

ALLSTATE CORP  
Form 10-K

February 19, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

36-3871531

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

2775 Sanders Road, Northbrook, Illinois 60062

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

Yes  No

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

Yes  No

Edgar Filing: ALLSTATE CORP - Form 10-K

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

Yes  No

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

Yes  No

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

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

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

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

Yes  No

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2015, was approximately \$25.77 billion.

As of January 29, 2016, the registrant had 378,300,428 shares of common stock outstanding.

Documents Incorporated By Reference

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

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement for its annual stockholders meeting to be held on May 24, 2016 (the "Proxy Statement") to be filed not later than 120 days after the end of the fiscal year covered by this Form 10-K.

---

## TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1.</u>	<u>1</u>
<u>Business</u>	<u>1</u>
<u>Priorities</u>	<u>1</u>
<u>Allstate Protection Segment</u>	<u>1</u>
<u>Allstate Financial Segment</u>	<u>4</u>
<u>Allstate Agencies</u>	<u>5</u>
<u>Other Business Segments</u>	<u>6</u>
<u>Reserve for Property-Liability Claims and Claims Expense</u>	<u>6</u>
<u>Regulation</u>	<u>10</u>
<u>Internet Website</u>	<u>14</u>
<u>Other Information about Allstate</u>	<u>14</u>
<u>Executive Officers of the Registrant</u>	<u>14</u>
<u>Forward-Looking Statements</u>	<u>15</u>
<u>Item 1A.</u>	<u>15</u>
<u>Risk Factors</u>	<u>15</u>
<u>Item 1B.</u>	<u>24</u>
<u>Unresolved Staff Comments</u>	<u>24</u>
<u>Item 2.</u>	<u>25</u>
<u>Properties</u>	<u>25</u>
<u>Item 3.</u>	<u>25</u>
<u>Legal Proceedings</u>	<u>25</u>
<u>Item 4.</u>	<u>25</u>
<u>Mine Safety Disclosures</u>	<u>25</u>
<u>PART II</u>	
<u>Item 5.</u>	<u>26</u>
<u>Market for Registrant's Common Equity, Related Stockholders Matters and Issuer Purchases of Equity Securities</u>	<u>26</u>
<u>Item 6.</u>	<u>27</u>
<u>Selected Financial Data</u>	<u>27</u>
<u>Item 7.</u>	<u>28</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 7A.</u>	<u>107</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>107</u>
<u>Item 8.</u>	<u>108</u>
<u>Financial Statements and Supplementary Data</u>	<u>108</u>
<u>Item 9.</u>	<u>188</u>
<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>188</u>
<u>Item 9A.</u>	<u>188</u>
<u>Controls and Procedures</u>	<u>188</u>
<u>Item 9B.</u>	<u>188</u>
<u>Other Information</u>	<u>188</u>
<u>PART III</u>	
<u>Item 10.</u>	<u>189</u>
<u>Directors, Executive Officers and Corporate Governance</u>	<u>189</u>
<u>Item 11.</u>	<u>189</u>
<u>Executive Compensation</u>	<u>189</u>
<u>Item 12.</u>	<u>189</u>
<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>189</u>
<u>Item 13.</u>	<u>190</u>
<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>190</u>
<u>Item 14.</u>	<u>190</u>
<u>Principal Accounting Fees and Services</u>	<u>190</u>
<u>PART IV</u>	
<u>Item 15.</u>	<u>191</u>
<u>Exhibits and Financial Statement Schedules</u>	<u>191</u>
<u>Signatures</u>	<u>195</u>
<u>Financial Statement Schedules</u>	<u>S-1</u>

Part I

Item 1. Business

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

The Allstate Corporation is the largest publicly held personal lines insurer in the United States. Allstate’s strategy is to serve distinct customer segments with differentiated offerings. The Allstate brand is widely known through the “You’re In Good Hands With Allstate®” slogan. Allstate is the 2<sup>d</sup> largest personal property and casualty insurer in the United States on the basis of 2014 statutory direct premiums written according to A.M. Best. In addition, according to A.M. Best, it is the nation’s 1<sup>st</sup> largest issuer of life insurance business on the basis of 2014 ordinary life insurance in force and 31<sup>st</sup> largest on the basis of 2014 statutory admitted assets.

Allstate has four business segments:

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

To achieve its goals in 2016, Allstate is focused on the following priorities:

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

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

ALLSTATE PROTECTION SEGMENT

Products and Distribution

Total Allstate Protection premiums written were \$30.87 billion in 2015. Our Allstate Protection segment accounted for 93% of Allstate’s 2015 consolidated insurance premiums and contract charges. In this segment, we principally sell private passenger auto, homeowners, and other property-liability insurance products through agencies and directly through contact centers and the internet. These products are underwritten under the Allstate®, Esurance® and Encompass® brand names.

Our Unique Strategy                      Consumer Segments

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

Allstate brand auto and homeowners insurance products are sold primarily through Allstate exclusive agencies and serve customers who prefer local personalized advice and service and are brand-sensitive. The Allstate brand also sells specialty auto products including motorcycle, trailer, motor home and off-road vehicle insurance policies; other personal lines products including renter, condominium, landlord, boat, umbrella and manufactured home insurance policies; commercial lines products for small business owners; roadside assistance products; and service contracts and other products sold in conjunction with auto lending and vehicle sales transactions. Allstate brand sales and service are supported through contact centers and the internet. In 2015, the Allstate brand represented 91% of the Allstate Protection segment's written premium. In the U.S., we offer these Allstate brand products in approximately 10,200 locations through approximately 34,800 licensed producers including approximately 10,400 Allstate exclusive agencies and approximately 24,400 licensed sales professionals. We also offer these products through approximately 2,100 independent agencies that are primarily in rural areas in the U.S. In Canada, we offer Allstate brand products through approximately 850 employee producers working in five provinces across the country (Ontario, Quebec, Alberta, New Brunswick and Nova Scotia).

Esurance brand auto, homeowners, renter and motorcycle insurance products are sold directly to consumers online, through contact centers and through select agents, including Answer Financial. Esurance serves self-directed, brand-sensitive customers. In 2015, the Esurance brand represented 5% of the Allstate Protection segment's written premium.

Encompass brand auto, homeowners, umbrella and other insurance products, sold predominantly in the form of a single annual household ("package") policy, are distributed through independent agencies that serve consumers who prefer personal advice and assistance from an independent adviser and are brand neutral. Encompass targets mass affluent households, a market of approximately 35 million in the U.S., with higher average coverage needs. In 2015, the Encompass brand represented 4% of the Allstate Protection segment's written premium. Encompass brand products are distributed through approximately 2,300 independent agencies. Encompass is among the top 20 largest providers of personal property and casualty insurance products through independent agencies in the United States, based on statutory written premium information provided by A.M. Best for 2014.

Answer Financial, a personal lines insurance agency, serves self-directed, brand-neutral consumers who want a choice between insurance carriers. It offers comparison quotes for auto and homeowners insurance from approximately 25 insurance companies through its website and over the phone and receives commissions for this service.

Through arrangements made with other companies, agencies, and brokers, the Allstate Protection segment may offer non-proprietary products to consumers when an Allstate product is not available. As of December 31, 2015, Allstate agencies had approximately \$1.3 billion of non-proprietary personal insurance premiums under management, primarily related to property business in hurricane exposed areas, and approximately \$200 million of non-proprietary commercial insurance premiums under management. Answer Financial had \$581 million of non-proprietary premiums written in 2015.

#### Competition

The markets for personal private passenger auto and homeowners insurance are highly competitive. The following charts provide the market shares of our principal competitors in the U.S. by direct written premium for the year ended December 31, 2014 according to A.M. Best.

Personal Lines Insurance		Private Passenger Auto Insurance		Homeowners Insurance	
Insurer	Market Share	Insurer	Market Share	Insurer	Market Share
State Farm	18.6%	State Farm	18.2%	State Farm	19.4%
Allstate	9.6	GEICO	10.8	Allstate	8.6
GEICO	7.3	Allstate	10.1	Liberty Mutual	6.4
Progressive	6.2	Progressive	8.8	Farmers	5.7
Liberty Mutual	5.5	USAA	5.2	USAA	5.2
Farmers	5.3	Farmers	5.1	Nationwide	4.0
USAA	5.2	Liberty Mutual	5.0	Travelers	3.8

Nationwide 3.9

Nationwide 3.9

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

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

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

Our Allstate branded Drivewise<sup>®</sup> and our Esurance branded DriveSense<sup>®</sup> offerings are telematic-based insurance programs that use a mobile application or an in-car device to capture driving behaviors and reward customers for driving safely. The Drivewise mobile application also provides customers with information and tools to encourage safer driving and incentivize them through driving challenges. Beginning in 2015, Drivewise offers Allstate Rewards<sup>®</sup>, a program that provides reward points for safe driving.

Our Esurance branded Pay Per Mile<sup>®</sup> usage-based insurance product was piloted in September 2015 and gives customers flexibility to customize their insurance and pay based on the number of miles they drive.

The Encompass package policy offers broad coverage options specifically tailored to the mass affluent market while simplifying the insurance experience by packaging a product into a single annual household policy with one premium, one bill, one policy deductible and one renewal date. Broad coverage options include features such as enhanced home replacement with a cash-out option should the insured decide not to rebuild, additional living expense coverage with no specific time or dollar limit, water-sewer back up coverage, an unlimited accident forgiveness feature and roadside assistance.

#### Geographic Markets

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

The following table reflects, in percentages, the principal geographic distribution of premiums earned for the Allstate Protection segment for 2015, based on information contained in statements filed with state insurance departments. No other jurisdiction accounted for more than 5 percent of the premiums earned for the segment.

Texas	10.8	%
California	9.4	
New York	9.0	
Florida	7.2	

#### Additional Information

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

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





## ALLSTATE FINANCIAL SEGMENT

## Products and Distribution

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

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

Allstate exclusive agencies and exclusive financial specialists also sell non-proprietary retirement and investment products, including mutual funds, fixed and variable annuities, disability insurance, and long-term care insurance to provide a broad suite of protection and retirement products. As of December 31, 2015, Allstate agencies had approximately \$13.0 billion of non-proprietary mutual funds and fixed and variable annuity account balances under management. New and additional deposits into these non-proprietary products were \$1.9 billion in 2015.

## Competition

We compete on a wide variety of factors, including product offerings, brand recognition, financial strength and ratings, price, distribution and the level of customer service. The market for life insurance continues to be highly fragmented and competitive. As of December 31, 2014, there were approximately 400 groups of life insurance companies in the United States, most of which offered one or more similar products. According to A.M. Best, as of December 31, 2014, the Allstate Financial segment is the nation's 1<sup>st</sup> largest issuer of life insurance and related business on the basis of 2014 ordinary life insurance in force and 31<sup>st</sup> largest on the basis of 2014 statutory admitted assets.

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

## Geographic Markets

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

The following table reflects, in percentages, the principal geographic distribution of statutory premiums and annuity considerations for the Allstate Financial segment for 2015, based on information contained in statements filed with state insurance departments. No other jurisdiction accounted for more than 5 percent of the statutory premiums and annuity considerations.

New York	10.7	%
Texas	10.3	
Florida	9.5	
California	6.6	

**Additional Information**

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

4

---

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

#### ALLSTATE AGENCIES

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

In the U.S., Allstate brand products are sold in approximately 10,200 locations through approximately 34,800 licensed producers including approximately 10,400 Allstate exclusive agencies employing approximately 24,400 licensed sales professionals, who are licensed to sell our products. We also offer these products through approximately 2,100 independent agencies in primarily rural areas in the U.S. In Canada, we offer Allstate brand products through approximately 850 producers working in five provinces across the country (Ontario, Quebec, Alberta, New Brunswick and Nova Scotia). We pursue opportunities for growing Allstate brand exclusive agency distribution based on market opportunities.

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

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

Membership includes approximately 20 Allstate exclusive agency owners selected on the basis of performance, thought leadership and credibility among their peer group.

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

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

The compensation structure for Allstate exclusive agencies rewards agencies for delivering high value to our customers and achieving certain business outcomes such as product profitability, net growth and household penetration. Allstate exclusive agent remuneration comprises a base commission (Property-Liability and Allstate Financial products), variable compensation and a bonus. Variable compensation has two components: agency success factors (local presence, Allstate Financial insurance policies sold and licensed staff), which must be achieved in order to qualify for the second component, which is customer satisfaction. In addition, a bonus that is a percentage of premiums can be earned by agents who achieve a targeted loss ratio and a defined amount of Allstate Financial sales. The bonus is earned by achieving a targeted percentage of multi-category households (customers with Allstate policies in at least two of the following product categories: vehicle, personal property, or life and retirement) and increases in Allstate Protection (Allstate brand) and Allstate Financial policies in force. Other elements of exclusive agency compensation and support include start-up agency bonuses, marketing support payments, technology and data allowances, regional promotions and recognition trips based on achievement. Allstate exclusive financial specialists receive commissions for proprietary and non-proprietary sales and earn a bonus based on the volume of business produced. There are no significant changes to the compensation framework planned for 2016.

Allstate independent agent remuneration comprises a base commission (Property-Liability products) and a bonus which can be earned by agents who achieve a target loss ratio. The bonus, which is a percentage of premiums, is earned by achieving a targeted percentage of multi-category households (customers with Allstate policies in at least two of the following product categories: vehicle, personal property or life and retirement) and increased Allstate Protection (Allstate brand) net written premium above a minimum threshold. Other elements of independent agency compensation and support include marketing support payments, national and regional promotions and recognition trips based on achievement. There are no significant changes to the compensation framework planned for 2016. Since Allstate brand customers prefer personal advice and assistance, all Allstate brand customers who purchase their policies directly through contact centers and the internet are provided an Allstate agency relationship at the time of purchase.

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

Allstate employs field sales leaders who are responsible for recruiting and retaining Allstate agents and helping them grow their business and profitability. The field sales leaders' compensation is aligned with agency success and includes a bonus based on the level of agent remuneration described above and agency geographic footprint.

#### OTHER BUSINESS SEGMENTS

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

Our Discontinued Lines and Coverages segment includes results from property-liability insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. Our exposure to asbestos, environmental and other discontinued lines claims is presented in this segment. Note 19 of the consolidated financial statements contains information for the last three years regarding revenues, income from operations, and identifiable assets attributable to our property-liability operations, which includes both our Allstate Protection and our Discontinued Lines and Coverages segments. Note 19 is incorporated in this Part I, Item 1 by reference.

#### RESERVE FOR PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE

The following information regarding reserves applies to all of our property-liability operations, encompassing both the Allstate Protection segment and the Discontinued Lines and Coverages segment.

