April 2012, the court certified a class that includes all adjusters in the state of California, except auto field adjusters, from September 29, 2006 to final judgment. Allstate appealed the court's decision to certify the class, first to the Ninth Circuit Court of Appeals and then to the U.S. Supreme Court. On June 15, 2015, the U.S. Supreme Court denied Allstate's petition for a writ of certiorari. The case was scheduled for trial on September 27, 2016. On May 4, 2016, the court vacated that trial date in part because the court had not approved a trial plan. No trial date has been scheduled because the parties continue to wait for the court's approval of a trial plan.

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

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

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

On January 26, 2017, the Florida Supreme Court issued its decision in *Allstate Insurance Company v. Orthopedic Specialists, et al.*, holding that Allstate's language was clear and unambiguous and provided adequate notice of its intent to use the fee schedules. This was a 4-3 decision (two separate opinions, the majority for Allstate, and a dissent), reversing the decision of the District Court of Appeal for the Fourth District. The District Court of Appeal for the Fourth District had previously issued a divided decision (three separate opinions, two against Allstate and one dissenting opinion deeming Allstate's language sufficient), holding that Allstate's language was not sufficient. On February 7, 2017,

Orthopedic Specialists filed a motion for rehearing. Allstate's response is due February 22, 2017. On February 8, 2017, the *amicus curiae*, Florida Medical Association, filed its own motion for rehearing. Allstate's response to that motion is due February 23, 2017. The Florida Supreme Court's decision is not final until the motions for rehearing are resolved.

In light of this ruling (assuming there is no change as a result of the motions for rehearing), the fee schedule issue will be resolved favorably to Allstate in other pending cases. There are three cases with petitions for leave to appeal to the Florida Supreme Court pending (*Stand-Up MRI of Tallahassee, et al. v. Allstate Fire & Casualty Insurance Company, Markley Chiropractic & Acupuncture LLC, et al. v. Allstate Indemnity Company*, and *Florida Wellness & Rehabilitation Center of Hialeah, et al. v. Allstate Fire & Casualty Insurance Company*). In those cases, three District Courts of Appeal had previously ruled in favor of Allstate. Those petitions for leave to appeal had been stayed awaiting the outcome of the *Orthopedic Specialists* case, and will likely be dismissed once *Orthopedic Specialists* is final.

The Company is also litigating one class action on this issue, *Randy Rosenberg, et al. v. Allstate Fire & Casualty Insurance Company, Allstate Insurance Company, and Allstate Property & Casualty Insurance Company*, in the U.S. District Court for the Northern District of Illinois. This case has been stayed by the Illinois federal court pending a decision on this issue by the Florida Supreme Court, and will likely be dismissed once *Orthopedic Specialists* is final.

This fee schedule issue has also been the subject of thousands of individual lawsuits filed against Allstate in Florida. The decision by the Florida Supreme Court in *Orthopedic Specialists*, once final, will establish Florida law on the sufficiency of Allstate's fee schedule policy language which will be binding on all Florida courts, as well as the Illinois federal class action. An outcome in favor of Allstate's position that the fee schedule policy language was sufficient will result in the resolution of all related claims that are currently in litigation along with those claims that are not currently in litigation. Allstate may be able to seek restitution from some plaintiffs for attorneys' fees and costs. However, if *Orthopedic Specialists* were to be changed adverse to the Company as a result of the motions for rehearing, there will be significant costs to Allstate in the form of additional benefits due to medical providers along with penalties, interest, postage, and attorneys' fees.

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

Other proceedings

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

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

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

Romero I and II consolidated proceedings: In 2004, the court ruled that the release was voidable and certified classes of agents, including a mandatory class of agents who had signed the release, for purposes of effectuating the court's declaratory judgment that the release was voidable. In 2007, the court vacated its ruling and granted the Company's motion for summary judgment on all claims. Plaintiffs appealed and in July 2009, the U.S. Court of Appeals for the Third Circuit vacated the trial court's entry of summary judgment in the Company's favor, remanded the case to the trial court for additional discovery, and instructed the trial court to address the validity of the release after additional discovery. Following the completion of discovery limited to the validity of the release, the parties filed cross motions for summary judgment with respect to the validity of the release. On February 28, 2014, the trial court denied plaintiffs' and the Company's motions for summary judgment, concluding that the question of whether the releases were knowingly and voluntarily signed under a totality of circumstances test raised disputed issues of fact to be resolved at trial. Among other

things, the court also held that the release, if valid, would bar all claims in *Romero I and II*. On May 23, 2014, plaintiffs moved to certify a class as to certain issues relating to the validity of the release. The court denied plaintiffs' class certification motion on October 6, 2014, stating, among other things, that individual factors and circumstances must be considered to determine whether each release signer entered into the release knowingly and voluntarily. The court entered an order on December 11, 2014, (a) stating that the court's October 6, 2014 denial of class certification as to release-related issues did not resolve whether issues relating to the merits of plaintiffs' claims may be subject to class certification at a later time, and (b) holding that the court's October 6, 2014 order restarted the running of the statute of limitation for any former employee agent who wished to challenge the validity of the release. In an order entered January 7, 2015, the court denied reconsideration of its December 11, 2014 order and clarified that all statutes of limitations to challenge the release would resume running on March 2, 2015. Since the court's January 7, 2015 order, a total of 459 additional individual plaintiffs have filed separate lawsuits similar to *Romero I* or sought to intervene in the *Romero I* action. Trial proceedings commenced to determine the question of whether the releases of the original named plaintiffs in *Romero I and II* were knowingly and voluntarily signed. Additionally, plaintiffs asserted two equitable defenses to the release which were to be determined by the court and not the jury. As to the first trial proceeding involving ten plaintiffs, the jury reached verdicts on June 17, 2015 finding that two plaintiffs signed their releases knowingly and voluntarily and eight plaintiffs did not sign their releases knowingly and voluntarily. On January 28, 2016, the court entered its opinion and judgment finding in Allstate's favor as to all ten plaintiffs on the two equitable defenses to the release. The trial result is not yet final and may be subject to further proceedings. The remaining two trials for the original *Romero I and II* plaintiffs were scheduled to commence in the fourth quarter of 2015; however, the order setting these trials was subsequently vacated.

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

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

Phase I discovery closed and the Company filed a motion for summary judgment as to all Phase I claims. Plaintiffs did not move for summary judgment. On November 22, 2016, the court granted in part, and denied in part, Allstate's Phase I summary judgment motion. The court determined that there were material issues of disputed fact requiring a trial on plaintiffs' claim challenging certain Plan amendments. The court granted the motion with respect to one plaintiff whose claim the court determined was barred by the statute of limitations. Further, the court granted the motion with respect to two other claims: 1) a claim that a 1993 Plan amendment resulted in an unlawful cutback of benefits; and 2) a claim for breach of fiduciary duty. The parties thereafter proceeded to a bench trial on December 5-6, 2016. Briefing on proposed findings of fact and conclusions of law has been completed.

On September 2, 2016, in two cases asserting similar claims to those asserted in *Romero I* that had been filed on May 15, 2015, the U.S. District Court for the Southern District of Texas entered judgment in Allstate's favor on statute of limitations and other grounds. Plaintiffs did not appeal the judgments.