##### Reconciliation of Claims Reserves

The following tables are summary reconciliations of the beginning and ending property-liability insurance claims and claims expense reserves, displayed individually for each of the last three years. The first table presents reserves on a gross (before reinsurance) basis. The end of year gross reserve balances are reflected in the Consolidated Statements of Financial Position. The second table presents reserves on a net (after reinsurance) basis. The total net property-liability insurance claims and claims expense amounts are reflected in the Consolidated Statements of Operations.

Gross (\$ in millions)	Year ended December 31,		
	2015	2014	2013
Gross reserve for property-liability claims and claims expense, beginning of year	\$22,923	\$21,857	\$21,288
Incurring claims and claims expense			
Provision attributable to the current year	21,484	19,896	18,380
Change in provision attributable to prior years <sup>(1)</sup>	152	925	1,248
Total claims and claims expense	21,636	20,821	19,628
Claim payments			
Claims and claims expense attributable to current year	13,827	13,034	11,738
Claims and claims expense attributable to prior years	6,863	6,721	7,321
Total payments	20,690	19,755	19,059
Gross reserve for property-liability claims and claims expense, end of year	\$23,869	\$22,923	\$21,857
as shown on the Loss Reserve Reestimates table			



Net	Year ended December 31,		
	2015	2014	2013
Net reserve for property-liability claims and claims expense, beginning of year	\$ 17,229	\$ 17,193	\$ 17,278
Incurred claims and claims expense			
Provision attributable to the current year	20,953	19,512	18,032
Change in provision attributable to prior years	81	(84	) (121
Total claims and claims expense	21,034	19,428	17,911
Claim payments			
Claims and claims expense attributable to current year	13,660	12,924	11,658
Claims and claims expense attributable to prior years	6,626	6,468	6,338
Total payments	20,286	19,392	17,996
Net reserve for property-liability claims and claims expense, end of year as shown on the Loss Reserve Reestimates table <sup>(2)</sup>	\$ 17,977	\$ 17,229	\$ 17,193

In 2015, the gross change in provision attributable to prior years, primarily relate to increases in Discontinued Lines and Coverages reserves. In 2014 and 2013, the gross change in provision attributable to prior years, <sup>(1)</sup> primarily relate to increases for Michigan and New Jersey unlimited personal injury protection and Discontinued Lines and Coverages reserves (see the Property-Liability Claims and Claims Expense Reserves section of the MD&A for additional discussion).

<sup>(2)</sup> Reserves for claims and claims expense are net of reinsurance of \$5.89 billion, \$5.69 billion and \$4.66 billion as of December 31, 2015, 2014 and 2013, respectively.

The year-end 2015 gross reserves of \$23.87 billion for property-liability insurance claims and claims expense, as determined under GAAP, were \$7.09 billion more than the net reserve balance of \$16.78 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 \$5.89 billion, primarily 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 \$1.06 billion. Remaining differences are due to variations in requirements between GAAP and statutory reporting.

As the tables above illustrate, Allstate’s net reserve for property-liability insurance claims and claims expense at the end of 2014 increased in 2015 by \$81 million, compared to reestimates of the gross reserves of an increase of \$152 million. Net reserve reestimates in 2014 and 2013 of \$84 million and \$121 million, respectively, were more favorable than the gross reserve reestimates which increased \$925 million and \$1.25 billion, respectively, primarily due to Michigan personal injury protection claim reserves ceded to the MCCA.

#### 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.

7

---



Edgar Filing: ALLSTATE CORP - Form 10-K

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

(\$ in millions)	Loss Reserve Reestimates								
	December 31, 2005 & prior	2006	2007	2008	2009	2010	2011	2012	2013
Gross reserves for unpaid claims and claims expense	\$22,117	\$18,866	\$18,865	\$19,456	\$19,167	\$19,468	\$20,375	\$21,288	\$21,857
Reinsurance recoverable	3,186	2,256	2,205	2,274	2,139	2,072	2,588	4,010	4,664
Reserve for unpaid claims and claims expense	18,931	16,610	16,660	17,182	17,028	17,396	17,787	17,278	17,193
Paid (cumulative) as of:									
One year later	7,952	6,684	6,884	6,995	6,571	6,302	6,435	6,338	6,468
Two years later	11,293	9,957	9,852	10,069	9,491	9,396	9,513	9,511	9,686
Three years later	13,431	11,837	11,761	11,915	11,402	11,287	11,467	11,477	
Four years later	14,608	12,990	12,902	13,071	12,566	12,497	12,650		
Five years later	15,325	13,723	13,628	13,801	13,323	13,239			
Six years later	15,839	14,239	14,154	14,305	13,823				
Seven years later	16,249	14,657	14,543	14,702					
Eight years later	16,607	14,985	14,887						
Nine years later	16,906	15,283							
Ten years later	17,186								
Reserve reestimated as of:									
End of year	18,931	16,610	16,660	17,182	17,028	17,396	17,787	17,278	17,193
One year later	17,960	16,438	16,830	17,070	16,869	17,061	17,122	17,157	17,109
Two years later	17,876	16,633	17,174	17,035	16,903	16,906	17,001	16,994	17,017
Three years later	18,162	17,135	17,185	17,217	16,909	16,869	16,937	16,853	
Four years later	18,805	17,238	17,393	17,260	16,892	16,854	16,825		
Five years later	19,014	17,447	17,477	17,306	16,965	16,818			
Six years later	19,215	17,542	17,560	17,344	16,953				
Seven years later	19,300	17,671	17,619	17,392					
Eight years later	19,474	17,727	17,685						
Nine years later	19,541	17,813							
Ten years later	19,631								
Initial reserve in excess of (less than) reestimated reserve:									
Amount of reestimate	(700 )	(1,203 )	(1,025 )	(210 )	75	578	962	425	176
Percent	(3.7 )%	(7.2 )%	(6.2 )%	(1.2 )%	0.4 %	3.3 %	5.4 %	2.5 %	1.0 %
Gross reestimated liability-latest	26,002	23,219	22,994	22,802	22,158	22,045	22,167	23,245	22,748
	6,371	5,406	5,309	5,410	5,205	5,227	5,342	6,392	5,731

Reestimated recoverable-latest											
Net reestimated liability-latest	19,631	17,813	17,685	17,392	16,953	16,818	16,825	16,853	17,017		
Gross cumulative reestimate (increase) decrease	\$(3,885 )	\$(4,353 )	\$(4,129 )	\$(3,346 )	\$(2,991 )	\$(2,577 )	\$(1,792 )	\$(1,957 )	\$(891 )		
(\$ in millions)		Amount of reestimates for each segment									
		December 31,									
		2005 & prior	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Discontinued Lines and Coverages reestimate		\$(628)	\$(496 )	\$(449 )	\$(431)	\$(407)	\$(379)	\$(358)	\$(307)	\$(165)	\$(53 )
Net Allstate Protection reestimate		(72 )	(707 )	(576 )	221	482	957	1,320	732	341	(28 )
Amount of reestimate (net)		\$(700)	\$(1,203)	\$(1,025)	\$(210)	\$75	\$578	\$962	\$425	\$176	\$(81 )

As shown in the above table, the subsequent cumulative increase in the net reserves established up to December 31, 2005, 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, 2015. 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 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, as shown and discussed more fully below.

(\$ in millions)	Effect of net reserve reestimates on calendar year operations										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
BY											
ACCIDENT											
YEAR											
2005 & prior	\$(971 )	\$(83 )	\$286	\$643	\$209	\$201	\$85	\$174	\$67	\$90	\$701
2006		(89 )	(91 )	(141 )	(106 )	8	10	(45 )	(11 )	(4 )	(469 )
2007			(25 )	(158 )	(92 )	(1 )	(11 )	(46 )	3	(20 )	(350 )
2008				(456 )	(46 )	(26 )	(41 )	(37 )	(21 )	(18 )	(645 )
2009					(124 )	(148 )	(37 )	(63 )	35	(60 )	(397 )
2010						(369 )	(161 )	(20 )	(88 )	(24 )	(662 )
2011							(510 )	(84 )	(49 )	(76 )	(719 )
2012									(99 )	(29 )	(128 )
2013									79	49	128
2014										173	173
TOTAL	\$(971 )	\$(172 )	\$170	\$(112 )	\$(159 )	\$(335 )	\$(665 )	\$(121 )	\$(84 )	\$81	\$(2,368)

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.

In 2006, favorable prior year reserve reestimates were primarily due to Allstate Protection auto injury severity and late reported loss development that was less than what was anticipated in previous reserve estimates and also by catastrophe losses that were less than anticipated in previous estimates. Decreased reserve reestimates for Allstate Protection more than offset increased reestimates of losses primarily related to asbestos liabilities reported by the Discontinued Lines and Coverages segment.

For additional information regarding reserves, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Property-Liability Claims and Claims Expense Reserves.”

#### REGULATION

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

In recent years, the state insurance regulatory framework has come under increased federal scrutiny. As part of an effort to strengthen the regulation of the financial services market, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) was enacted in 2010. Some regulations required pursuant to this law must still be finalized and, until such time, we are unable to determine the impact on Allstate’s operations. Dodd-Frank also created the Federal Insurance Office (“FIO”) within the U.S. Department of the Treasury (“Treasury”). The FIO monitors the insurance industry, provides advice to the Financial Stability Oversight Council (“FSOC”), represents the U.S. on international insurance matters, and studies the current regulatory system. FIO submitted reports to Congress in 2013 and 2014 addressing how to improve and modernize the system of insurance regulation. In addition, state legislators and insurance regulators continue to examine the appropriate nature and scope of state insurance regulation. We cannot predict whether any specific state or federal measures will be adopted to change the nature or scope of the regulation of insurance or what effect any such measures would have on Allstate. We are working for changes in the regulatory environment to make insurance more available and affordable for consumers, encourage market innovation, improve driving safety, strengthen cybersecurity, and promote better catastrophe preparedness and loss mitigation. Additional regulations or new requirements may emerge from activities of various regulatory entities, including the Federal Reserve Board, FIO, FSOC, the National Association of Insurance Commissioners (“NAIC”), and the International Association of Insurance Supervisors (“IAIS”), that are evaluating solvency and capital standards for insurance company groups. In addition, the NAIC has adopted amendments to its model holding company law, which have been adopted by some jurisdictions. The outcome of these actions is uncertain; however, these actions may result in an increase in the level of capital and liquidity required by insurance holding companies. Additional discussion of recent developments enabled by Dodd-Frank appear later in this section.

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

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

**Insurance Holding Company Regulation – Change of Control.** The Allstate Corporation and Allstate Insurance Company are insurance holding companies subject to regulation in the jurisdictions in which their insurance subsidiaries do business. In the U.S., these subsidiaries are organized under the insurance codes of Florida, Illinois, Massachusetts, New York, Texas, and Wisconsin, and some of these subsidiaries are considered commercially domiciled in California and Florida. Generally, the insurance codes in these states provide that the acquisition or

change of “control” of a domestic or commercially domiciled insurer or of any person that controls such an insurer cannot be consummated without the prior approval of the relevant insurance regulator. In general, a presumption of “control” arises from the ownership, control, possession with the power to vote, or possession of proxies with respect to, ten percent or more of the voting securities of an insurer or of a person that controls an insurer. In addition, certain state insurance laws require pre-acquisition notification to state agencies of a change in control with respect to a non-domestic insurance company licensed to do business in that state. While such pre-acquisition notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease and desist order with respect to the non-domestic insurer if certain conditions exist, such as undue market concentration. Thus, any transaction involving the acquisition of ten percent or more of The Allstate Corporation’s common stock would generally require prior approval by the state insurance departments in California, Florida, Illinois, Massachusetts, New York, Texas, and Wisconsin. Moreover,

notification would be required in those other states that have adopted pre-acquisition notification provisions and where the insurance subsidiaries are admitted to transact business. Such approval requirements may deter, delay, or prevent certain transactions affecting the ownership of The Allstate Corporation's common stock.

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

The speed with which an insurer can change rates in response to competition or in response to increasing costs depends, in part, on whether the rating laws are (i) prior approval, (ii) file-and-use, or (iii) use-and-file laws. In states having prior approval laws, the regulator must approve a rate before the insurer may use it. In states having file-and-use laws, the insurer does not have to wait for the regulator's approval to use a rate, but the rate must be filed with the regulatory authority prior to being used. A use-and-file law requires an insurer to file rates within a certain period of time after the insurer begins using them. Eighteen states, including California and New York, have prior approval laws. Under all three types of rating laws, the regulator has the authority to disapprove a rate filing.

An insurer's ability to adjust its rates in response to competition or to changing costs is often dependent on an insurer's ability to demonstrate to the regulator that its rates or proposed rating plan meets the requirements of the rating laws. In those states that significantly restrict an insurer's discretion in selecting the business that it wants to underwrite, an insurer can manage its risk of loss by charging a rate that reflects the cost and expense of providing the insurance. In those states that significantly restrict an insurer's ability to charge a rate that reflects the cost and expense of providing the insurance, the insurer can manage its risk of loss by being more selective in the type of business it underwrites. When a state significantly restricts both underwriting and pricing, it becomes more difficult for an insurer to maintain its profitability.

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

**Involuntary Markets.** As a condition of maintaining our licenses to write personal property and casualty insurance in various states, we are required to participate in assigned risk plans, reinsurance facilities, and joint underwriting associations that provide various types of insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Underwriting results related to these arrangements, which tend to be adverse, have been immaterial to our results of operations.

**Michigan Catastrophic Claims Association.** The 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. It operates similar to a reinsurance program and is funded by participating member companies through a per vehicle annual assessment that is currently \$150. This assessment is collected when we receive payment from our customers and we remit the assessment to the MCCA. The participating company retention level is \$545 thousand per claim for the fiscal two-years ending June 30, 2017 compared to \$530 thousand per claim for the fiscal two-years ending June 30, 2015. The MCCA provides unlimited lifetime medical benefits for qualifying injuries from automobile and motorcycle accidents. Many of these injuries are catastrophic in nature, resulting in serious permanent disabilities that require attendant and residential care for periods that may span decades. The MCCA may not be funded on an actuarial basis and can accumulate unfunded claims liabilities. As required for a member company, we report covered paid and unpaid claims to the MCCA, when estimates of loss for a reported claim are expected to exceed the retention level. The MCCA reimburses members as qualifying claims are paid and billed by members to the MCCA. Because of the nature of the coverage, losses (the most significant of which are for residential and attendant care) may be paid over the lifetime of a claimant, and accordingly, significant levels of incurred claim reserves are recorded by member companies as well as offsetting reinsurance recoverables. A significant portion of the incurred claim reserves and the recoverable can be attributed to a small number of catastrophic claims. Coverage disputes can result in additional losses, which may be recoverable from the MCCA. The

MCCA currently has unfunded claims liabilities with an obligation to indemnify its members. Legislative proposals to change the MCCA operation in the future are put forth periodically, however, no changes have been enacted. We do not anticipate any material adverse financial impact from this association on Allstate.