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

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

Asbestos and environmental

Allstate's reserves for asbestos claims were \$912 million and \$960 million, net of reinsurance recoverables of \$444 million and \$458 million, as of December 31, 2016 and 2015, respectively. Reserves for environmental claims were \$179 million and \$179 million, net of reinsurance recoverables of \$40 million and \$43 million, as of December 31, 2016 and 2015, respectively. Approximately 57% of the total net asbestos and environmental reserves as of both December 31, 2016 and 2015 were for incurred but not reported estimated losses.

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

15. Income Taxes

The Company and its domestic subsidiaries file a consolidated federal income tax return. Tax liabilities and benefits realized by the consolidated group are allocated as generated by the respective entities.

The Internal Revenue Service ("IRS") is currently examining the Company's 2013 and 2014 federal income tax returns. The Company's tax years prior to 2013 have been examined by the IRS and the statute of limitations has expired on those years. Any adjustments that may result from IRS examinations of the Company's tax returns are not expected to have a material effect on the results of operations, cash flows or financial position of the Company.

The reconciliation of the change in the amount of unrecognized tax benefits for the years ended December 31 is as follows:

(\$ in millions)	2016	2015	2014
Balance – beginning of year	\$ 7	\$ —	\$ —
Increase for tax positions taken in a prior year	—	4	—
Decrease for tax positions taken in a prior year	—	—	—
Increase for tax positions taken in the current year	3	3	—
Decrease for tax positions taken in the current year	—	—	—
Decrease for settlements	—	—	—
Reductions due to lapse of statute of limitations	—	—	—
Balance – end of year	<u>\$ 10</u>	<u>\$ 7</u>	<u>\$ —</u>

The Company believes it is reasonably possible that the liability balance will not significantly increase within the next twelve months. Because of the impact of deferred tax accounting, recognition of previously unrecognized tax benefits is not expected to impact the Company's effective tax rate.

The Company recognizes interest accrued related to unrecognized tax benefits in income tax expense. The Company did not record interest income or expense relating to unrecognized tax benefits in income tax expense in 2016, 2015 or 2014. As of December 31, 2016 and 2015, there was no interest accrued with respect to unrecognized tax benefits. No amounts have been accrued for penalties.

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

(\$ in millions)	2016	2015
Deferred assets		
Unearned premium reserves	\$ 819	\$ 796
Pension	294	236
Accrued compensation	203	189
Discount on loss reserves	188	203
Difference in tax bases of invested assets	78	202
Other postretirement benefits	64	76
Other assets	118	137
Total deferred assets	1,764	1,839
Deferred liabilities		
DAC	(1,211)	(1,157)
Unrealized net capital gains	(529)	(303)
Life and annuity reserves	(324)	(260)
Other liabilities	(187)	(209)
Total deferred liabilities	(2,251)	(1,929)
Net deferred liability	\$ (487)	\$ (90)

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

As of December 31, 2016, the Company has net operating loss carryforwards of \$42 million which will expire at the end of 2025 through 2029.

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

(\$ in millions)	2016	2015	2014
Current	\$ 654	\$ 1,033	\$ 1,123
Deferred	223	78	263
Total income tax expense	\$ 877	\$ 1,111	\$ 1,386

The Company paid income taxes of \$359 million, \$1.07 billion and \$1.07 billion in 2016, 2015 and 2014, respectively. The Company had current income tax payable of \$135 million as of December 31, 2016 and current income tax receivable of \$59 million as of December 31, 2015.

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

	2016	2015	2014
Statutory federal income tax rate	35.0%	35.0%	35.0%
Tax-exempt income	(1.2)	(1.0)	(0.9)
Tax credits	(1.2)	(0.9)	(0.7)
Sale of subsidiary	—	—	(0.9)
Other ⁽¹⁾	(0.7)	0.8	0.2
Effective income tax rate	31.9%	33.9%	32.7%

⁽¹⁾ Includes \$45 million of income tax expense related to the change in accounting guidance for investments in qualified affordable housing projects adopted in 2015.

16. Statutory Financial Information and Dividend Limitations

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. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

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

Statutory net income (loss) and capital and surplus of Allstate's domestic insurance subsidiaries, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities are as follows:

(\$ in millions)	Net income (loss)			Capital and surplus	
	2016	2015	2014	2016	2015
Amounts by major business type:					
Property-Liability ⁽¹⁾	\$ 1,520	\$ 1,826	\$ 2,501	\$13,436	\$ 13,332
Allstate Financial	197	(56)	1,130	3,383	3,154
Amount per statutory accounting practices	<u>\$ 1,717</u>	<u>\$ 1,770</u>	<u>\$ 3,631</u>	<u>\$16,819</u>	<u>\$ 16,486</u>

⁽¹⁾ The Property-Liability statutory capital and surplus balances exclude wholly-owned subsidiaries included in the Allstate Financial segment.

Dividend Limitations

There are no regulatory restrictions that limit the payment of dividends by the Corporation, except those generally applicable to corporations incorporated in Delaware. Dividends are payable only out of certain components of shareholders' equity as permitted by Delaware law. However, the ability of the Corporation to pay dividends is dependent on business conditions, income, cash requirements of the Company, receipt of dividends from AIC and other relevant factors.

The payment of shareholder dividends by AIC without the prior approval of the Illinois Department of Insurance ("IL DOI") is limited to formula amounts based on net income and capital and surplus, determined in conformity with statutory accounting practices, as well as the timing and amount of dividends paid in the preceding twelve months. AIC paid dividends of \$1.90 billion in 2016. The maximum amount of dividends AIC will be able to pay without prior IL DOI approval at a given point in time during 2017 is \$1.56 billion, less dividends paid during the preceding twelve months measured at that point in time. The payment of a dividend in excess of this amount requires 30 days advance written notice to the IL DOI. The dividend is deemed approved, unless the IL DOI disapproves it within the 30 day notice period. Additionally, any dividend must be paid out of unassigned surplus excluding unrealized appreciation from investments, which for AIC totaled \$10.26 billion as of December 31, 2016, and cannot result in capital and surplus being less than the minimum amount required by law.

Under state insurance laws, insurance companies are required to maintain paid up capital of not less than the minimum capital requirement applicable to the types of insurance they are authorized to write. Insurance companies are also subject to risk-based capital ("RBC") requirements adopted by state insurance regulators. A company's "authorized control level RBC" is calculated using various factors applied to certain financial balances and activity. Companies that do not maintain adjusted statutory capital and surplus at a level in excess of the company action level RBC, which is two times authorized control level RBC, are required to take specified actions. Company action level RBC is significantly in excess of the minimum capital requirements. Total adjusted statutory capital and surplus and authorized control level RBC of AIC were \$15.88 billion and \$2.56 billion, respectively, as of December 31, 2016. Substantially all of the Corporation's insurance subsidiaries are subsidiaries of and/or reinsure all of their business to AIC, including ALIC. AIC's subsidiaries are included as a component of AIC's total statutory capital and surplus.

The amount of restricted net assets, as represented by the Corporation's investment in its insurance subsidiaries, was \$23 billion as of December 31, 2016.

Intercompany transactions

Notification and approval of intercompany lending activities is also required by the IL DOI for transactions that exceed a level that is based on a formula using statutory admitted assets and statutory surplus.

17. Benefit Plans

Pension and other postretirement plans

Defined benefit pension plans cover most full-time employees, certain part-time employees and employee-agents. Benefits under the pension plans are based upon the employee's length of service, eligible annual compensation and, prior to January 1, 2014, either a cash balance or final average pay formula. A cash balance formula applies to all eligible employees hired after August 1, 2002. Eligible employees hired before August 1, 2002 chose between the cash balance formula and the final average pay formula. In July 2013, the Company amended its primary plans effective January 1, 2014 to introduce a new cash balance formula to replace the previous formulas (including the final average pay formula and the previous cash balance formula) under which eligible employees accrue benefits.

The Company also provides a medical coverage subsidy for eligible employees hired before January 1, 2003, including their eligible dependents, when they retire and certain life insurance benefits for eligible retirees ("postretirement benefits"). In July 2013, the Company amended the plan to eliminate the life insurance benefits effective January 1, 2014 for current eligible employees and effective January 1, 2016 for eligible retirees who retired after 1989. In 2016, the Company continues to pay life insurance premiums for certain retiree plaintiffs subject to a court order requiring it to do so until such time as their lawsuit seeking to keep their life insurance benefits intact is resolved. Qualified employees may become eligible for a medical subsidy if they retire in accordance with the terms of the applicable plans and are continuously insured under the Company's group plans or other approved plans in accordance with the plan's participation requirements. The Company shares the cost of retiree medical benefits with non Medicare-eligible retirees based on years of service, with the Company's share being subject to a 5% limit on future annual medical cost inflation after retirement. For Medicare-eligible retirees, the Company provides a fixed Company contribution based on years of service and other factors, which is not subject to adjustments for inflation.

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

Obligations and funded status

The Company calculates benefit obligations based upon generally accepted actuarial methodologies using the projected benefit obligation ("PBO") for pension plans and the accumulated postretirement benefit obligation ("APBO") for other postretirement plans. The determination of pension costs and other postretirement obligations are determined using a December 31 measurement date. The benefit obligations represent the actuarial present value of all benefits attributed to employee service rendered as of the measurement date. The PBO is measured using the pension benefit formulas and assumptions as to future compensation levels. A plan's funded status is calculated as the difference between the benefit obligation and the fair value of plan assets. The Company's funding policy for the pension plans is to make contributions at a level in accordance with regulations under the Internal Revenue Code ("IRC") and generally accepted actuarial principles. The Company's other postretirement benefit plans are not funded.

The components of the pension and other postretirement plans' funded status that are reflected in the Consolidated Statements of Financial Position as of December 31 are as follows:

(\$ in millions)	Pension benefits		Postretirement benefits	
	2016	2015	2016	2015
Fair value of plan assets	\$ 5,650	\$ 5,353	\$ —	\$ —
Less: Benefit obligation	6,591	6,130	373	405
Funded status	\$ (941)	\$ (777)	\$ (373)	\$ (405)
Items not yet recognized as a component of net periodic cost:				
Net actuarial loss (gain)	\$ 2,807	\$ 2,710	\$ (251)	\$ (263)
Prior service credit	(310)	(365)	(62)	(61)
Unrecognized pension and other postretirement benefit cost, pre-tax	2,497	2,345	(313)	(324)
Deferred income tax	(874)	(821)	109	115
Unrecognized pension and other postretirement benefit cost	\$ 1,623	\$ 1,524	\$ (204)	\$ (209)

The \$97 million increase in the pension net actuarial loss during 2016 is primarily related to a decrease in the discount rate. The majority of the \$2.81 billion net actuarial pension benefit losses not yet recognized in 2016 reflects decreases in the discount rate and the effect of unfavorable equity market conditions on the value of the pension plan assets in prior years. The \$12 million decrease in the OPEB net actuarial gain during 2016 primarily related to favorable claims and participant experience.

The primary qualified employee plan represents 81% of the pension benefits' underfunded status as of December 31, 2016.

The change in 2016 in items not yet recognized as a component of net periodic cost, which is recorded in unrecognized pension and other postretirement benefit cost, is shown in the table below.

(\$ in millions)	Pension benefits	Postretirement benefits
Items not yet recognized as a component of net periodic cost – December 31, 2015	\$ 2,345	\$ (324)
Net actuarial loss (gain) arising during the period	294	(14)
Net actuarial (loss) gain amortized to net periodic benefit cost	(201)	24
Prior service credit arising during the period	—	(22)
Prior service credit amortized to net periodic benefit cost	56	21
Translation adjustment and other	3	2
Items not yet recognized as a component of net periodic cost – December 31, 2016	<u>\$ 2,497</u>	<u>\$ (313)</u>

The net actuarial loss (gain) is recognized as a component of net periodic cost amortized over the average remaining service period of active employees expected to receive benefits. Estimates of the net actuarial loss (gain) and prior service credit expected to be recognized as a component of net periodic benefit cost during 2017 are shown in the table below.

(\$ in millions)	Pension benefits	Postretirement benefits
Net actuarial loss (gain)	\$ 189	\$ (24)
Prior service credit	(56)	(24)

The accumulated benefit obligation (“ABO”) for all defined benefit pension plans was \$6.52 billion and \$6.05 billion as of December 31, 2016 and 2015, respectively. The ABO is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered at the measurement date. However, it differs from the PBO due to the exclusion of an assumption as to future compensation levels.

The PBO, ABO and fair value of plan assets for the Company’s pension plans with an ABO in excess of plan assets were \$6.24 billion, \$6.18 billion and \$5.30 billion, respectively, as of December 31, 2016 and \$5.81 billion, \$5.74 billion and \$5.02 billion, respectively, as of December 31, 2015. Included in the accrued benefit cost of the pension benefits are certain unfunded non-qualified plans with accrued benefit costs of \$141 million and \$143 million for 2016 and 2015, respectively.

The changes in benefit obligations for all plans for the years ended December 31 are as follows:

(\$ in millions)	Pension benefits		Postretirement benefits	
	2016	2015	2016	2015
Benefit obligation, beginning of year	\$ 6,130	\$ 6,493	\$ 405	\$ 575
Service cost	113	114	9	12
Interest cost	286	258	17	23
Participant contributions	1	—	16	19
Actuarial loss (gain)	387	(225)	(14)	(158)
Benefits paid ⁽¹⁾	(301)	(443)	(41)	(54)
Plan amendments	—	—	(22)	—
Translation adjustment and other	(25)	(67)	3	(12)
Benefit obligation, end of year	<u>\$ 6,591</u>	<u>\$ 6,130</u>	<u>\$ 373</u>	<u>\$ 405</u>

⁽¹⁾ Benefits paid include lump sum distributions, a portion of which may trigger settlement accounting treatment.

Components of net periodic cost

The components of net periodic cost for all plans for the years ended December 31 are as follows:

(\$ in millions)	Pension benefits			Postretirement benefits		
	2016	2015	2014	2016	2015	2014
Service cost	\$ 113	\$ 114	\$ 96	\$ 9	\$ 12	\$ 10
Interest cost	286	258	262	17	23	23
Expected return on plan assets	(398)	(424)	(398)	—	—	—
Amortization of:						
Prior service credit	(56)	(56)	(58)	(21)	(22)	(23)
Net actuarial loss (gain)	174	190	127	(24)	(9)	(22)
Settlement loss	27	31	54	—	—	—
Net periodic cost (credit)	<u>\$ 146</u>	<u>\$ 113</u>	<u>\$ 83</u>	<u>\$ (19)</u>	<u>\$ 4</u>	<u>\$ (12)</u>

Assumptions

Weighted average assumptions used to determine net pension cost and net postretirement benefit cost for the years ended December 31 are:

(\$ in millions)	Pension benefits			Postretirement benefits		
	2016	2015	2014	2016	2015	2014
Discount rate	4.83%	4.10%	5.00%	4.59%	3.97%	5.11%
Rate of increase in compensation levels	3.20	3.50	3.50	n/a	n/a	n/a
Expected long-term rate of return on plan assets	7.30	7.33	7.36	n/a	n/a	n/a

Weighted average assumptions used to determine benefit obligations as of December 31 are listed in the following table.