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



UCJF also provides private passenger stranger pedestrian personal injury protection benefits when no other coverage is available. A significant portion of the incurred claim reserves and the recoverable can be attributed to a small number of catastrophic claims. PLIGA annually assesses all admitted property and casualty insurers writing motor vehicle liability insurance in New Jersey for direct PLIGA expenses and UCJF reimbursements and expenses. We do not anticipate any material adverse financial impact from PLIGA or the UCJF on Allstate.

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

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

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

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

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

**Broker-Dealers, Investment Advisors, and Investment Companies.** The Allstate entities that operate as broker-dealers, registered investment advisors, and investment companies are subject to regulation and supervision by the SEC, FINRA and/or, in some cases, state securities administrators. In April 2015, the U.S. Department of Labor issued a proposed regulation that would, if finalized in its current form, expand the range of activities that would be considered to be “investment advice” and establish a new framework for determining whether a person is a fiduciary when mutual funds or variable annuities are sold in connection with an Individual Retirement Account or an employee benefit plan covered under the Employee Retirement Income Security Act of 1974, as amended. If enacted in its current form, the proposed regulation could have an adverse impact on the products that Allstate’s broker-dealer, Allstate Financial Services, LLC (“AFS”), will be able to provide and will add costs to AFS business operations to comply with these new requirements. Because we cannot predict the exact nature and extent of changes that may be made to the proposed regulation when finalized, the potential effect on AFS’s business is undeterminable at this time.

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

any state insurance measure governing insurer capital or solvency, except where a state insurance measure results in less favorable treatment of a non-U.S. insurer than a U.S. insurer.

In November 2015, pursuant to Dodd-Frank, Treasury and USTR notified Congress that they were formally initiating negotiations on a Covered Agreement with the European Union (“EU”) addressing: permanent equivalence treatment of the U.S. regulatory system by the EU; confidential sharing of information across jurisdictions; and uniform treatment of EU-based reinsurers operating in the U.S., including with respect to reinsurance collateral. In the absence of an equivalence determination by the EU, U.S. based insurers with subsidiaries in the EU may be required to comply with European group capital and group supervision requirements for their U.S. operations. Once effective, the Covered Agreement would pre-empt state laws relating to reinsurance collateral if they “result in less favorable treatment of a non-United States insurer domiciled in a foreign jurisdiction that is subject to a covered agreement than a United States insurer domiciled, licensed, or otherwise admitted in that State.”

The NAIC amended its Credit for Reinsurance Model Law and Regulation on November 6, 2011 (“Revised Reinsurance Model Law”), and statutory and regulatory enactments implementing these amendments have passed in 32 states. These amendments establish a new category of “certified reinsurers,” allowing domestic insurers to receive statutory capital credit for reinsurance ceded to certified reinsurers absent the reinsurers fully collateralizing their assumed reinsurance obligations. Under the NAIC’s previous regulatory scheme, which was utilized by all 50 states, and currently remains in effect in Illinois, domestic ceding companies are not allowed to take statutory capital credit for reserves ceded to unauthorized reinsurers unless the insurer withholds funds due to the reinsurer in an amount equal to the reserves, obtains a letter of credit on behalf of the unauthorized reinsurer equal to the amount of the reserves, or is the beneficiary of a credit for reinsurance trust with assets equal to the amount of the reserves.

The state insurance regulators have general authority over the business of insurance, including the determination of statutory capital credit allowed to domestic insurers utilizing reinsurance. In their November 2015 letters to Congress, Treasury and USTR indicated that they “support the integrated system of state and federal insurance regulation, including the primary role of state insurance regulators as supervisors of the business of insurance. Treasury and USTR will not enter into a Covered Agreement with the EU unless the terms of that agreement are beneficial to the United States. State insurance regulators will have a meaningful role during the Covered Agreement negotiating process.”

If executed as described by the FIO and USTR, the Covered Agreement could possibly secure permanent equivalence treatment of the U.S. regulatory system by the EU and eliminate reinsurance collateral requirements for EU-based foreign reinsurers in all States.

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

**Asbestos.** Congress has considered legislation to address asbestos claims and litigation in the past and, recently, the House of Representatives passed the Furthering Asbestos Claims Transparency Act. The Act is designed to enable asbestos trust funds to pay only those who are entitled by law to compensation from the funds. Favorable action in the Senate and a presidential approval are uncertain. We cannot predict the impact on our business of possible future legislative measures regarding asbestos.

**Environmental.** Environmental pollution and clean-up of polluted waste sites is the subject of both federal and state regulation. The Comprehensive Environmental Response Compensation and Liability Act of 1980 (“Superfund”) and comparable state statutes (“mini-Superfund”) govern the clean-up and restoration of waste sites by Potentially Responsible Parties (“PRPs”). Superfund and the mini-Superfunds (Environmental Clean-up Laws or “ECLs”) establish a mechanism to assign liability to PRPs or to fund the clean-up of waste sites if PRPs fail to do so. The extent of liability to be allocated to a PRP is dependent on a variety of factors. By some estimates, there are thousands of potential waste sites subject to clean-up, but the exact number is unknown. The extent of clean-up necessary and the process of assigning liability remain in dispute. The insurance industry is involved in extensive litigation regarding coverage issues arising out of the clean-up of waste sites by insured PRPs and the insured parties’ alleged liability to

third parties responsible for the clean-up. The insurance industry, including Allstate, has disputed and is disputing many such claims. Key coverage issues include whether Superfund response, investigation, and clean-up costs are considered damages under the policies; trigger of coverage; the applicability of several types of pollution exclusions; proper notice of claims; whether administrative liability triggers the duty to defend; appropriate allocation of liability among triggered insurers; and whether the liability in question falls within the definition of an “occurrence.” Identical coverage issues exist for clean-up and waste sites not covered under Superfund. To date, courts have been inconsistent in their rulings on these issues. Allstate’s exposure to liability with regard to its insureds that have been, or may be, named as PRPs is uncertain. While comprehensive Superfund reform proposals have been introduced in Congress, only modest reform measures have been enacted.

## INTERNET WEBSITE

Our Internet website address is [allstate.com](http://allstate.com). The Allstate Corporation's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports that we file or furnish pursuant to Section 13(a) of the Securities Exchange Act of 1934 are available on the Investor Relations section of our website ([www.allstateinvestors.com](http://www.allstateinvestors.com)), free of charge, as soon as reasonably practicable after they are electronically filed or furnished to the SEC. In addition, our corporate governance guidelines, our code of ethics, and the charters of our Audit Committee, Compensation and Succession Committee, Executive Committee, Nominating and Governance Committee, and Risk and Return Committee are available on the Investor Relations section of our website and in print to any stockholder who requests copies by contacting Investor Relations, The Allstate Corporation, 2775 Sanders Road, Northbrook, Illinois 60062-6127, 1-847-402-2800. The information found on our website is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document filed with the SEC.

## OTHER INFORMATION ABOUT ALLSTATE

As of December 31, 2015, Allstate had approximately 41,100 full-time employees and 500 part-time employees. Allstate continues to explore and invest in innovative solutions for the consumer and to expand its use of global resources, including business process and information technology operations in India and Northern Ireland. Information regarding revenues generated outside of the United States is incorporated in this Part I, Item 1 by reference to Note 19 of the consolidated financial statements.

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

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

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

## Executive Officers of the Registrant

The following table sets forth the names of our executive officers, their ages as of February 1, 2016, their positions, and the years of their first election as officers. "AIC" refers to Allstate Insurance Company.

Name	Age	Position/Offices	Year First Elected Officer
Thomas J. Wilson	58	Chairman of the Board and Chief Executive Officer of The Allstate Corporation and of AIC.	1995
Don Civgin	54	President, Emerging Businesses of AIC.	2008
Judith P. Greffin	55	Executive Vice President and Chief Investment Officer of AIC.	2002
Sanjay Gupta	47	Executive Vice President, Marketing, Innovation and Corporate Relations of AIC.	2012
Suren Gupta	54	Executive Vice President, Enterprise Technology and Strategic Ventures of AIC.	2011
Harriet K. Harty	49	Executive Vice President, Human Resources of AIC.	2012
Susan L. Lees	58	Executive Vice President, General Counsel, and Secretary of The Allstate Corporation and of AIC (Chief Legal Officer).	2008
Samuel H. Pilch	69	Senior Group Vice President and Controller of The Allstate Corporation and of AIC.	1996
John M. Rhodes	44	Executive Vice President and Chief Risk Officer of AIC.	2015
Steven E. Shebik	59	Executive Vice President and Chief Financial Officer of The Allstate Corporation and of AIC.	1999
	59	President of The Allstate Corporation and of AIC.	2009

Matthew E.

Winter

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

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

14

---

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

Prior to joining Allstate in 2011, Mr. Suren Gupta served as Executive Vice President of Wells Fargo from 2003 to 2011.

Prior to joining Allstate in 2015, Mr. Rhodes served as Chief Risk Officer of Lincoln Financial Group from 2012 to 2015 and as Head of Equity Risk Management from 2009 to 2012.

#### Forward-Looking Statements

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

#### Item 1A. Risk Factors

In addition to the normal risks of business, we are subject to significant risks and uncertainties, including those listed below, which apply to us as an insurer, investor and a provider of other products and financial services. These 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.

Impacts of catastrophes and 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 physical 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 2016. 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.

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

We believe that our sophisticated pricing and underwriting methods has allowed us to offer competitive pricing and 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.

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 has experienced 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.

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. 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 and contractual terms. 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. 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 persistency of policies to ensure recovery of acquisition expenses, the adequacy of investment spreads, the management of market and credit risks associated with investments, and the management of operating costs and expenses within anticipated pricing allowances. Legislation and regulation of the insurance marketplace and products could also affect our profitability and financial condition.

Changes in reserve estimates may adversely affect our operating results

The reserve for life-contingent contract benefits payable under insurance policies, including traditional life insurance, life-contingent immediate annuities and voluntary accident and health insurance products, is computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, persistency and expenses. 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.

Changes in market interest rates 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 yields and interest crediting rates. When market interest rates decrease or remain at relatively low levels, proceeds from investments that have matured or have been prepaid or sold may be reinvested at

lower yields, reducing investment spread. Lowering interest crediting rates on some products in such an environment can partially offset decreases in investment yield. However, these changes could be limited by regulatory minimum rates or contractual minimum rate guarantees on many contracts and may not match the timing or magnitude of changes in investment yields. Increases in market interest rates can have negative effects 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.

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

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

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

We have been reducing our concentration in spread-based business 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. We continue to assess additional utilization of outsourcing arrangements and if we are unsuccessful, our cost structure may be less competitive.

Changes in tax laws may decrease sales and profitability of products and adversely affect our financial condition Under current federal and state income tax law, certain products we 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 life insurance statutory reserving requirements, potentially resulting in a need to increase prices, reduce sales of certain life products, and/or accept a return on equity below original levels assumed in pricing

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. As we continue to underwrite certain life business, we expect to have additional financing needs to mitigate the impact of these reserve requirements. If we do not obtain additional financing as a result of market conditions or otherwise, this could require us to increase prices, reduce our sales of certain life products, and/or result in 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. 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**

We are subject to market risk from changes in interest rates, equity prices, currency exchange rates 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

18

---

expectations and/or risk tolerance, insolvency or financial distress of key market makers or participants, or changes in market perceptions of credit worthiness. We are also subject to market risk related to investments in real estate, loans and securities collateralized by real estate. Some of our investment strategies target individual investments with unique risks that are not highly correlated with broad market risks. Although we expect these investments to increase total portfolio returns over time, their performance may vary from and under-perform relative to the market in some periods.

We are subject to risks associated with potential declines in credit quality related to specific issuers or specific industries and a general weakening in the economy, which are typically reflected through credit spreads. Credit spread is the additional yield on fixed income securities and loans above the risk-free rate (typically referenced as the yield on U.S. Treasury securities) that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks. Credit spreads vary (i.e. increase or decrease) in response to the market's perception of risk and liquidity in a specific issuer or specific sector and are influenced by the credit ratings, and the reliability of those ratings, published by external rating agencies. Although we have the ability to use derivative financial instruments to manage these risks, the effectiveness of such instruments varies with liquidity and other conditions that may impact derivative and bond markets. Adverse economic conditions or other factors could cause declines in the quality and valuation of our investment portfolio that 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 our investment income as we invest cash in new investments that may earn less than the portfolio's average yield. In a declining interest rate environment, borrowers may prepay or redeem securities more quickly than expected as they seek to refinance at lower rates. A decline could also lead us to purchase longer-term or riskier assets in order to obtain adequate investment yields resulting in a duration gap when compared to the duration of liabilities. Alternatively, longer-term assets may be sold and reinvested in shorter-term assets in anticipation of rising interest rates. An increase in market interest rates or credit spreads could have an adverse effect on the value of our investment portfolio by decreasing the fair values of the fixed income securities that comprise a substantial majority of our investment portfolio. Declining equity markets could also cause the investments in our pension plans to decrease and decreasing interest rates could cause the funding target and the projected benefit obligation of our pension plans or the accumulated benefit obligation of our other postretirement benefit plans to increase, either or both resulting in a decrease in the funded status of the pension plans and a reduction in the accumulated other comprehensive income component of shareholders' equity, increases in pension and other postretirement benefit expense and increases in required contributions to the pension plans.

The amount and timing of net investment income from our performance-based long-term investments, including private equity, real estate, infrastructure, timber and agriculture-related assets, tends to be uneven as a result of the performance of the underlying investments. The timing of 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 from these investments can vary substantially from quarter to quarter. Significant volatility could adversely impact net investment income and returns on these investments. In addition, the valuation of such investments may be impacted by market downturns or volatility.

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

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

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

In determining fair values we principally use the market approach which utilizes market transaction data for the same or similar instruments. The degree of judgment involved in determining fair values is inversely related to the availability of market observable information. The fair value of assets may differ from the actual amount received upon sale of an asset in an orderly transaction between market participants at the measurement date. Moreover, the use of different valuation assumptions may have a material effect on the assets' fair values. The difference between amortized cost or cost and fair value, net of deferred income taxes 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.

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.

We are also 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 successfully use these technologies. Other potential technological changes, such as driverless cars 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.

Because of the competitive nature of the insurance industry, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressures will not have a material effect on our business, operating results or financial condition. This includes competition for producers such as exclusive 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, or deploying human resource talent consistently with our business goals.

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 significant negative macroeconomic trends, including relatively high and sustained unemployment, 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, not all global financial markets are functioning normally, and the rate of recovery from the U.S. recession has been below historic averages. 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, 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 addition, the U.S. Department of Labor recently proposed fiduciary standards for financial advisors.