	Pension benefits		Postretirement benefits	
	2016	2015	2016	2015
Discount rate	4.15%	4.83%	4.07%	4.56%
Rate of increase in compensation levels	3.20	3.20	n/a	n/a

The weighted average health care cost trend rate used in measuring the accumulated postretirement benefit cost is 6.3% for 2017, gradually declining to 4.5% in 2038 and remaining at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plans. A one percentage-point increase in assumed health care cost trend rates would increase the total of the service and interest cost components of net periodic benefit cost of other postretirement benefits and the APBO by \$2 million and \$24 million, respectively. A one percentage-point decrease in assumed health care cost trend rates would decrease the total of the service and interest cost components of net periodic benefit cost of other postretirement benefits and the APBO by \$2 million and \$21 million, respectively.

Pension plan assets

The change in pension plan assets for the years ended December 31 is as follows:

(\$ in millions)	2016	2015
Fair value of plan assets, beginning of year	\$ 5,353	\$ 5,783
Actual return on plan assets	491	(43)
Employer contribution	131	125
Benefits paid	(301)	(443)
Translation adjustment and other	(24)	(69)
Fair value of plan assets, end of year	<u>\$ 5,650</u>	<u>\$ 5,353</u>

In general, the Company's pension plan assets are managed in accordance with investment policies approved by pension investment committees. The purpose of the policies is to ensure the plans' long-term ability to meet benefit obligations by prudently investing plan assets and Company contributions, while taking into consideration regulatory and legal requirements and current market conditions. The investment policies are reviewed periodically and specify target plan asset allocation by asset category. In addition, the policies specify various asset allocation and other risk limits. The target asset allocation takes the plans' funding status into consideration, among other factors, including anticipated demographic changes or liquidity requirements that may affect the funding status such as the potential impact of lump sum settlements as well as existing or expected market conditions. In general, the allocation has a lower overall investment risk when a plan is in a stronger funded status position since there is less economic incentive to take risk to increase the expected returns on the plan assets. As a result, the primary employee plan has a greater allocation to equity securities than the employee-agent plan. The primary qualified employee plan comprises 80% of total plan assets and 86% of equity securities. The pension plans' asset exposure within each asset category is tracked against widely accepted established benchmarks for each asset class with limits on variation from the benchmark established in the investment policy. Pension plan assets are regularly monitored for compliance with these limits and other risk limits specified in the investment policies.

The pension plans' weighted average target asset allocation and the actual percentage of plan assets, by asset category as of December 31, 2016 are as follows:

Asset category	Target asset allocation ⁽¹⁾	Actual percentage of plan assets	
	2016	2016	2015
Equity securities ⁽²⁾	50 - 68%	62%	60%
Fixed income securities	27 - 37%	29	30
Limited partnership interests	0 - 14%	7	7
Short-term investments and other	—	2	3
Total without securities lending ⁽³⁾		100%	100%

⁽¹⁾ The target asset allocation considers risk based exposure while the actual percentage of plan assets utilizes a financial reporting view excluding exposure provided through derivatives.

⁽²⁾ The actual percentage of plan assets for equity securities include private equity investments that are subject to the limited partnership interests target allocation of 1% and 2% in 2016 and 2015, respectively, fixed income mutual funds that are subject to the fixed income securities target allocation of 3% for both 2016 and 2015 as well as 1% of equity exposure created through a derivative which is not included in the actual allocations in 2016.

⁽³⁾ Securities lending collateral reinvestment of \$143 million and \$152 million is excluded from the table above in 2016 and 2015, respectively.

The target asset allocation for an asset category may be achieved either through direct investment holdings, through replication using derivative instruments (e.g., futures or swaps) or net of hedges using derivative instruments to reduce exposure to an asset category. The net notional amount of derivatives used for replication and hedges is limited to 105% or 115% of total plan assets depending on the plan. Market performance of the different asset categories may, from time to time, cause deviation from the target asset allocation. The asset allocation mix is reviewed on a periodic basis and rebalanced to bring the allocation within the target ranges.

Outside the target asset allocation, the pension plans participate in a securities lending program to enhance returns. As of December 31, 2016, U.S. government fixed income securities and U.S. equity securities are lent out and cash collateral is invested in short-term investments.

The following table presents the fair values of pension plan assets as of December 31, 2016.

(\$ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance as of December 31, 2016
Equity securities	\$ 155	\$ 3,230	\$ 79	\$ 3,464
Fixed income securities:				
U.S. government and agencies	30	285	—	315
Corporate	—	1,309	10	1,319
Short-term investments	144	121	—	265
Limited partnership interests:				
Real estate funds ⁽¹⁾	—	—	100	100
Private equity funds ⁽²⁾	—	—	261	261
Hedge funds	—	—	2	2
Cash and cash equivalents	32	—	—	32
Free-standing derivatives:				
Assets	(1)	1	—	—
Total plan assets at fair value	\$ 360	\$ 4,946	\$ 452	5,758
% of total plan assets at fair value	6.3%	85.9%	7.8%	100.0%
Securities lending obligation ⁽³⁾				(158)
Other net plan assets ⁽⁴⁾				50
Total reported plan assets				\$ 5,650

⁽¹⁾ Real estate funds held by the pension plans are primarily invested in U.S. commercial real estate.

⁽²⁾ Private equity investments held by the pension plans are primarily comprised of buyout and growth funds in North America and other developed markets.

⁽³⁾ The securities lending obligation represents the plan's obligation to return securities lending collateral received under a securities lending program. The terms of the program allow both the plan and the counterparty the right and ability to redeem/return the securities loaned on short notice. Due to its relatively short-term nature, the outstanding balance of the obligation approximates fair value.

⁽⁴⁾ Other net plan assets represent interest and dividends receivable and net receivables related to settlements of investment transactions, such as purchases and sales.

The following table presents the fair values of pension plan assets as of December 31, 2015.

(\$ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance as of December 31, 2015
Equity securities	\$ 136	\$ 2,945	\$ 100	\$ 3,181
Fixed income securities:				
U.S. government and agencies	72	334	—	406
Municipal	—	—	7	7
Corporate	—	1,205	10	1,215
Short-term investments	112	184	—	296
Limited partnership interests:				
Real estate funds	—	—	104	104
Private equity funds	—	—	237	237
Hedge funds	—	—	33	33
Cash and cash equivalents	22	—	—	22
Total plan assets at fair value	\$ 342	\$ 4,668	\$ 491	5,501
% of total plan assets at fair value	6.2%	84.9%	8.9%	100.0%
Securities lending obligation				(167)
Other net plan assets				19
Total reported plan assets				\$ 5,353

The fair values of pension plan assets are estimated using the same methodologies and inputs as those used to determine the fair values for the respective asset category of the Company. These methodologies and inputs are disclosed in Note 6.

The following table presents the rollforward of Level 3 plan assets for the year ended December 31, 2016.

(\$ in millions)

	Balance as of December 31, 2015	Actual return on plan assets:		Purchases, sales and settlements, net	Net transfers in and/or (out) of Level 3	Balance as of December 31, 2016
		Relating to assets sold during the period	Relating to assets still held at the reporting date			
Equity securities	\$ 100	\$ (2)	\$ (1)	\$ (18)	\$ —	\$ 79
Fixed income securities:						
Municipal	7	—	—	(7)	—	—
Corporate	10	—	—	(5)	5	10
Limited partnership interests:						
Real estate funds	104	—	5	(9)	—	100
Private equity funds	237	—	24	—	—	261
Hedge funds	33	—	(2)	(29)	—	2
Total Level 3 plan assets	\$ 491	\$ (2)	\$ 26	\$ (68)	\$ 5	\$ 452

The following table presents the rollforward of Level 3 plan assets for the year ended December 31, 2015.

(\$ in millions)

	Balance as of December 31, 2014	Actual return on plan assets:		Purchases, sales and settlements, net	Net transfers in and/or (out) of Level 3	Balance as of December 31, 2015
		Relating to assets sold during the period	Relating to assets still held at the reporting date			
Equity securities	\$ 75	\$ 1	\$ (5)	\$ 29	\$ —	\$ 100
Fixed income securities:						
Municipal	14	—	—	(7)	—	7
Corporate	12	—	—	—	(2)	10
Limited partnership interests:						
Real estate funds	154	—	(12)	(38)	—	104
Private equity funds	218	—	(8)	27	—	237
Hedge funds	32	—	1	—	—	33
Total Level 3 plan assets	\$ 505	\$ 1	\$ (24)	\$ 11	\$ (2)	\$ 491

The following table presents the rollforward of Level 3 plan assets for the year ended December 31, 2014.

(\$ in millions)

	Balance as of December 31, 2013	Actual return on plan assets:		Purchases, sales and settlements, net	Net transfers in and/or (out) of Level 3	Balance as of December 31, 2014
		Relating to assets sold during the period	Relating to assets still held at the reporting date			
Equity securities	\$ 237	\$ 2	\$ 2	\$ (166)	\$ —	\$ 75
Fixed income securities:						
Municipal	18	—	—	(4)	—	14
Corporate	18	—	—	(6)	—	12
Limited partnership interests:						
Real estate funds	197	(3)	6	(46)	—	154
Private equity funds	211	(4)	4	7	—	218
Hedge funds	9	—	—	23	—	32
Total Level 3 plan assets	\$ 690	\$ (5)	\$ 12	\$ (192)	\$ —	\$ 505

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on plan assets. The Company's assumption for the expected long-term rate of return on plan assets is reviewed annually giving consideration to appropriate financial data including, but not limited to, the plan asset allocation, forward-looking expected returns for the period over which benefits will be paid, historical returns on plan assets and other relevant market data. Given the long-term forward looking nature of this assumption, the actual returns in any one year do not immediately result in a change. In giving consideration to the targeted plan asset allocation, the Company evaluated returns using the same sources it has used historically which include: historical average asset class returns from an independent nationally recognized vendor of this type of data blended together using the asset allocation policy weights for the Company's pension plans; asset class return forecasts from a large global independent asset management firm that specializes in providing multi-asset class investment fund products which were blended together using the asset allocation policy weights; and expected portfolio returns from a proprietary simulation methodology of a widely recognized external investment consulting firm that performs asset allocation and actuarial services for corporate pension plan sponsors. This same methodology has been applied on a consistent basis each year. All of these were consistent with the Company's weighted average long-term rate of return on plan assets assumption of 7.30% used for 2016 and 7.31% that will be used for 2017. The assumption for the primary qualified employee plan is 7.75% and the employee-agent plan is 5.75% for both years. The employee-agent plan assumption is lower than the primary qualified employee plan assumption due to a lower investment allocation to equity securities and a higher allocation to fixed income securities. As of the 2016 measurement date, the arithmetic average of the annual actual return on plan assets for the most recent 10 and 5 years was 6.5% and 8.5%, respectively.

Cash flows

There was no required cash contribution necessary to satisfy the minimum funding requirement under the IRC for the tax qualified pension plans as of December 31, 2016. The Company currently plans to contribute \$136 million to its pension plans in 2017.

The Company contributed \$25 million and \$35 million to the postretirement benefit plans in 2016 and 2015, respectively. Contributions by participants were \$16 million and \$19 million in 2016 and 2015, respectively.

Estimated future benefit payments

Estimated future benefit payments expected to be paid in the next 10 years, based on the assumptions used to measure the Company's benefit obligation as of December 31, 2016, are presented in the table below.

(\$ in millions)	Pension benefits	Postretirement benefits
2017	\$ 412	\$ 23
2018	421	23
2019	463	24
2020	487	25
2021	521	26
2022-2026	2,512	137
Total benefit payments	\$ 4,816	\$ 258

Allstate 401(k) Savings Plan

Employees of the Company, with the exception of those employed by the Company's international, Esurance and Answer Financial subsidiaries, are eligible to become members of the Allstate 401(k) Savings Plan ("Allstate Plan"). The Company's contributions are based on the Company's matching obligation. The Company is responsible for funding its anticipated contribution to the Allstate Plan, and may, at the discretion of management, use the ESOP to pre-fund certain portions. In connection with the Allstate Plan, the Company has a note from the ESOP with a principal balance of \$5 million as of December 31, 2016. The ESOP note has a fixed interest rate of 7.9% and matures in 2019. The Company records dividends on the ESOP shares in retained income and all the shares held by the ESOP are included in basic and diluted weighted average common shares outstanding.

The Company's contribution to the Allstate Plan was \$80 million, \$79 million and \$75 million in 2016, 2015 and 2014, respectively. These amounts were reduced by the ESOP benefit computed for the years ended December 31 as follows:

(\$ in millions)	2016	2015	2014
Interest expense recognized by ESOP	\$ 1	\$ 1	\$ 1
Less: dividends accrued on ESOP shares	(3)	(3)	(4)
Cost of shares allocated	7	10	8
Compensation expense	5	8	5
Reduction of defined contribution due to ESOP	60	73	71
ESOP benefit	\$ (55)	\$ (65)	\$ (66)

The Company made \$2 million, \$2 million and \$3 million in contributions to the ESOP in 2016, 2015 and 2014, respectively. As of December 31, 2016, total committed to be released, allocated and unallocated ESOP shares were 1 million, 37 million and 1 million, respectively.

Allstate's Canadian, Esurance and Answer Financial subsidiaries sponsor defined contribution plans for their eligible employees. Expense for these plans was \$10 million, \$10 million and \$11 million in 2016, 2015 and 2014, respectively.

18. Equity Incentive Plans

The Company currently has equity incentive plans under which the Company grants nonqualified stock options, restricted stock units and performance stock awards to certain employees and directors of the Company. The total compensation expense related to equity awards was \$80 million, \$81 million and \$88 million and the total income tax benefits were \$28 million, \$28 million and \$30 million for 2016, 2015 and 2014, respectively. Total cash received from the exercise of options was \$187 million, \$187 million and \$314 million for 2016, 2015 and 2014, respectively. Total tax benefit realized on options exercised and the release of stock restrictions was \$61 million, \$82 million and \$73 million for 2016, 2015 and 2014, respectively.