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

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

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. We also have exposure associated with the Michigan Catastrophic Claim Association (“MCCA”), a mandatory insurance coverage and reinsurance 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, 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 reinsurance recoverable from the MCCA and PLIGA was \$4.66 billion and \$500 million, respectively, as of December 31, 2015. Our inability to collect a material recovery from a reinsurer could have a material effect on our operating results and financial condition.

A downgrade in our financial strength ratings may have an adverse effect on our competitive position, the marketability of our product offerings, our liquidity, 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 one of our insurance company’s statutory capital; a change in a rating agency’s determination of the amount of risk-adjusted capital required to maintain a particular rating; an increase in the perceived risk of our investment portfolio; a reduced confidence in management or our business strategy; as well as a number of other considerations that may or may not be under our control. 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, Standard & Poor’s and Moody’s are subject to continuous review, and the retention of current ratings cannot be assured. A downgrade in any of these ratings could have a material effect on our sales, our competitiveness, the marketability of our product offerings, our liquidity, 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 upon 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. Like other global companies, we have experienced threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. Events such as these could jeopardize the confidential, proprietary and other information (including personal information of

our customers, 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. However, there can be no assurance that such events 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. The Company also has 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 incurrence 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 incurrence 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.

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

The realization of deferred tax assets is subject to uncertainty

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

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, the affordability and availability of homeowners insurance, the results for our Allstate Protection segment and the value of our investment portfolio. For example, some meteorological experts have predicted El Niño patterns to be experienced in early 2016 resulting in the U.S. experiencing a pattern of tropical storms in the Southern and Western U.S. and winter weather beginning in the middle of the year in some locations.

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our home office complex is owned and located in Northbrook, Illinois. As of December 31, 2015, the home office complex consists of several buildings totaling 1.9 million square feet of office space on a 186-acre site.

We also operate from approximately 1,260 administrative, data processing, claims handling and other support facilities in North America. In addition to our home office facilities, 1.3 million square feet are owned and 6.7 million square feet are leased. Outside North America, we lease three properties in Northern Ireland comprising 166,460 square feet. We also have two leased facilities in India for 165,070 square feet and one lease in London for 1,390 square feet. Generally, only major Allstate facilities are owned. In a majority of cases, new lease terms and renewals are for five years or less.

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

## Part II

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

As of January 29, 2016, there were 84,153 holders of record of The Allstate Corporation's common stock. The principal market for the common stock is the New York Stock Exchange but it is also listed on the Chicago Stock Exchange. Set forth below are the high and low New York Stock Exchange Composite listing prices of, and cash dividends declared for, the common stock during 2015 and 2014.

	High	Low	Close	Dividends Declared
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
2014				
First quarter	56.65	49.18	56.58	0.28
Second quarter	59.68	54.81	58.72	0.28
Third quarter	62.59	56.63	61.37	0.28
Fourth quarter	71.53	59.28	70.25	0.28

The payment of dividends by Allstate Insurance Company ("AIC") to The Allstate Corporation is limited by Illinois insurance law to formula amounts based on statutory net income and statutory surplus, as well as the timing and amount of dividends paid in the preceding twelve months. In the twelve-month period ending December 31, 2015, AIC paid dividends of \$2.31 billion. Based on the greater of 2015 statutory net income or 10% of statutory surplus, the maximum amount of dividends that AIC will be able to pay, without prior Illinois Department of Insurance approval, at a given point in time in 2016 is \$1.71 billion, less dividends paid during the preceding twelve months measured at that point in time. Notification and approval of intercompany lending activities is also required by the Illinois Department of Insurance for those transactions that exceed formula amounts based on statutory admitted assets and statutory surplus.

## Issuer Purchases of Equity Securities

Period	Total number of shares (or units) purchased <sup>(1)</sup>	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs <sup>(2)</sup>	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs <sup>(3)</sup>
October 1, 2015 - October 31, 2015				
Open Market Purchases	4,240,881	\$60.8384	4,237,952	
November 1, 2015 - November 30, 2015				
Open Market Purchases	2,411,819	\$62.9420	2,410,998	
December 1, 2015 - December 31, 2015				
Open Market Purchases	2,781,745	\$62.7874	2,605,705	
Total	9,434,445	\$61.9508	9,254,655	\$532 million

<sup>(1)</sup> In accordance with the terms of its equity compensation plans, Allstate acquired the following shares in connection with the vesting of restricted stock units and performance stock awards and the exercise of stock options held by employees and/or directors. The shares were acquired in satisfaction of withholding taxes due upon exercise or

vesting and in payment of the exercise price of the options.

October: 2,929

November: 821

December: 176,040

- (2) From time to time, repurchases under our programs are executed under the terms of a pre-set trading plan meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934.
- (3) On February 4, 2015, we announced the approval of a common share repurchase program for \$3 billion, to be completed by July 31, 2016.

## Item 6. Selected Financial Data

## 5-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(\$ in millions, except per share data and ratios)	2015	2014	2013	2012	2011
<b>Consolidated Operating Results</b>					
Insurance premiums and contract charges	\$32,467	\$31,086	\$29,970	\$28,978	\$28,180
Net investment income	3,156	3,459	3,943	4,010	3,971
Realized capital gains and losses	30	694	594	327	503
Total revenues	35,653	35,239	34,507	33,315	32,654
Net income applicable to common shareholders	2,055	2,746	2,263	2,306	787
Net income applicable to common shareholders per common share:					
Net income applicable to common shareholders per common share - Basic	5.12	6.37	4.87	4.71	1.51
Net income applicable to common shareholders per common share - Diluted	5.05	6.27	4.81	4.68	1.50
Cash dividends declared per common share	1.20	1.12	1.00	0.88	0.84
<b>Consolidated Financial Position</b>					
Investments <sup>(1)</sup>	\$77,758	\$81,113	\$81,155	\$97,278	\$95,618
Total assets <sup>(2)</sup>	104,656	108,479	123,460	126,893	125,513
Reserves for claims and claims expense, life-contingent contract benefits and contractholder funds <sup>(1)</sup>	57,411	57,832	58,547	75,502	77,113
Long-term debt <sup>(2)</sup>	5,124	5,140	6,141	6,003	5,858
Shareholders' equity	20,025	22,304	21,480	20,580	18,298
Shareholders' equity per diluted common share	47.34	48.24	45.31	42.39	36.18
Equity	20,025	22,304	21,480	20,580	18,326
<b>Property-Liability Operations</b>					
Premiums earned	\$30,309	\$28,929	\$27,618	\$26,737	\$25,942
Net investment income	1,237	1,301	1,375	1,326	1,201
Net income applicable to common shareholders	1,690	2,427	2,754	1,968	403
<b>Operating ratios <sup>(3)</sup></b>					
Claims and claims expense ("loss") ratio	69.4	67.2	64.9	69.1	77.7
Expense ratio	25.5	26.7	27.1	26.4	25.7
Combined ratio	94.9	93.9	92.0	95.5	103.4
<b>Allstate Financial Operations</b>					
Premiums and contract charges	\$2,158	\$2,157	\$2,352	\$2,241	\$2,238
Net investment income	1,884	2,131	2,538	2,647	2,716
Net income applicable to common shareholders	663	631	95	541	590
Investments	36,792	38,809	39,105	56,999	57,373

As of December 31, 2013, \$11.98 billion of investments and \$12.84 billion of reserves for life-contingent contract <sup>(1)</sup> benefits and contractholder funds were classified as held for sale relating to the sale of Lincoln Benefit Life Company.

Due to the adoption of new accounting guidance related to the presentation of debt issuance costs, long-term debt <sup>(2)</sup> is reported net of debt issuance costs. Debt issuance costs were previously reported in other assets. All prior periods have been adjusted.

<sup>(3)</sup> We use operating ratios to measure the profitability of our Property-Liability results. We believe that they enhance an investor's understanding of our profitability. They are calculated as follows: Claims and claims expense ("loss") ratio is the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe

losses. Expense ratio is the ratio of amortization of deferred policy acquisition costs, operating costs and expenses, and restructuring and related charges to premiums earned. Combined ratio is the ratio of claims and claims expense, amortization of deferred policy acquisition costs, operating costs and expenses, and restructuring and related charges to premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income as a percentage of premiums earned, or underwriting margin.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	
	Page
<u>Overview</u>	<u>29</u>
<u>2015 Highlights</u>	<u>30</u>
<u>Consolidated Net Income</u>	<u>30</u>
<u>Impact of Low Interest Rate Environment</u>	<u>31</u>
<u>Property-Liability 2015 Highlights</u>	<u>33</u>
<u>Property-Liability Operations</u>	<u>33</u>
<u>Allstate Protection Segment</u>	<u>35</u>
<u>Discontinued Lines and Coverages Segment</u>	<u>50</u>
<u>Property-Liability Investment Results</u>	<u>50</u>
<u>Property-Liability Claims and Claims Expense Reserves</u>	<u>51</u>
<u>Allstate Financial 2015 Highlights</u>	<u>60</u>
<u>Allstate Financial Segment</u>	<u>61</u>
<u>Investments 2015 Highlights</u>	<u>71</u>
<u>Investments</u>	<u>71</u>
<u>Market Risk</u>	<u>83</u>
<u>Pension and Other Postretirement Plans</u>	<u>86</u>
<u>Goodwill</u>	<u>88</u>
<u>Capital Resources and Liquidity 2015 Highlights</u>	<u>89</u>
<u>Capital Resources and Liquidity</u>	<u>89</u>
<u>Enterprise Risk and Return Management</u>	<u>95</u>
Application of Critical Accounting Estimates	<u>96</u>
<u>Regulation and Legal Proceedings</u>	<u>107</u>
<u>Pending Accounting Standards</u>	<u>107</u>

## OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as “we,” “our,” “us,” the “Company” or “Allstate”). It should be read in conjunction with the 5-year summary of selected financial data, consolidated financial statements and related notes found under Part II, Item 6, and Item 8, contained herein. Further analysis of our insurance segments is provided in the Property-Liability Operations (which includes the Allstate Protection and the Discontinued Lines and Coverages segments) and in the Allstate Financial Segment sections of Management’s Discussion and Analysis (“MD&A”). The segments are consistent with the way in which we use financial information to evaluate business performance and to determine the allocation of resources. Resources are allocated by the chief operating decision maker and performance is assessed for Allstate Protection, Discontinued Lines and Coverages and Allstate Financial. Allstate Protection and Allstate Financial performance and resources are managed by committees of senior officers of the respective segments.

Allstate is focused on the following priorities in 2016:

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

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 \$2.06 billion in 2015 compared to \$2.75 billion in 2014 and \$2.26 billion in 2013. 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. The increase in 2014 compared to 2013 was primarily due to lower loss on disposition related to the Lincoln Benefit Life Company (“LBL”) sale recorded in Allstate Financial and loss on extinguishment of debt charges reported in Corporate and Other, partially offset by lower net income applicable to common shareholders from Property-Liability. Net income applicable to common shareholders per diluted common share was \$5.05, \$6.27 and \$4.81 in 2015, 2014 and 2013, respectively.

Allstate Protection had underwriting income of \$1.61 billion in 2015 compared to \$1.89 billion in 2014 and \$2.36 billion in 2013. 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. The decrease in 2014 compared to 2013 was primarily due to decreases in underwriting income in homeowners, auto and other personal lines resulting from increased 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 94.7, 93.5 and 91.5 in 2015, 2014 and 2013, respectively. Underwriting income, a measure not based on accounting principles generally accepted in the United States of America (“GAAP”), is defined in the Property-Liability Operations section of the MD&A.



Allstate Financial net income applicable to common shareholders was \$663 million in 2015 compared to \$631 million in 2014 and \$95 million in 2013. The increase in 2015 primarily relates to higher net realized capital gains and lower loss on disposition related to the LBL sale, partially offset by lower net investment income and the reduction in business due to the sale of LBL. The increase in 2014 primarily relates to lower loss on disposition related to the LBL sale, partially offset by the associated reduction in business.

## 2015 HIGHLIGHTS

Consolidated net income applicable to common shareholders was \$2.06 billion in 2015 compared to \$2.75 billion in 2014. Net income applicable to common shareholders per diluted common share was \$5.05 in 2015 compared to \$6.27 in 2014.

Property-Liability net income applicable to common shareholders was \$1.69 billion in 2015 compared to \$2.43 billion in 2014.

The Property-Liability combined ratio was 94.9 in 2015 compared to 93.9 in 2014.

Allstate Financial net income applicable to common shareholders was \$663 million in 2015 compared to \$631 million in 2014.

Total revenues were \$35.65 billion in 2015 compared to \$35.24 billion in 2014.

Property-Liability premiums earned totaled \$30.31 billion in 2015, an increase of 4.8% from \$28.93 billion in 2014.

Investments totaled \$77.76 billion as of December 31, 2015, decreasing from \$81.11 billion as of December 31, 2014.

Net investment income was \$3.16 billion in 2015, a decrease of 8.8% from \$3.46 billion in 2014.

Net realized capital gains were \$30 million in 2015 compared to \$694 million in 2014.

Book value per diluted common share (ratio of common shareholders' equity to total common shares outstanding and dilutive potential common shares outstanding) was \$47.34 as of December 31, 2015, a decrease of 1.9% from \$48.24 as of December 31, 2014.

For the twelve months ended December 31, 2015, return on the average of beginning and ending period common shareholders' equity of 10.6% decreased by 2.7 points from 13.3% for the twelve months ended December 31, 2014.

As of December 31, 2015, shareholders' equity was \$20.03 billion. This total included \$2.62 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)	2015	2014	2013
Revenues			
Property-liability insurance premiums	\$30,309	\$28,929	\$27,618
Life and annuity premiums and contract charges	2,158	2,157	2,352
Net investment income	3,156	3,459	3,943
Realized capital gains and losses:			
Total other-than-temporary impairment ("OTTI") losses	(452)	(242)	(207)
OTTI losses reclassified to (from) other comprehensive income	36	(3)	(8)
Net OTTI losses recognized in earnings	(416)	(245)	(215)
Sales and other realized capital gains and losses	446	939	809
Total realized capital gains and losses	30	694	594
Total revenues	35,653	35,239	34,507
Costs and expenses			
Property-liability insurance claims and claims expense	(21,034)	(19,428)	(17,911)
Life and annuity contract benefits	(1,803)	(1,765)	(1,917)
Interest credited to contractholder funds	(761)	(919)	(1,278)
Amortization of deferred policy acquisition costs	(4,364)	(4,135)	(4,002)
Operating costs and expenses	(4,081)	(4,341)	(4,387)
Restructuring and related charges	(39)	(18)	(70)
Loss on extinguishment of debt	—	(1)	(491)
Interest expense	(292)	(322)	(367)
Total costs and expenses	(32,374)	(30,929)	(30,423)
Gain (loss) on disposition of operations	3	(74)	(688)
Income tax expense	(1,111)	(1,386)	(1,116)
Net income	2,171	2,850	2,280

Edgar Filing: ALLSTATE CORP - Form 10-K

Preferred stock dividends	(116	) (104	) (17	)
Net income applicable to common shareholders	\$2,055	\$2,746	\$2,263	
Property-Liability	\$1,690	\$2,427	\$2,754	
Allstate Financial	663	631	95	
Corporate and Other	(298	) (312	) (586	)
Net income applicable to common shareholders	\$2,055	\$2,746	\$2,263	

30

---

## IMPACT OF LOW INTEREST RATE ENVIRONMENT

In December 2015, the Federal Open Market Committee (“FOMC”) began to tighten monetary policy by raising interest rates and setting the new target range for the federal funds rate at 1/4 percent to 1/2 percent and maintained their inflation target of 2 percent. This was the first change in the target federal funds rate since December 2008. The FOMC indicated that monetary policy remains accommodative after the increase, thereby supporting further improvements in labor market conditions and a return to 2 percent inflation. The path of the federal funds rate increase will depend on economic conditions and outlook. We anticipate that interest rates will continue to increase but remain below historic averages for an extended period of time and that financial markets will 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 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, 2015 for certain fixed annuities and interest-sensitive life contracts where management has the ability to change the crediting rate, subject to a contractual minimum. Other products, including equity-indexed, variable and immediate annuities, equity-indexed and variable life, and institutional products totaling \$5.95 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	3.08	% 3.09	% \$5,771
Annuities with multi-year rate guarantees <sup>(1)</sup> :			
Resettable in next 12 months	1.53	2.89	392
Resettable after 12 months	1.35	3.27	1,536
Interest-sensitive life insurance	4.02	4.09	7,645

<sup>(1)</sup> These contracts include interest rate guarantee periods which are typically 5, 7 or 10 years.

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

As of December 31, 2015, Allstate Financial has fixed income securities not subject to prepayment with an amortized cost of \$22.86 billion and \$4.04 billion of commercial mortgage loans, of which approximately 4.6% and 4.5%, respectively, are expected to mature in 2016. 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 \$608 million in 2015. To the extent portfolio cash flows are reinvested into fixed income securities, the average pre-tax investment yield of 5.4% is expected to decline due to lower market yields. We shortened the maturity profile of the fixed income securities in Allstate Financial to make the portfolio less sensitive to rising interest rates. Proceeds from the sale of longer duration fixed income securities that were invested in shorter duration fixed income securities

and public equity securities are expected to lower net investment income and portfolio yields. Over time, we will shift to performance-based investments in which a greater proportion of return is derived from idiosyncratic asset or operating performance, to more appropriately 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.

As of December 31, 2015, Property-Liability has fixed income securities not subject to prepayment with an amortized cost of \$28.53 billion and \$296 million of commercial mortgage loans, of which approximately 9.5% and 36.3%, respectively, are expected to mature in 2016. 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 \$582 million in 2015. 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 of 3.4% 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 portfolio which will also result in the yield responding more quickly to changes in market interest rates.

- Reducing the risk that rising interest rates will negatively impact the value of fixed income securities by reducing the Allstate Financial portfolio maturity profile.

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

- 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 2015 HIGHLIGHTS

Property-Liability net income applicable to common shareholders was \$1.69 billion in 2015 compared to \$2.43 billion in 2014.

Property-Liability premiums written totaled \$30.87 billion in 2015, an increase of 4.2% from \$29.61 billion in 2014.

The Property-Liability loss ratio was 69.4 in 2015 compared to 67.2 in 2014.

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

Property-Liability prior year reserve reestimates totaled \$81 million unfavorable in 2015 compared to \$84 million favorable in 2014.

Property-Liability underwriting income was \$1.56 billion in 2015 compared to \$1.77 billion in 2014. Underwriting income, a measure not based on GAAP, is defined below.

Property-Liability investments were \$38.48 billion as of December 31, 2015, a decrease of 1.5% from \$39.08 billion as of December 31, 2014. Net investment income was \$1.24 billion in 2015, a decrease of 4.9% from \$1.30 billion in 2014.

Net realized capital losses were \$237 million in 2015 compared to net realized capital gains of \$549 million in 2014.

## PROPERTY-LIABILITY OPERATIONS

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

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

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

Claims and claims expense (“loss”) ratio - the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses.

Expense ratio - the ratio of amortization of DAC, operating costs and expenses, and restructuring and related charges to premiums earned.

Combined ratio - the ratio of claims and claims expense, amortization of DAC, operating costs and expenses, and restructuring and related charges to premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income as a percentage of premiums earned, or underwriting margin.

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

Effect of catastrophe losses on combined ratio - the percentage of catastrophe losses included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.

Effect of prior year reserve reestimates on combined ratio - the percentage of prior year reserve reestimates included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.

• Effect of amortization of purchased intangible assets on combined and expense ratio - the percentage of amortization of purchased intangible assets to premiums earned.

• Effect of restructuring and related charges on combined ratio - the percentage of restructuring and related charges to premiums earned.

• Effect of Discontinued Lines and Coverages on combined ratio - the ratio of claims and claims expense and operating costs and expenses in the Discontinued Lines and Coverages segment to Property-Liability premiums earned. The sum of the effect



of Discontinued Lines and Coverages on the combined ratio and the Allstate Protection combined ratio is equal to the Property-Liability combined ratio.

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

(\$ in millions, except ratios)	2015	2014	2013
Premiums written	\$30,871	\$29,614	\$28,164
Revenues			
Premiums earned	\$30,309	\$28,929	\$27,618
Net investment income	1,237	1,301	1,375
Realized capital gains and losses	(237	) 549	519
Total revenues	31,309	30,779	29,512
Costs and expenses			
Claims and claims expense	(21,034	) (19,428	) (17,911
Amortization of DAC	(4,102	) (3,875	) (3,674
Operating costs and expenses	(3,575	) (3,838	) (3,752
Restructuring and related charges	(39	) (16	) (63
Total costs and expenses	(28,750	) (27,157	) (25,400
Gain (loss) on disposition of operations	—	16	(1
Income tax expense	(869	) (1,211	) (1,357
Net income applicable to common shareholders	\$1,690	\$2,427	\$2,754
Underwriting income	\$1,559	\$1,772	\$2,218
Net investment income	1,237	1,301	1,375
Income tax expense on operations	(952	) (1,040	) (1,177
Realized capital gains and losses, after-tax	(154	) 357	339
Gain (loss) on disposition of operations, after-tax	—	37	(1
Net income applicable to common shareholders	\$1,690	\$2,427	\$2,754
Catastrophe losses <sup>(1)</sup>	\$1,719	\$1,993	\$1,251
GAAP operating ratios			
Claims and claims expense ratio	69.4	67.2	64.9
Expense ratio	25.5	26.7	27.1
Combined ratio	94.9	93.9	92.0
Effect of catastrophe losses on combined ratio <sup>(1)</sup>	5.7	6.9	4.5
Effect of prior year reserve reestimates on combined ratio <sup>(1)</sup>	0.3	(0.3	) (0.4
Effect of amortization of purchased intangible assets on combined ratio	0.2	0.2	0.3
Effect of restructuring and related charges on combined ratio	0.1	0.1	0.2
Effect of Discontinued Lines and Coverages on combined ratio	0.2	0.4	0.5

<sup>(1)</sup> Prior year reserve reestimates included in catastrophe losses totaled \$15 million favorable, \$43 million unfavorable and \$88 million favorable in 2015, 2014 and 2013, respectively. The effect of catastrophe losses included in prior year reserve reestimates on the combined ratio totaled zero, 0.1 unfavorable and 0.3 favorable in 2015, 2014 and 2013, respectively.



## ALLSTATE PROTECTION SEGMENT

**Overview and strategy** The Allstate Protection segment primarily sells private passenger auto and homeowners insurance to individuals through agencies and directly through contact centers and the internet. These products are marketed under the Allstate<sup>®</sup>, Esurance<sup>®</sup> and Encompass<sup>®</sup> brand names.

Our strategy is to position our products and distribution systems to meet the changing needs of the 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 in innovative ways 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.

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 strategy for the Allstate brand centers around customers who prefer local personal advice and service and are brand-sensitive. Our customer-focused strategy for the Allstate brand aligns targeted marketing, product innovation, distribution effectiveness, and pricing toward acquiring and retaining an increased share of our target customers. This refers to consumers who want to purchase multiple products from one insurance provider including auto, homeowners and financial products, who potentially present more favorable prospects for profitability over the course of their relationships with us.

The Allstate brand utilizes marketing delivered to target customers to promote our strategic priorities, with messaging that communicates the value of our “Good Hands<sup>®</sup>”, 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.

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

Product features include Allstate Your Choice Auto<sup>®</sup> with options such as Accident Forgiveness, Deductible Rewards<sup>®</sup>, Safe Driving Bonus<sup>®</sup> and New Car Replacement, and Allstate House and Home<sup>®</sup> that provides options of coverage for roof damage including graduated coverage and pricing based on roof type and age. In addition, we offer a Claim Satisfaction Guarantee<sup>SM</sup> that promises a return of premium to Allstate brand auto insurance customers dissatisfied with their claims experience. Our Drivewise<sup>®</sup> program, available in 48 states and the District of Columbia as of December 31, 2015, 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. Beginning in 2015, Drivewise offers Allstate Rewards<sup>®</sup>, a program that provides reward points for safe driving. We will continue to focus on developing and introducing products and services that benefit today’s consumers and further differentiate Allstate and enhance the customer experience. 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. 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 Specialty Insurance Company (“North Light”), our excess and surplus lines carrier that operates under different regulatory rules. When an Allstate product is not available, we may make available non-proprietary products for customers through brokering arrangements. For example, in hurricane exposed areas, Allstate agencies sell non-proprietary property insurance products to customers who prefer to use a single agent

for all their insurance needs.

We are undergoing a focused effort to enhance our effectiveness and efficiency by implementing processes and standards to elevate the level and consistency of our customer experience. We continue to enhance 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 agencies. 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.

Other personal lines sold under the Allstate brand include renter, condominium, landlord, boat, umbrella and manufactured home insurance policies. Commercial lines include insurance products for small business owners. Other business lines include Allstate Roadside Services that provides roadside assistance products, including Good Hands Rescue<sup>SM</sup>; Allstate Dealer Services

that provides service contracts and other products sold in conjunction with auto lending and vehicle sales transactions; and Ivantage that is a general agency for Allstate exclusive agencies.

Our strategy for the Esurance brand focuses on self-directed consumers. 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 2015 from 14 to 25 states and renters from 19 to 20 states. Esurance continues to focus on increasing its preferred driver mix, while raising marketing effectiveness to support growth and profitability. Esurance's DriveSense<sup>®</sup> program, available in 32 states as of December 31, 2015, enables participating customers to be eligible for discounts based on driving performance as measured by a device installed in the vehicle. Esurance Pay Per Mile<sup>®</sup> usage-based insurance product was piloted in September 2015 and gives customers flexibility to customize their insurance and pay based on the number of miles they drive.

Our strategy for the Encompass brand centers around offering broad coverage options specifically tailored to the mass affluent market 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. These features appeal to the approximately 35 million mass affluent households in the U.S., with their higher average limits and preference for professional advice regarding coverage needs and risk solutions. 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 risk sensitive consumers. We are seeking to diversify through new business writings in states where the risk return opportunities meet our requirements, while aggressively executing pricing, underwriting, and other actions to manage risk and ensure adequate profitability. Answer Financial, a personal lines insurance agency, serves self-directed, brand-neutral consumers who want a choice between insurance carriers and offers 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.

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 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.

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, 2015, 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 earn an appropriate return for the risk and as a result our exposure may increase, but 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.

Pricing of property products is typically intended to establish 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 accrued 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 the products' pricing. We pursue rate increases where indicated, taking into consideration potential customer disruption, the impact on our ability to market our auto 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.

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.

Allstate Protection 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.

Allstate Protection will continue to grow homeowners policies without significantly increasing 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 agencies to more fully deliver on the Allstate brand customer value proposition.

We will continue to modernize our operating model to efficiently deliver our customer value propositions.

We will invest in building and acquiring long-term growth platforms.

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)	2015	2014	2013
Premiums written:			
Allstate Protection	\$30,871	\$29,613	\$28,164
Discontinued Lines and Coverages	—	1	—
Property-Liability premiums written	30,871	29,614	28,164
Increase in unearned premiums	(549)	) (723	) (572
Other	(13	) 38	26
Property-Liability premiums earned	\$30,309	\$28,929	\$27,618
Premiums earned:			
Allstate Protection	\$30,309	\$28,928	\$27,618
Discontinued Lines and Coverages	—	1	—
Property-Liability	\$30,309	\$28,929	\$27,618

Premiums written by brand are shown in the following table.

(\$ in millions)	Allstate brand			Esurance brand			Encompass brand			Allstate Protection		
	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
Auto	\$18,445	\$17,504	\$16,752	\$1,576	\$1,499	\$1,308	\$641	\$665	\$641	\$20,662	\$19,668	\$18,701
Homeowners	6,711	6,536	6,289	30	9	—	497	506	461	7,238	7,051	6,750
Other personal lines <sup>(1)</sup>	1,586	1,569	1,539	7	5	2	106	109	104	1,699	1,683	1,645
Subtotal – Personal lines	26,742	25,609	24,580	1,613	1,513	1,310	1,244	1,280	1,206	29,599	28,402	27,096
Commercial lines	516	494	466	—	—	—	—	—	—	516	494	466
Other business lines <sup>(2)</sup>	756	717	602	—	—	—	—	—	—	756	717	602
Total	\$28,014	\$26,820	\$25,648	\$1,613	\$1,513	\$1,310	\$1,244	\$1,280	\$1,206	\$30,871	\$29,613	\$28,164

<sup>(1)</sup> Other personal lines include renter, condominium, landlord and other personal lines products.

Edgar Filing: ALLSTATE CORP - Form 10-K

(2) Other business lines include Allstate Roadside Services, Allstate Dealer Services and other business lines. Premiums earned by brand are shown in the following table.