The Company records compensation expense related to awards under these plans over the shorter of the period in which the requisite service is rendered or retirement eligibility is attained. Compensation expense for performance share awards is based on the probable number of awards expected to vest using the performance level most likely to be achieved at the end of the performance period. As of December 31, 2016, total unrecognized compensation cost related to all nonvested awards was \$62 million, of which \$25 million related to nonqualified stock options which are expected to be recognized over the weighted average vesting period of 1.72 years, \$25 million related to restricted stock units which are expected to be recognized over the weighted average vesting period of 1.79 years and \$12 million related to performance stock awards which are expected to be recognized over the weighted average vesting period of 1.68 years.

Options are granted to employees with exercise prices equal to the closing share price of the Company's common stock on the applicable grant date. Options granted to employees on or after February 18, 2014 vest ratably over a three-year period. Options granted prior to February 18, 2014 vest 50% on the second anniversary of the grant date and 25% on each of the third and fourth anniversaries of the grant date. Vesting is subject to continued service, except for employees who are retirement eligible and in certain other limited circumstances. Options may be exercised once vested and will expire no later than ten years after the date of grant.

Restricted stock units for directors vest immediately and convert into shares of stock on the earlier of the day of the third anniversary of the grant date or the date the director's service terminates, unless a deferred period of restriction is elected. Restricted stock units granted to directors prior to June 1, 2016 convert upon leaving the board. Restricted stock units granted to employees on or after February 18, 2014 vest on the day prior to the third anniversary of the grant date. Awards granted to employees prior to February 18, 2014 vest 50% on the day prior to the second anniversary of the grant date and 25% on each of the days prior to the third and fourth anniversaries of the grant date. Restricted stock units granted to employees subsequently convert into shares of stock on the day of the respective anniversary of the grant date. Vesting is subject to continued service, except for employees who are retirement eligible and in certain other limited circumstances.

Performance stock awards vest into shares of stock on the day prior to the third anniversary of the grant date. Vesting of the number of performance stock awards earned based on the attainment of performance goals for each of the performance periods is subject to continued service, except for employees who are retirement eligible and in certain other limited circumstances, and achievement of performance goals. Performance stock awards subsequently convert into shares of stock in full the day of the anniversary of the grant date.

A total of 97.6 million shares of common stock were authorized to be used for awards under the plans, subject to adjustment in accordance with the plans' terms. As of December 31, 2016, 21.7 million shares were reserved and remained available for future issuance under these plans. The Company uses its treasury shares for these issuances.

The fair value of each option grant is estimated on the date of grant using a binomial lattice model. The Company uses historical data to estimate option exercise and employee termination within the valuation model. In addition, separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the binomial lattice model and represents the period of time that options granted are expected to be outstanding. The expected volatility of the price of the underlying shares is implied based on traded options and historical volatility of the Company's common stock. The expected dividends were based on the current dividend yield of the Company's stock as of the date of the grant. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The assumptions used are shown in the following table.

	2016	2015	2014
Weighted average expected term	5.0 years	6.5 years	6.5 years
Expected volatility	16.0 - 34.3 %	16.0 - 37.8 %	16.8 - 42.2%
Weighted average volatility	24.3 %	24.7 %	28.3%
Expected dividends	1.9 - 2.1 %	1.6 - 2.1 %	1.7 - 2.2%
Weighted average expected dividends	2.1 %	1.7 %	2.1%
Risk-free rate	0.2 - 2.4 %	0.0 - 2.4 %	0.0 - 3.0%

A summary of option activity for the year ended December 31, 2016 is shown in the following table.

	Number (in 000s)	Weighted average exercise price	Aggregate intrinsic value (in 000s)	Weighted average remaining contractual term (years)
Outstanding as of January 1, 2016	15,716	\$ 45.81		
Granted	3,013	62.84		
Exercised	(4,755)	43.20		
Forfeited	(378)	61.64		
Expired	(36)	64.83		
Outstanding as of December 31, 2016	13,560	50.01	\$ 326,911	6.0
Outstanding, net of expected forfeitures	13,434	49.88	325,668	5.9
Outstanding, exercisable ("vested")	8,104	42.24	258,367	4.5

The weighted average grant date fair value of options granted was \$12.25, \$15.45 and \$12.50 during 2016, 2015 and 2014, respectively. The intrinsic value, which is the difference between the fair value and the exercise price, of options exercised was \$119 million, \$117 million and \$151 million during 2016, 2015 and 2014, respectively.

The changes in restricted stock units are shown in the following table for the year ended December 31, 2016.

	Number (in 000s)	Weighted average grant date fair value
Nonvested as of January 1, 2016	1,839	\$ 52.86
Granted	360	63.51
Vested	(449)	39.30
Forfeited	(71)	59.51
Nonvested as of December 31, 2016	1,679	58.49

The fair value of restricted stock units is based on the market value of the Company's stock as of the date of the grant. The market value in part reflects the payment of future dividends expected. The weighted average grant date fair value of restricted stock units granted was \$63.51, \$69.25 and \$52.70 during 2016, 2015 and 2014, respectively. The total fair value of restricted stock units vested was \$29 million, \$63 million and \$60 million during 2016, 2015 and 2014, respectively.

The changes in performance stock awards are shown in the following table for the year ended December 31, 2016.

	Number (in 000s)	Weighted average grant date fair value
Nonvested as of January 1, 2016	930	\$ 53.27
Granted	520	62.32
Adjustment for performance achievement	(15)	45.61
Vested	(442)	45.61
Forfeited	(74)	61.87
Nonvested as of December 31, 2016	919	61.50

The change in PSA's comprises those initially granted in 2016 and the adjustment to previously granted PSA's for performance achievement. The fair value of performance stock awards is based on the market value of the Company's stock as of the date of the grant. The market value in part reflects the payment of future dividends expected. The weighted average grant date fair value of performance stock awards granted was \$62.32, \$70.37 and \$52.18 during 2016, 2015 and 2014, respectively. The total fair value of performance stock awards vested was \$28 million and \$56 million during 2016 and 2015, respectively. None of the performance stock awards vested during 2014.

The tax benefit realized related to tax deductions from stock option exercises and included in shareholders' equity was \$23 million in each of 2016, 2015 and 2014. The tax benefit realized in 2016, 2015 and 2014 related to all stock-based compensation and recorded directly to shareholders' equity was \$30 million, \$46 million and \$32 million, respectively.

19. Reporting Segments

Allstate management is organized around products and services, and this structure is considered in the identification of its four reportable segments. These segments and their respective operations are as follows:

Allstate Protection principally sells private passenger auto and homeowners insurance in the United States and Canada. Revenues from external customers generated outside the United States were \$1.06 billion, \$1.03 billion and \$1.08 billion in 2016, 2015 and 2014, respectively. The Company evaluates the results of this segment based upon underwriting results.

Discontinued Lines and Coverages consists of property-liability business no longer written by Allstate, including results from asbestos, environmental and other discontinued lines claims, and certain commercial and other businesses in run-off. This segment also includes the historical results of the commercial and reinsurance businesses sold in 1996. The Company evaluates the results of this segment based upon underwriting results.

Allstate Financial sells traditional, interest-sensitive and variable life insurance and voluntary accident and health insurance products. Allstate Financial previously offered and continues to have in force fixed annuities such as deferred and immediate annuities. Allstate Financial 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. Revenues from external customers generated outside the United States relate to voluntary accident and health insurance sold in Canada and were \$1 million in 2016. Allstate Financial had no revenues from external customers generated outside the United States in 2015 or 2014. The Company evaluates the results of this segment based upon operating income.