(\$ in millions)	Allstate brand			Esurance brand			Encompass brand			Allstate Protection		
	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
Auto	\$18,191	\$17,234	\$16,578	\$1,562	\$1,455	\$1,245	\$657	\$655	\$626	\$20,410	\$19,344	\$18,449
Homeowners	6,613	6,415	6,183	19	3	—	504	486	430	7,136	6,904	6,613
Other personal lines	1,577	1,551	1,527	7	5	2	108	106	100	1,692	1,662	1,629
Subtotal – Personal lines	26,381	25,200	24,288	1,588	1,463	1,247	1,269	1,247	1,156	29,238	27,910	26,691
Commercial lines	510	476	456	—	—	—	—	—	—	510	476	456
Other business lines	561	542	471	—	—	—	—	—	—	561	542	471
Total	\$27,452	\$26,218	\$25,215	\$1,588	\$1,463	\$1,247	\$1,269	\$1,247	\$1,156	\$30,309	\$28,928	\$27,618



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)

	2015	2014	% earned after					
			Three months	Six months	Nine months	Twelve months		
Allstate brand:								
Auto	\$4,947	\$4,766	71.0	% 96.4	% 99.1	% 100.0	%	
Homeowners	3,685	3,607	43.4	% 75.6	% 94.2	% 100.0	%	
Other personal lines	837	833	43.5	% 75.5	% 94.1	% 100.0	%	
Commercial lines	259	254	44.2	% 75.4	% 93.9	% 100.0	%	
Other business lines	837	642	18.8	% 33.0	% 44.9	% 54.7	%	
Total Allstate brand	10,565	10,102	55.3	% 83.1	% 93.6	% 97.3	%	
Esurance brand:								
Auto	385	371	73.7	% 98.5	% 99.6	% 100.0	%	
Homeowners	17	6	43.4	% 75.6	% 94.2	% 100.0	%	
Other personal lines	2	2	43.5	% 75.4	% 94.2	% 100.0	%	
Total Esurance brand	404	379	73.1	% 98.0	% 99.5	% 100.0	%	
Encompass brand:								
Auto	329	345	44.0	% 75.7	% 94.2	% 100.0	%	
Homeowners	267	274	44.0	% 76.0	% 94.3	% 100.0	%	
Other personal lines	54	57	44.1	% 75.9	% 94.2	% 100.0	%	
Total Encompass brand	650	676	44.0	% 75.8	% 94.2	% 100.0	%	
Allstate Protection unearned premiums	\$11,619	\$11,157	55.2	% 83.1	% 93.8	% 97.5	%	

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

**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.

**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 2014 and 2015 was either four or ten depending on the state. As of 2015 year-end, all states allow ten automobiles on a policy.



Auto premiums written totaled \$20.66 billion in 2015, a 5.1% increase from \$19.67 billion in 2014, following a 5.2% increase in 2014 from \$18.70 billion in 2013.

	Allstate brand			Esurance brand			Encompass brand		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
PIF (thousands)	20,326	19,916	19,362	1,415	1,424	1,286	723	790	774
Average premium (1)	\$492	\$479	\$468	\$516	\$499	\$485	\$945	\$895	\$880
Renewal ratio (%)	88.6	88.9	88.6	79.5	79.5	80.7	77.3	79.7	78.7
Approved rate changes (2):									
# of locations	50	(6) 46	(6) 39	37	38	31	30	29	29
Total brand (%) (3)	5.3	2.3	1.9	7.1	6.0	4.8	9.4	6.6	5.9
Location specific (%) (4)(5)	7.6	3.2	3.2	9.3	6.9	6.5	11.1	7.9	7.0

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

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

(2) surcharges that result in no change in the overall rate level in the state. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a state. Rate changes for Allstate brand for the 2013 period exclude Canada and specialty auto.

(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) Allstate brand operates in 50 states, the District of Columbia, and 5 Canadian provinces. Esurance brand operates in 43 states and 1 Canadian province. Encompass brand operates in 40 states and the District of Columbia. Based on historical premiums written in those states and Canadian provinces, rate changes approved for auto totaled \$1.11 billion, \$520 million and \$379 million in 2015, 2014 and 2013, respectively.

(6) 2015 and 2014 includes 5 and 4 Canadian provinces, respectively, and the District of Columbia.

Allstate brand 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 this year 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 has 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.

We regularly monitor profitability trends and take appropriate pricing actions, underwriting actions, manage loss cost through focus on claims process excellence and targeted expense spending reductions to achieve adequate returns.

Given current loss trends, we have responded with a multi-faceted approach to improve profitability.

We increased and accelerated rate filings broadly across the country. Approximately 30% of the Allstate brand rate increases approved in 2015 were earned in 2015, with the remainder expected to be earned in 2016 and 2017. 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 geographic areas and customer segments experiencing less than acceptable returns which are reducing the number of new issued applications and slowing growth. Underwriting guideline adjustments vary by geographic area 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 can be modified as we achieve targeted underwriting results in these segments.

Allstate brand auto premiums written totaled \$17.50 billion in 2014, a 4.5% increase from \$16.75 billion in 2013. Factors impacting premiums written were the following:

- 2.9% or 554 thousand increase in PIF as of December 31, 2014 compared to December 31, 2013.
- 10.3% increase in new issued applications to 3,033 thousand in 2014 from 2,749 thousand in 2013.
- 2.4% increase in average premium in 2014 compared to 2013.
- 0.3 point increase in the renewal ratio in 2014 compared to 2013.

Esurance brand auto premiums written totaled \$1.58 billion in 2015, a 5.1% increase from \$1.50 billion in 2014. Profit improvement actions impacting growth include rate increases, underwriting guideline adjustments, and decreased marketing in select geographies to manage risks. Factors impacting premiums written were the following:

- 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.

Esurance brand auto premiums written totaled \$1.50 billion in 2014, a 14.6% increase from \$1.31 billion in 2013. Factors impacting premiums written were the following:

- 10.7% or 138 thousand increase in PIF as of December 31, 2014 compared to December 31, 2013.
- New issued applications of 747 thousand in 2014 was comparable to 2013. An increase in quote volume driven by the new advertising program was offset by a decrease in conversion rate (the percentage of completed quotes to actual issued policies) primarily due to rate actions. Rate actions are taken where profit margin targets are not being achieved. The rate changes in 2014 were taken in states and risk categories to improve profit margin while managing customer retention.
- 2.9% increase in average premium in 2014 compared to 2013.
- 1.2 point decrease in the renewal ratio in 2014 compared to 2013. The decrease in the renewal ratio during 2014 was due to the impact of rate increases and growth in states with lower retention, partially offset by an increase in the amount of business past its first renewal. Retention may continue to be impacted as a result of expansion initiatives that increase the areas in which Esurance writes business. Retention at first renewal was 70.4% during 2014 compared to 72.8% in 2013. The renewal ratio on business subsequent to first renewal was 82.7% during 2014 compared to 84.1% in 2013.

Encompass brand auto premiums written totaled \$641 million in 2015, a 3.6% decrease from \$665 million in 2014. Profit improvement actions impacting growth include increasing rates, enhancing pricing sophistication and underwriting guideline adjustments. Factors impacting premiums written were the following:

- 8.5% or 67 thousand decrease in PIF as of December 31, 2015 compared to December 31, 2014.
- 9.3% decrease in new issued applications to 82 thousand in 2015 from 135 thousand in 2014.
- 5.6% increase in average premium in 2015 compared to 2014.
- 2.4 point decrease in the renewal ratio in 2015 compared to 2014. 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.

Encompass brand auto premiums written totaled \$665 million in 2014, a 3.7% increase from \$641 million in 2013. Factors impacting premiums written were the following:

- 2.1% or 16 thousand increase in PIF as of December 31, 2014 compared to December 31, 2013.
- 12.9% decrease in new issued applications to 135 thousand in 2014 from 155 thousand in 2013 primarily due to profit improvement actions including rate changes, underwriting guideline adjustments, and agency-level actions to manage risks and ensure profitability.
- 1.7% increase in average premium in 2014 compared to 2013.
- 1.0 point increase in the renewal ratio in 2014 compared to 2013 due to adverse impacts from run-off effects of Florida in the prior year. A higher percentage of package auto policies renewed. Package policies typically have higher retention rates.



Homeowners premiums written totaled \$7.24 billion in 2015, a 2.7% increase from \$7.05 billion in 2014, following a 4.5% increase in 2014 from \$6.75 billion in 2013. Excluding the cost of catastrophe reinsurance, premiums written increased 2.3% in 2015 compared to 2014. 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.

	Allstate brand			Esurance brand		Encompass brand		
	2015	2014	2013	2015	2014	2015	2014	2013
PIF (thousands)	6,174	6,106	6,077	32	10	338	365	356
Average premium <sup>(1)</sup>	\$1,155	\$1,140	\$1,115	\$833	\$811	\$1,555	\$1,457	\$1,374
Renewal ratio (%) <sup>(1) (2)</sup>	88.5	88.4	87.7	72.7	N/A	82.5	85.6	86.6
Approved rate changes <sup>(3)</sup> :								
# of locations	36	<sup>(5)</sup> 37	<sup>(5)</sup> 41	N/A	N/A	27	23	31
Total brand (%)	2.8	1.7	3.6	N/A	N/A	6.5	4.7	7.4
Location specific (%) <sup>(4)</sup>	5.0	4.7	5.2	N/A	N/A	8.8	8.9	8.2

<sup>(1)</sup> Policy term is twelve months.

Esurance's retention ratios will appear lower due to its underwriting process. Customers can enter into a policy without a physical inspection. During the underwriting review period, a number of policies may be canceled if upon inspection the condition is unsatisfactory. Esurance's retention ratio was 91.9% on policies that passed the underwriting review period.

<sup>(3)</sup> Includes rate changes approved based on our net cost of reinsurance. Rate changes for Allstate brand for 2013 exclude Canada.

Allstate brand operates in 50 states, the District of Columbia, and 5 Canadian provinces. Esurance brand operates in 25 states. Encompass brand operates in 40 states and the District of Columbia. Based on historical premiums written in those states and Canadian provinces, rate changes approved for homeowners totaled \$225 million, \$147 million and \$254 million in 2015, 2014 and 2013, respectively.

<sup>(5)</sup> Includes 4 Canadian provinces in both 2015 and 2014.

N/A reflects not applicable.

Allstate brand homeowners premiums written totaled \$6.71 billion in 2015, a 2.7% increase from \$6.54 billion in 2014. We continue to be disciplined in how we manage margins as we increase rates and implement other actions to maintain or improve returns where required. Growth actions planned include continuing to implement our House & Home<sup>®</sup> 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. 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. Catastrophe reinsurance premiums are recorded primarily in Allstate brand and are a reduction of premium. Premiums written for Allstate's House and Home product, our redesigned homeowners new business offering currently available in 74% of total states, with the greatest success in Texas and several of our other top ten states, totaled \$1.46 billion in 2015 compared to \$934 million in 2014.

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.

Allstate brand homeowners premiums written totaled \$6.54 billion in 2014, a 3.9% increase from \$6.29 billion in 2013. Factors impacting premiums written were the following:

• 0.5% or 29 thousand increase in PIF as of December 31, 2014 compared to December 31, 2013 due to increases in new issued applications and retention.

• 16.0% increase in new issued applications to 725 thousand in 2014 from 625 thousand in 2013.

• 2.2% increase in average premium in 2014 compared to 2013 primarily due to rate changes as well as increasing insured home valuations.

• 0.7 point increase in the renewal ratio in 2014 compared to 2013.



\$36 million decrease in the cost of our catastrophe reinsurance program to \$389 million in 2014 from \$425 million in 2013.

Esurance brand 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.

Esurance brand homeowners premiums written totaled \$9 million in 2014. Factors impacting premiums written were the following:

- New issued applications totaled 11 thousand in 2014.

As of December 31, 2014, Esurance was writing homeowners insurance in 14 states with lower hurricane risk that have lower average premium.

Encompass brand homeowners premiums written totaled \$497 million in 2015, a 1.8% decrease from \$506 million in 2014. Profit improvement actions impacting growth include increasing rates, enhancing pricing sophistication and underwriting guideline adjustments. 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. 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.

Encompass brand homeowners premiums written totaled \$506 million in 2014, a 9.8% increase from \$461 million in 2013. Factors impacting premiums written were the following:

2.5% or 9 thousand increase in PIF as of December 31, 2014 compared to December 31, 2013.

11.4% decrease in new issued applications to 70 thousand in 2014 from 79 thousand in 2013 due to profit improvement actions including rate changes, underwriting guideline adjustments, and agency-level actions.

6.0% increase in average premium in 2014 compared to 2013.

1.0 point decrease in the renewal ratio in 2014 compared to 2013.

Other personal lines Allstate brand other personal lines premiums written totaled \$1.59 billion in 2015, a 1.1% increase from \$1.57 billion in 2014, following a 1.9% increase in 2014 from \$1.54 billion in 2013. The increase in 2015 primarily relates to renters insurance and the increase in 2014 primarily relates to renter and condominium insurance.

Commercial lines premiums written totaled \$516 million in 2015, a 4.5% increase from \$494 million in 2014, following a 6.0% increase in 2014 from \$466 million in 2013. The increase in 2015 was driven by higher renewals and increased average premiums. The increase in 2014 was driven by higher renewals and increased new business resulting from a new business owner policy product.

Other business lines premiums written totaled \$756 million in 2015, a 5.4% increase from \$717 million in 2014, following a 19.1% increase in 2014 from \$602 million in 2013. The increase in 2015 was primarily due to increased sales of vehicle service contracts, guaranteed asset protection, and other products at Allstate Dealer Services, partially offset by a decline in Allstate Roadside Services premiums. The increase in 2014 was primarily due to increased sales of vehicle service contracts at Allstate Dealer Services, and new and expanded contracts where Allstate Roadside Services provides roadside assistance to third party company's customer bases.

Underwriting results are shown in the following table.

(\$ in millions)	2015	2014	2013
Premiums written	\$30,871	\$29,613	\$28,164
Premiums earned	\$30,309	\$28,928	\$27,618
Claims and claims expense	(20,981 )	(19,315 )	(17,769 )
Amortization of DAC	(4,102 )	(3,875 )	(3,674 )
Other costs and expenses	(3,573 )	(3,835 )	(3,751 )
Restructuring and related charges	(39 )	(16 )	(63 )
Underwriting income	\$1,614	\$1,887	\$2,361
Catastrophe losses	\$1,719	\$1,993	\$1,251
Underwriting income (loss) by line of business			
Auto	\$23	\$604	\$668
Homeowners	1,431	1,097	1,422
Other personal lines	175	150	198
Commercial lines	(40 )	9 )	41
Other business lines	33	40	51
Answer Financial	(8 )	(13 )	(19 )
Underwriting income	\$1,614	\$1,887	\$2,361
Underwriting income (loss) by brand			
Allstate brand	\$1,812	\$2,235	\$2,551
Esurance brand	(164 )	(259 )	(218 )
Encompass brand	(26 )	(76 )	47
Answer Financial	(8 )	(13 )	(19 )
Underwriting income	\$1,614	\$1,887	\$2,361

The following tables summarize the differences in underwriting results from the prior year. The 2015 column presents differences in 2015 compared to 2014. The 2014 column presents differences in 2014 compared to 2013. The components of the increase (decrease) in underwriting income (loss) by line of business are shown in the following table.

(\$ in millions)	Auto		Homeowners		Other personal lines		Commercial lines		Allstate Protection <sup>(1)</sup>	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Underwriting income (loss) prior period	\$604	\$668	\$1,097	\$1,422	\$150	\$198	\$9	\$41	\$1,887	\$2,361
Changes in underwriting income (loss) from:										
Premiums earned	1,066	895	232	291	30	33	34	20	1,381	1,310
Incurred claims and claims expense ("losses"):										
Incurred losses, excluding catastrophe losses and reserve reestimates	(1,491)	(678 )	(62 )	(114 )	(42 )	(21 )	(65 )	(10 )	(1,658 )	(868 )
Catastrophe losses excluding reserve reestimates	80	(94 )	128	(446 )	2	(55 )	6	(16 )	216	(611 )
Non-catastrophes reserve reestimates	(265 )	59	(13 )	7	18	6	(19 )	(5 )	(282 )	64

Edgar Filing: ALLSTATE CORP - Form 10-K

Catastrophes reserve reestimates	(3 )	(58 )	66	(41 )	(2 )	(21 )	(3 )	(11 )	58	(131 )
Total reserve reestimates	(268 )	1	53	(34 )	16	(15 )	(22 )	(16 )	(224 )	(67 )
Subtotal losses	(1,679)	(771 )	119	(594 )	(24 )	(91 )	(81 )	(42 )	(1,666 )	(1,546 )
Expenses	32	(188 )	(17 )	(22 )	19	10	(2 )	(10 )	12	(238 )
Underwriting income (loss)	\$23	\$604	\$1,431	\$1,097	\$175	\$150	\$(40 )	\$9	\$1,614	\$1,887

<sup>(1)</sup> Includes other business lines underwriting income of \$33 million and \$40 million in 2015 and 2014, respectively, and Answer Financial underwriting loss of \$8 million and \$13 million in 2015 and 2014, respectively.

Edgar Filing: ALLSTATE CORP - Form 10-K

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

	Allstate brand			Esurance brand			Encompass brand		
	2015	2014		2015	2014		2015	2014	
Underwriting income (loss) prior period	\$2,235	\$2,551		\$(259 )	\$(218 )		\$(76 )	\$47	
Changes in underwriting income (loss) from:									
Premiums earned	1,234	1,003		125	216		22	91	
Incurred claims and claims expense ("losses"):									
Incurred losses, excluding catastrophe losses and reserve reestimates	(1,563 )	(652 )		(76 )	(152 )		(19 )	(64 )	
Catastrophe losses excluding reserve reestimates	160	(509 )		6	(8 )		50	(94 )	
Non-catastrophes reserve reestimates	(264 )	71		2	16		(20 )	(23 )	
Catastrophes reserve reestimates	55	(120 )		(1 )	—		4	(11 )	
Total reserve reestimates	(209 )	(49 )		1	16		(16 )	(34 )	
Subtotal losses	(1,612 )	(1,210 )		(69 )	(144 )		15	(192 )	
Expenses	(45 )	(109 )		39	(113 )		13	(22 )	
Underwriting income (loss)	\$1,812	\$2,235		\$(164 )	\$(259 )		\$(26 )	\$(76 )	

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

Combined ratios by brand are shown in the following table.

	Allstate brand			Esurance brand			Encompass brand			Allstate Protection		
	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
Loss ratio	68.7	65.8	63.6	75.1	76.8	78.5	73.5	76.0	65.4	69.2	66.8	64.4
Expense ratio	24.7	25.7	26.3	35.2	40.9	39.0	28.5	30.1	30.5	25.5	26.7	27.1
Combined ratio	93.4	91.5	89.9	110.3	117.7	117.5	102.0	106.1	95.9	94.7	93.5	91.5



Edgar Filing: ALLSTATE CORP - Form 10-K

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

	Auto			Homeowners			Other personal lines			Commercial lines			Total		
	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
Allstate brand															
Loss ratio <sup>(1)</sup>	74.5	69.2	68.5	55.6	58.7	53.4	60.9	61.7	58.6	78.4	67.0	60.7	68.7	65.8	63.6
Effect of catastrophe losses on combined ratio	1.3	1.6	1.0	18.3	21.4	15.6	8.1	8.2	3.5	5.1	6.1	0.4	5.8	6.9	4.7
Effect of prior year reserve reestimates on combined ratio	0.2	(1.2)	(1.2)	(0.3)	0.4	—	0.5	2.1	1.8	0.4	(4.2)	(7.9)	0.1	(0.7)	(0.9)
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	(0.1)	(0.1)	(0.3)	(0.1)	1.0	0.4	(0.1)	(0.2)	(1.7)	1.0	0.4	(2.0)	(0.1)	0.1	(0.3)
Esurance brand															
Loss ratio <sup>(1)</sup>	75.3	76.8	78.5	63.2	66.7	—	57.1	60.0	50.0	—	—	—	75.1	76.8	78.5
Effect of catastrophe losses on combined ratio	0.7	1.3	0.9	15.8	—	—	—	—	—	—	—	—	0.9	1.3	0.9
Effect of prior year reserve reestimates on combined ratio	(1.1)	(1.1)	—	—	—	—	—	—	—	—	—	—	(1.1)	(1.1)	—
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	—	—	—	—	—	—	—	—	—	—	—	—	0.1	—	—
Encompass brand															
Loss ratio <sup>(1)</sup>	77.0	77.1	73.5	64.9	74.7	56.3	92.6	75.5	54.0	—	—	—	73.5	76.0	65.4
Effect of catastrophe losses on combined ratio	1.1	3.2	0.3	19.3	28.2	12.6	6.5	6.6	4.0	—	—	—	8.7	13.2	5.2
Effect of prior year reserve reestimates on combined ratio	0.3	(2.0)	(4.8)	(1.0)	0.4	(1.2)	9.3	1.9	(8.0)	—	—	—	0.6	(0.7)	(3.7)
Effect of catastrophe losses	(0.1)	(0.2)	(0.5)	(0.2)	0.7	(1.3)	—	—	—	—	—	—	(0.1)	0.1	(0.7)

included  
in prior year reserve  
reestimates  
on combined ratio

Allstate Protection															
Loss ratio <sup>(1)</sup>	74.7	70.1	69.3	56.3	59.9	53.5	62.9	62.6	58.2	78.4	67.0	60.7	69.2	66.8	64.4
Effect of catastrophe losses on combined ratio	1.2	1.7	0.9	18.4	21.8	15.4	7.9	8.1	3.5	5.1	6.1	0.4	5.7	6.9	4.5
Effect of prior year reserve reestimates on combined ratio	0.1	(1.2)	(1.3)	(0.4)	0.4	(0.1)	1.1	2.0	1.2	0.4	(4.2)	(7.9)	0.1	(0.7)	(1.0)
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	(0.1)	(0.1)	(0.4)	—	0.9	0.3	(0.1)	(0.3)	(1.5)	1.0	0.4	(2.0)	—	0.1	(0.3)

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

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. Auto loss ratio for the Allstate brand increased 0.7 points in 2014 compared to 2013, primarily due to increased catastrophe losses.

Gross frequency is calculated as the number of claim notices received in the period divided by the average earned policies in force of the respective insurance coverage in force. The rate of change in gross frequency is the year over year percent increase or decrease in gross frequency for the period.

Gross frequency in the bodily injury coverage increased 5.9% in 2015 compared to 2014. Approximately 90% of individual states experienced a year over year increase in their rate of bodily injury gross frequency in 2015 when compared to 2014. Gross frequency in the bodily injury coverage in 2014 was comparable to 2013.

Gross frequency in the property damage coverage increased 6.3% in 2015 compared to 2014. Approximately 95% of individual states experienced a year over year increase in their rate of property damage gross frequency in 2015 when compared to 2014. Gross frequency in the property damage coverage increased 0.5% in 2014 compared to 2013. We continue to see an increase in miles driven in part due to increased employment, which has adversely impacted property damage gross frequency in 2015. Other factors believed to be contributing to higher frequency are distracted driving and more technology in vehicles.

Paid claim severity is calculated by dividing the sum of paid losses and loss expenses by claims closed with a payment during the period. The rate of change in paid severity is the year over year percent increase or decrease in paid claim severity for the period. Bodily injury coverage paid claim severities decreased 1.6% and property damage coverage paid claim severities increased 4.4% in 2015 compared to 2014. Changes in bodily injury and property damage paid claim severity increases were consistent with historical comparisons to inflationary indices, after adjusting for normal volatility due to changes in state mix and payment timing. Bodily injury and property damage coverage paid claim severities increased 2.7% and 4.1%, respectively, in 2014 compared to 2013. Severity results in 2014 increased in line with historical Consumer Price Index trends.

Esurance brand auto loss ratio decreased 1.5 points in 2015 compared to 2014, primarily due to increases in average premiums earned and lower catastrophe losses, partially offset by higher claim frequency and severity across several coverages. Esurance brand auto loss ratio decreased 1.7 points in 2014 compared to 2013, primarily due to rate actions and favorable reserve reestimates related to personal injury protection losses.

Encompass brand auto loss ratio decreased 0.1 points in 2015 compared to 2014, primarily due to lower catastrophe losses and increased premiums earned. Encompass brand auto loss ratio increased 3.6 points in 2014 compared to 2013, due to increased catastrophe losses and lower favorable reserve reestimates, partially offset by increased premiums earned.

Homeowners loss ratio for the Allstate brand 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. Homeowners loss ratio for the Allstate brand increased 5.3 points to 58.7 in 2014 from 53.4 in 2013, primarily due to higher catastrophe losses, partially offset by increased premiums earned. Claim frequency excluding catastrophe losses decreased 0.3% in 2014 compared to 2013. Paid claim severity excluding catastrophe losses increased 7.7% in 2014 compared to 2013.

Encompass brand homeowners loss ratio decreased 9.8 points in 2015 compared to 2014, primarily due to lower catastrophe losses and increased premiums earned. Encompass brand homeowners loss ratio increased 18.4 points in 2014 compared to 2013, primarily due to higher catastrophe losses. Several catastrophes occurred in areas where Encompass has a higher concentration of policyholders in 2014.

Catastrophe losses were \$1.72 billion in 2015 compared to \$1.99 billion in 2014 and \$1.25 billion in 2013.

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 2015 by the size of event are shown in the following table.

(\$ in millions)

Size of catastrophe loss	Number of Events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Greater than \$250 million	—	—	% \$—	—	% —	\$—
\$101 million to \$250 million	3	3.5	376	21.9	1.2	125
\$50 million to \$100 million	8	9.4	488	28.4	1.6	61
Less than \$50 million	74	87.1	870	50.6	2.9	12
Total	85	100.0	% 1,734	100.9	5.7	20
Prior year reserve reestimates			(15	) (0.9	) —	
Total catastrophe losses			\$1,719	100.0	% 5.7	





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

(\$ in millions)	2015		2014		2013	
	Number of events		Number of events		Number of events	
Hurricanes/Tropical storms	1	\$21	1	\$2	1	\$14
Tornadoes	2	152	2	99	3	169
Wind/Hail	72	1,274	70	1,429	64	1,089
Wildfires	6	51	5	19	5	41
Other events	4	236	7	401	3	26
Prior year reserve reestimates		(15 )		43		(88 )
Total catastrophe losses	85	\$1,719	85	\$1,993	76	\$1,251

Expense ratio for Allstate Protection decreased 1.2 points in 2015 compared to 2014. The impact of specific costs and expenses on the expense ratio are shown in the following table.

	Allstate brand			Esurance brand			Encompass brand			Allstate Protection		
	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
Amortization of DAC	14.0	13.7	13.6	2.5	2.7	2.7	18.4	18.8	18.3	13.6	13.4	13.3
Advertising expense	2.0	2.5	2.8	12.6	17.4	14.8	0.4	0.4	0.4	2.5	3.2	3.2
Amortization of purchased intangible assets	—	—	—	2.2	3.3	4.9	—	—	—	0.2	0.2	0.3
Other costs and expenses	8.6	9.5	9.7	17.9	17.5	16.6	9.6	10.7	11.5	9.1	9.8	10.1
Restructuring and related charges	0.1	—	0.2	—	—	—	0.1	0.2	0.3	0.1	0.1	0.2
Total expense ratio	24.7	25.7	26.3	35.2	40.9	39.0	28.5	30.1	30.5	25.5	26.7	27.1

Allstate brand 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. Amortization of DAC primarily includes agent remuneration and premium taxes.

Allstate agency total incurred base commissions, variable compensation and bonuses in 2015 were higher than 2014.

Allstate brand expense ratio decreased 0.6 points in 2014 compared to 2013 primarily due to lower advertising expenditures and lower employee related costs, including pension expense, partially offset by higher amortization of DAC. Amortization of DAC increased in 2014 compared to 2013 and Allstate agency total incurred base commissions, variable compensation and bonus was higher than 2013.

Esurance brand expense ratio decreased 5.7 points in 2015 compared to 2014. Esurance advertising expenses decreased in 2015 compared to 2014 in conjunction with our profitability actions. The Esurance brand expense ratio also includes purchased intangible assets that are amortized on an accelerated basis with over 80% of the amortization taking place by 2016. Other costs and expenses, including salaries of telephone sales personnel and other underwriting costs related to customer acquisition, were higher in 2015 than 2014.

Esurance brand expense ratio increased 1.9 points in 2014 compared to 2013. Esurance advertising expenses in 2014 were higher than 2013 due to increased spending related to the launch of a new advertising campaign, the homeowners advertising launch in 2014 and additional advertising to achieve short-term growth and long-term brand positioning. Other costs and expenses, related to acquisition include salaries of telephone sales personnel and other underwriting costs, in 2014 were comparable to 2013.

Esurance uses a direct distribution model, therefore its primary acquisition-related costs are advertising as opposed to commissions. Esurance incurs substantially all of its acquisition costs in the year of policy inception. As a result, the Esurance expense ratio will be higher during periods of increased advertising expenditures. Esurance continued to invest in geographic expansion and additional products and capabilities. The expenses related to expansion initiatives contributed approximately 4.0 points in 2015 compared to 5.2 points to the total expense ratio in 2014. Advertising expenses included 1.1 points in 2015 and 1.9 points in 2014 related to expansion initiatives. Other costs and expenses included 2.9 points in 2015 and 3.3 points in 2014 related to expansion initiatives. Expenses related to expansion initiatives includes costs incurred to expand beyond our initial 30 states at acquisition, adding new products such as homeowners, motorcycle, and usage based insurance and expanding into the Canadian market. 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 and customer mix. We manage the direct to consumer business based on its profitability over the life-time of the policy.