Corporate and Other comprises holding company activities and certain non-insurance operations.

Allstate Protection and Discontinued Lines and Coverages comprise Property-Liability. 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, Allstate Financial, and Corporate and Other levels for decision-making purposes. Allstate Protection and Allstate Financial performance and resources are managed by committees of senior officers of the respective segments.

The accounting policies of the reportable segments are the same as those described in Note 2. The effects of certain inter-segment transactions are excluded from segment performance evaluation and therefore are eliminated in the segment results.

Measuring segment profit or loss

The measure of segment profit or loss used by Allstate's management in evaluating performance is underwriting income for the Allstate Protection and Discontinued Lines and Coverages segments and operating income for the Allstate Financial and Corporate and Other segments. A reconciliation of these measures to net income applicable to common shareholders is provided below.

Underwriting income is calculated as premiums earned, less claims and claims expenses ("losses"), amortization of DAC, operating costs and expenses, and restructuring and related charges as determined using GAAP.

Operating income is net income applicable to common shareholders, excluding:

- realized capital gains and losses, after-tax, except for periodic settlements and accruals on non-hedge derivative instruments, which are reported with realized capital gains and losses but included in operating income,
- valuation changes on embedded derivatives that are not hedged, after-tax,
- amortization of DAC and DSI, to the extent they resulted from the recognition of certain realized capital gains and losses or valuation changes on embedded derivatives that are not hedged, after-tax,

- amortization of purchased intangible assets, after-tax,
- gain (loss) on disposition of operations, after-tax, and
- adjustments for other significant non-recurring, infrequent or unusual items, when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, or (b) there has been no similar charge or gain within the prior two years.

Summarized revenue data for each of the Company's reportable segments for the years ended December 31 are as follows:

(\$ in millions)	2016	2015	2014
Revenues			
<i>Property-Liability</i>			
Property-liability insurance premiums			
Auto	\$ 21,264	\$ 20,410	\$ 19,344
Homeowners	7,257	7,136	6,904
Other personal lines	1,700	1,692	1,662
Commercial lines	506	510	476
Other business lines	580	561	542
Allstate Protection	31,307	30,309	28,928
Discontinued Lines and Coverages	—	—	1
Total property-liability insurance premiums	31,307	30,309	28,929
Net investment income	1,266	1,237	1,301
Realized capital gains and losses	(6)	(237)	549
Total Property-Liability	32,567	31,309	30,779
<i>Allstate Financial</i>			
Life and annuity premiums and contract charges			
Life and annuity premiums			
Traditional life insurance	573	542	511
Immediate annuities with life contingencies	—	—	4
Accident and health insurance	859	780	744
Total life and annuity premiums	1,432	1,322	1,259
Contract charges			
Interest-sensitive life insurance	829	822	879
Fixed annuities	14	14	19
Total contract charges	843	836	898
Total 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 Allstate Financial	3,928	4,309	4,432
<i>Corporate and Other</i>			
Service fees	4	3	5
Net investment income	42	35	27
Realized capital gains and losses	(3)	—	1
Total Corporate and Other before reclassification of service fees	43	38	33
Reclassification of service fees ⁽¹⁾	(4)	(3)	(5)
Total Corporate and Other	39	35	28
Consolidated revenues	\$ 36,534	\$ 35,653	\$ 35,239

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

Summarized financial performance data for each of the Company's reportable segments for the years ended December 31 are as follows:

(\$ in millions)	2016	2015	2014
Net income			
<i>Property-Liability</i>			
Underwriting income			
Allstate Protection	\$ 1,317	\$ 1,614	\$ 1,887
Discontinued Lines and Coverages	(107)	(55)	(115)
Total underwriting income	1,210	1,559	1,772
Net investment income	1,266	1,237	1,301
Income tax expense on operations ⁽¹⁾	(812)	(952)	(1,040)
Realized capital gains and losses, after-tax	—	(154)	357
Gain on disposition of operations, after-tax	—	—	37
Property-Liability net income applicable to common shareholders	1,664	1,690	2,427
<i>Allstate Financial</i>			
Life and annuity premiums and contract charges	2,275	2,158	2,157
Net investment income	1,734	1,884	2,131
Periodic settlements and accruals on non-hedge derivative instruments	—	—	(1)
Contract benefits and interest credited to contractholder funds	(2,580)	(2,563)	(2,663)
Operating costs and expenses and amortization of deferred policy acquisition costs	(774)	(729)	(721)
Restructuring and related charges	(1)	—	(2)
Income tax expense on operations	(206)	(241)	(294)
Operating income	448	509	607
Realized capital gains and losses, after-tax	(54)	173	94
Valuation changes on embedded derivatives that are not hedged, after-tax	(2)	(1)	(15)
DAC and DSI amortization related to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax	(4)	(3)	(3)
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	—	—	1
Gain (loss) on disposition of operations, after-tax	3	2	(53)
Change in accounting for investments in qualified affordable housing projects, after-tax	—	(17)	—
Allstate Financial net income applicable to common shareholders	391	663	631
<i>Corporate and Other</i>			
Service fees ⁽²⁾	4	3	5
Net investment income	42	35	27
Operating costs and expenses ⁽²⁾	(328)	(329)	(364)
Income tax benefit on operations	106	109	124
Preferred stock dividends	(116)	(116)	(104)
Operating loss	(292)	(298)	(312)
Realized capital gains and losses, after-tax	(2)	—	—
Corporate and Other net loss applicable to common shareholders	(294)	(298)	(312)
Consolidated net income applicable to common shareholders	\$ 1,761	\$ 2,055	\$ 2,746

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

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

Additional significant financial performance data for each of the Company's reportable segments for the years ended December 31 are as follows:

(\$ in millions)	2016	2015	2014
Amortization of DAC			
Property-Liability	\$ 4,267	\$ 4,102	\$ 3,875
Allstate Financial	283	262	260
Consolidated	<u>\$ 4,550</u>	<u>\$ 4,364</u>	<u>\$ 4,135</u>
Income tax expense			
Property-Liability	\$ 806	\$ 869	\$ 1,211
Allstate Financial	178	351	299
Corporate and Other	(107)	(109)	(124)
Consolidated	<u>\$ 877</u>	<u>\$ 1,111</u>	<u>\$ 1,386</u>

Interest expense is primarily incurred in the Corporate and Other segment. Capital expenditures for long-lived assets are generally made in the Property-Liability segment. A portion of these long-lived assets are used by entities included in the Allstate Financial and Corporate and Other segments and, accordingly, are charged expenses in proportion to their use.

Summarized data for total assets and investments for each of the Company's reportable segments as of December 31 are as follows:

(\$ in millions)	2016	2015	2014
Assets			
Property-Liability	\$ 60,394	\$ 55,671	\$ 55,767
Allstate Financial	45,945	46,342	49,248
Corporate and Other	2,271	2,643	3,464
Consolidated	<u>\$ 108,610</u>	<u>\$ 104,656</u>	<u>\$ 108,479</u>
Investments			
Property-Liability	\$ 42,722	\$ 38,479	\$ 39,083
Allstate Financial	36,840	36,792	38,809
Corporate and Other	2,237	2,487	3,221
Consolidated	<u>\$ 81,799</u>	<u>\$ 77,758</u>	<u>\$ 81,113</u>

The balances above reflect the elimination of related party investments between segments.

20. Other Comprehensive Income

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

(\$ in millions)	2016			2015			2014		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	\$ 486	\$ (170)	\$ 316	\$ (1,896)	\$ 663	\$ (1,233)	\$ 1,026	\$ (358)	\$ 668
Less: reclassification adjustment of realized capital gains and losses	(180)	63	(117)	112	(39)	73	597	(209)	388
Unrealized net capital gains and losses	666	(233)	433	(2,008)	702	(1,306)	429	(149)	280
Unrealized foreign currency translation adjustments	15	(5)	10	(89)	31	(58)	(62)	22	(40)
Unrecognized pension and other postretirement benefit cost arising during the period	(263)	94	(169)	(64)	25	(39)	(1,197)	421	(776)
Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses	(100)	35	(65)	(134)	47	(87)	(78)	27	(51)
Unrecognized pension and other postretirement benefit cost	(163)	59	(104)	70	(22)	48	(1,119)	394	(725)
Other comprehensive income (loss)	\$ 518	\$ (179)	\$ 339	\$ (2,027)	\$ 711	\$ (1,316)	\$ (752)	\$ 267	\$ (485)

21. Quarterly Results (unaudited)

(\$ in millions, except per share data)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2016	2015	2016	2015	2016	2015	2016	2015
Revenues	\$ 8,871	\$ 8,952	\$ 9,164	\$ 8,982	\$ 9,221	\$ 9,028	\$ 9,278	\$ 8,691
Net income applicable to common shareholders	217	648	242	326	491	621	811	460
Net income applicable to common shareholders earnings per common share - Basic	0.57	1.56	0.65	0.80	1.32	1.56	2.20	1.19
Net income applicable to common shareholders earnings per common share - Diluted	0.57	1.53	0.64	0.79	1.31	1.54	2.18	1.18

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying Consolidated Statements of Financial Position of The Allstate Corporation and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related Consolidated Statements of Operations, Comprehensive Income, Shareholders' Equity, and Cash Flows for each of the three years in the period ended December 31, 2016. We also have audited the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Item 9A. Controls and Procedures*. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Allstate Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
February 17, 2017

This page intentionally left blank.

This page intentionally left blank.

Investor Information

Corporate Headquarters/ Home Office

The Allstate Corporation
2775 Sanders Road
Northbrook, IL 60062-6127
(800) 574-3553
www.allstate.com

Annual Meeting

Shareholders of record are invited to attend the annual meeting of The Allstate Corporation on Thursday, May 25, 2017, 11:00 a.m. (doors open at 10:00 a.m.) at Allstate, North Plaza Auditorium, 2775 Sanders Road, Northbrook, IL 60062

Holders of common stock of record at the close of business on March 27, 2017 are entitled to vote at the meeting. A notice of meeting, proxy statement and proxy card and/or voting instructions were provided to shareholders with this annual report.

Shareholder Services/Transfer Agent

For information or assistance regarding individual stock records, dividend reinvestment, dividend checks, 1099DIV and 1099B tax forms, direct deposit of dividend payments, or stock certificates, contact Wells Fargo Shareowner Services, in any of the following ways:

BY TELEPHONE:

(800) 355-5191 within the U.S. or
(651) 450-4064 outside the U.S.

BY MAIL:

Wells Fargo Bank, N.A.
Shareowner Services
P.O. Box 64854
St. Paul, MN 55164-0854

BY CERTIFIED/OVERNIGHT MAIL:

Wells Fargo Bank, N.A.
Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120-4100

ON THE INTERNET—

account information:
shareowneronline.com

Allstate 401(k) Savings Plan

For information about the Allstate 401(k) Savings Plan, call the Allstate Benefits Center at (888) 255-7772

Investor Relations

Security analysts, portfolio managers and representatives of financial institutions seeking information about the company should contact:

Investor Relations
The Allstate Corporation
2775 Sanders Road, Suite F3SE
Northbrook, IL 60062-6127
(800) 416-8803
invrel@allstate.com

Communications to the Board of Directors

Shareholders or other interested parties who wish to communicate to the Board of Directors may do so by mail or email as follows. Please let us know if you are a shareholder.

BY EMAIL:

directors@allstate.com

BY MAIL:

The Allstate Corporation
Nominating & Governance Committee
c/o General Counsel
2775 Sanders Road, Suite F7
Northbrook, IL 60062-6127

Code of Global Business Conduct

Allstate's Global Code of Business Conduct is available on the Corporate Governance section of www.allstateinvestors.com.

Corporate Responsibility

Information on Allstate's social responsibility programs is available at corporateresponsibility.allstate.com.

Common Stock and Dividend Information

(in dollars)

	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

Stock price ranges are from the New York Stock Exchange Composite listing. As of 4:00 p.m. (EST) on January 31, 2017, the closing price of Allstate common stock as reported on the New York Stock Exchange was \$75.21 and there were 80,367 shareholders of record.

Media Inquiries

Allstate Media Relations
2775 Sanders Road
Northbrook, IL 60062-6127
(847) 402-5600

Form 10-K, Other Reports

Shareholders may receive without charge a copy of The Allstate Corporation Form 10-K annual report (filed with the U.S. Securities and Exchange Commission) and other public financial information for the year ended December 31, 2016, by contacting:

Investor Relations
The Allstate Corporation
2775 Sanders Road, Suite F3SE
Northbrook, IL 60062-6127
(800) 416-8803
invrel@allstate.com

The Allstate Corporation's Annual Report is available online at:
www.allstate.com/annualreport

Stock Exchange Listing

The Allstate Corporation common stock is listed on the New York Stock Exchange under the trading symbol "ALL." Common stock is also listed on the Chicago Stock Exchange.

Independent Registered Public Accounting Firm

Deloitte & Touche LLP
111 South Wacker Drive
Chicago, IL 60606-4301

Online Information

You can access financial and other information about Allstate on our website, www.allstateinvestors.com, including executive speeches, investor conference calls and quarterly investor information.

Allstate has a proud history of caring for our local communities. This past year marked the 40th anniversary of the Allstate Helping Hands volunteer program, which provides volunteering opportunities to Allstate agency owners and employees.

In 2016, The Allstate Foundation, Allstate, its employees and agency owners gave \$42 million — and Allstaters volunteered 230,000 hours of service — to support local communities.

ANNUAL COMPANY GIVING CAMPAIGN BENEFITTED THOUSANDS OF CAUSES

Last spring, Allstaters volunteered for numerous good causes during the second-annual Bring Out the Good Month.

INSPIRING YOUNG PEOPLE TO BUILD A BETTER WORLD

Allstate's #THEYSAY ProjectSM campaign helps young people move past the negative stereotypes that keep them from believing in themselves. Allstate and The Allstate Foundation support WE Day and WE Schools programs to empower youth. Last year, the programs we supported helped empower 1.7 million youth in America!

HELPING LIBERATE DOMESTIC VIOLENCE SURVIVORS

Allstate Foundation Purple Purse raises awareness about domestic violence and promotes financial empowerment for survivors. To date, our programs have helped over one million survivors of domestic violence.





For Annual Report, scan code

The Allstate Corporation
2775 Sanders Road
Northbrook, IL 60062-6127

[Allstate.com/annualreport](https://www.allstate.com/annualreport)