Encompass brand expense ratio decreased 1.6 points in 2015 compared to 2014 primarily due to agency compensation, employee compensation and technology costs. Expense improvement actions include reductions in technology and other costs, as

well as improving operating efficiency. The Encompass brand DAC amortization rate is higher on average than Allstate brand DAC amortization due to higher commission rates paid to independent agencies.

Encompass brand expense ratio decreased 0.4 points in 2014 compared to 2013 primarily due to lower employee related costs, including pension expense, partially offset by higher amortization of DAC.

**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 brand and product type are shown in the following table.

(\$ in millions)	Allstate brand		Esurance brand		Encompass brand		Allstate Protection	
	2015	2014	2015	2014	2015	2014	2015	2014
Auto	\$644	\$609	\$10	\$10	\$59	\$62	\$713	\$681
Homeowners	504	491	—	—	42	43	546	534
Other personal lines	110	109	—	—	8	9	118	118
Commercial lines	33	34	—	—	—	—	33	34
Other business lines	619	453	—	—	—	—	619	453
<b>Total DAC</b>	<b>\$1,910</b>	<b>\$1,696</b>	<b>\$10</b>	<b>\$10</b>	<b>\$109</b>	<b>\$114</b>	<b>\$2,029</b>	<b>\$1,820</b>

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

Gain on disposition of \$37 million, after-tax, in 2014 primarily relates to the sale of Sterling Collision Centers, Inc.

#### Catastrophe management

**Historical catastrophe experience** For the last ten years, the average annual impact of catastrophes on our Property-Liability loss ratio was 7.7 points. The average annual impact of catastrophes on the homeowners loss ratio for the last ten years was 31.1 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.

- In 2015, North Light, our surplus lines company that operates under different regulatory rules, expanded operations to one new state, bringing the total to 43 states.

- In certain states, we have been ceding wind exposure related to insured property located in wind pool eligible areas. We ceased writing new homeowners and landlord package policy business in California in 2007; however, later in 2016 we will start to write a limited number of homeowners policies in select areas of the state. 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.

- North Light, began writing homeowners in California in February 2013. Any earthquake coverage provided under these writings (other than fire following earthquakes) is currently ceded via quota share reinsurance.

We ceased writing new homeowners business in Florida in 2011 beyond a modest stance for existing customers who replace their currently-insured home with an acceptable property. The Encompass companies operating in Florida withdrew from the property lines in 2009.

•Tropical cyclone deductibles 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 (which excludes New Jersey and Florida). New Jersey 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 37 states.

#### 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 30,000 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.

## DISCONTINUED LINES AND COVERAGES SEGMENT

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

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

(\$ in millions)	2015	2014	2013
Premiums written	\$—	\$1	\$—
Premiums earned	\$—	\$1	\$—
Claims and claims expense	(53	) (113	) (142
Operating costs and expenses	(2	) (3	) (1
Underwriting loss	\$(55	) \$(115	) \$(143

Underwriting losses of \$55 million in 2015 primarily related to our annual review using established industry and actuarial best practices resulting in 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 allowance for future uncollectible reinsurance. The cost of administering claims settlements totaled \$10 million for 2015, \$10 million for 2014, and \$13 million for 2013.

Underwriting losses of \$115 million in 2014 primarily related to our annual review using established industry and actuarial best practices resulting in an \$87 million unfavorable reestimate of asbestos reserves, a \$15 million unfavorable reestimate of environmental reserves and a \$3 million increase in allowance for future uncollectible reinsurance, partially offset by a \$3 million favorable reestimate of other exposure reserves.

Underwriting losses of \$143 million in 2013 related to a \$74 million unfavorable reestimate of asbestos reserves, a \$30 million unfavorable reestimate of environmental reserves and a \$30 million unfavorable reestimate of other exposure reserves, primarily as a result of our annual review using established industry and actuarial best practices, partially offset by a \$1 million decrease in our allowance for future uncollectible reinsurance.

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

## 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 litigation or legislative, judicial and 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.

## PROPERTY-LIABILITY INVESTMENT RESULTS

Net investment income The following table presents net investment income.

(\$ in millions)	2015	2014	2013
Fixed income securities	\$885	\$860	\$912
Equity securities	81	95	136
Mortgage loans	15	17	20
Limited partnership interests	262	346	365
Short-term investments	5	4	3
Other	75	65	38
Investment income, before expense	1,323	1,387	1,474

Edgar Filing: ALLSTATE CORP - Form 10-K

Investment expense	(86	)	(86	)	(99	)
Net investment income	\$1,237		\$1,301		\$1,375	

50

---



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 end of each quarter during the year. For the purposes of the pre-tax yield calculation, income for directly held real estate, timber and other consolidated investments is net of asset level operating expenses (direct expenses of the assets reported in investment expense). For investments carried at fair value, investment balances exclude unrealized capital gains and losses.

	2015	2014	2013	
Fixed income securities: tax-exempt	2.4	% 2.6	% 3.4	%
Fixed income securities: tax-exempt equivalent	3.5	3.8	5.0	
Fixed income securities: taxable	3.1	2.9	3.2	
Equity securities	2.9	2.9	3.8	
Mortgage loans	4.5	4.3	4.2	
Limited partnership interests	10.4	13.1	12.2	
Total portfolio	3.4	3.6	4.0	

Net investment income decreased 4.9% or \$64 million to \$1.24 billion in 2015 from \$1.30 billion in 2014 after decreasing 5.4% in 2014 compared to 2013. 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 2014 decrease was primarily due to lower fixed income yields and equity dividends. The decrease in fixed income yields was primarily due to reinvestment at yields lower than the overall portfolio yield.

Net realized capital gains and losses are presented in the following table.

(\$ in millions)	2015	2014	2013	
Impairment write-downs	\$(132)	) \$(21)	) \$(39)	)
Change in intent write-downs	(156)	) (169)	) (124)	)
Net other-than-temporary impairment losses recognized in earnings	(288)	) (190)	) (163)	)
Sales and other	85	789	706	
Valuation and settlements of derivative instruments	(34)	) (50)	) (24)	)
Realized capital gains and losses, pre-tax	(237)	) 549	519	
Income tax benefit (expense)	83	(192)	) (180)	)
Realized capital gains and losses, after-tax	\$(154)	) \$357	\$339	

For a further discussion of net realized capital gains and losses, see the Investments section of the MD&A.

#### 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, 2015, 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 \$117 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)	2015	2014	2013
Allstate brand	\$14,974	\$14,214	\$14,225
Esurance brand	717	649	575

Edgar Filing: ALLSTATE CORP - Form 10-K

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

51

---

Edgar Filing: ALLSTATE CORP - Form 10-K

The tables below show net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2015, 2014 and 2013 and the effect of reestimates in each year.

(\$ in millions)		January 1 reserves					
		2015		2014		2013	
Allstate brand		\$14,214		\$14,225		\$14,364	
Esurance brand		649		575		470	
Encompass brand		754		747		807	
Total Allstate Protection		15,617		15,547		15,641	
Discontinued Lines and Coverages		1,612		1,646		1,637	
Total Property-Liability		\$17,229		\$17,193		\$17,278	
(\$ in millions, except ratios)	2015	Effect on		2014	Effect on		2013
	Reserve	combined		Reserve	combined		Reserve
	reestimate <sup>(1)</sup>	ratio <sup>(2)</sup>		reestimate <sup>(1)</sup>	ratio <sup>(2)</sup>		reestimate <sup>(1)</sup>
							Effect on
							combined
							ratio <sup>(2)</sup>
Allstate brand	\$38	0.1		\$(171)	(0.6)	\$(220)	(0.8)
Esurance brand	(17)	—		(16)	(0.1)	—	—
Encompass brand	7	—		(9)	—	(43)	(0.2)
Total Allstate Protection	28	0.1		(196)	(0.7)	(263)	(1.0)
Discontinued Lines and Coverages	53	0.2		112	0.4	142	0.6
Total Property-Liability <sup>(3)</sup>	\$81	0.3		\$(84)	(0.3)	\$(121)	(0.4)
Reserve reestimates, after-tax	\$53			\$(55)		\$(79)	
Consolidated net income applicable to common shareholders	\$2,055			\$2,746		\$2,263	
Reserve reestimates as a % of consolidated net income applicable to common shareholders	(2.6)	%		2.0	%	3.5	%

(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 \$15 million favorable, \$43 million unfavorable and \$88 million favorable in 2015, 2014 and 2013, respectively. The effect of catastrophe losses included in prior year reserve reestimates on the combined ratio totaled zero, 0.1 unfavorable and 0.3 favorable in 2015, 2014 and 2013, respectively.

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

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	37	(4)	(20)	(18)	(60)	(24)	(76)	(29)	49	173	28
Discontinued Lines and Coverages	53	—	—	—	—	—	—	—	—	—	53
	\$90	\$(4)	\$(20)	\$(18)	\$(60)	\$(24)	\$(76)	\$(29)	\$49	\$173	\$81

Edgar Filing: ALLSTATE CORP - Form 10-K

Total

Property-Liability

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	(36 )	(9 )	(11 )	3	(21 )	35	(88 )	(49 )	(99 )	79	(196 )
Discontinued Lines and Coverages	112	—	—	—	—	—	—	—	—	—	112
Total Property-Liability	\$76	\$(9 )	\$(11 )	\$3	\$(21 )	\$35	\$(88 )	\$(49 )	\$(99 )	\$79	\$(84 )

2013 Prior year reserve reestimates

(\$ in millions)	2003 & prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Allstate brand	\$56	\$5	\$(33 )	\$(44 )	\$(45 )	\$(32 )	\$(59 )	\$(16 )	\$(70 )	\$18	\$(220 )
Esurance brand	—	—	—	—	—	—	—	—	—	—	—
Encompass brand	2	1	1	(1 )	(1 )	(5 )	(4 )	(4 )	(14 )	(18 )	(43 )
Total Allstate Protection	58	6	(32 )	(45 )	(46 )	(37 )	(63 )	(20 )	(84 )	—	(263 )
Discontinued Lines and Coverages	142	—	—	—	—	—	—	—	—	—	142
Total Property-Liability	\$200	\$6	\$(32 )	\$(45 )	\$(46 )	\$(37 )	\$(63 )	\$(20 )	\$(84 )	\$—	\$(121 )

Allstate brand prior year reserve reestimates were \$38 million unfavorable in 2015, \$171 million favorable in 2014 and \$220 million favorable in 2013. 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. In 2013, this was primarily due to severity development that was better than expected and catastrophe reserve reestimates.

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)	2015	2014	2013
Reserve reestimates	\$38	\$(171 )	\$(220 )
Allstate brand underwriting income	1,812	2,235	2,551
Reserve reestimates as a % of underwriting income	(2.1 )%	7.7 %	8.6 %

Esurance brand prior year reserve reestimates were \$17 million favorable in 2015 and \$16 million favorable in 2014. In 2015 and 2014, this was primarily due to severity development that was better than expected for liability coverages. There were no prior year reserve reestimates for Esurance in 2013.

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

(\$ in millions)	2015	2014
Reserve reestimates	\$(17 )	\$(16 )
Esurance brand underwriting loss	(164 )	(259 )
Reserve reestimates as a % of underwriting loss	10.4 %	6.2 %

Encompass brand prior year reserve reestimates were \$7 million unfavorable in 2015, \$9 million favorable in 2014 and \$43 million favorable in 2013. In 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. In 2013, this was related to lower than anticipated claim settlement costs and favorable catastrophe reserve reestimates.

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

(\$ in millions)	2015	2014	2013
Reserve reestimates	\$7	\$(9 )	\$(43 )
Encompass brand underwriting (loss) income	(26 )	(76 )	47
Reserve reestimates as a % of underwriting (loss) income	(26.9 )%	11.8 %	91.5 %



## 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 2015, 2014, and 2013, and the effect of reestimates in each year.

(\$ in millions)

	January 1 reserves					
	2015		2014		2013	
Auto						
Homeowners						
Other personal lines						
Commercial lines						
Other business lines						
Total Allstate Protection						
(\$ in millions, except ratios)	2015		2014		2013	
	Reserve reestimate	Effect on combined ratio	Reserve reestimate	Effect on combined ratio	Reserve reestimate	Effect on combined ratio
Auto	\$30	0.1	\$(238)	(0.8)	\$(237)	(0.9)
Homeowners	(24)	(0.1)	29	0.1	(5)	—
Other personal lines	18	0.1	34	0.1	19	—
Commercial lines	2	—	(20)	(0.1)	(36)	(0.1)
Other business lines	2	—	(1)	—	(4)	—
Total Allstate Protection	\$28	0.1	\$(196)	(0.7)	\$(263)	(1.0)
Underwriting income	\$1,614		\$1,887		\$2,361	
Reserve reestimates as a % of underwriting income	(1.7)%		10.4%		11.1%	

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 and 2013 were primarily due to claim severity development that was better than expected.

Favorable homeowners reserve reestimates in 2015 were primarily due to favorable non-catastrophe reserve reestimates. Unfavorable homeowners reserve reestimates in 2014 were primarily due to unfavorable catastrophe reserve reestimates. Favorable homeowners reserve reestimates in 2013 were primarily due to favorable non-catastrophe reserve reestimates.

Other personal lines reserve reestimates in 2015, 2014 and 2013 were primarily the result of non-catastrophe loss development higher than anticipated in previous estimates.

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 and 2013 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, 2015 compared to December 31, 2014 relates to auto frequency and growth. The increase in pending claims as of December 31, 2014 compared to December 31, 2013 relates to growth and auto frequency.

Number of claims	2015	2014	2013
<b>Auto</b>			
Pending, beginning of year	487,227	473,703	472,078
New	6,752,401	6,330,940	5,902,746
Total closed	(6,717,738 )	(6,317,416 )	(5,901,121 )
Pending, end of year	521,890	487,227	473,703
<b>Homeowners</b>			
Pending, beginning of year	33,648	37,420	48,418
New	714,562	759,794	711,883
Total closed	(709,345 )	(763,566 )	(722,881 )
Pending, end of year	38,865	33,648	37,420
<b>Other personal lines</b>			
Pending, beginning of year	15,494	17,004	42,969
New	307,011	204,549	197,424
Total closed	(306,670 )	(206,059 )	(223,389 )
Pending, end of year	15,835	15,494	17,004
<b>Commercial lines</b>			
Pending, beginning of year	11,836	10,422	10,242
New	74,942	65,970	58,697
Total closed	(74,941 )	(64,556 )	(58,517 )
Pending, end of year	11,837	11,836	10,422
<b>Total Allstate Protection</b>			
Pending, beginning of year	548,205	538,549	573,707
New	7,848,916	7,361,253	6,870,750
Total closed	(7,808,694 )	(7,351,597 )	(6,905,908 )
Pending, end of year	588,427	548,205	538,549

**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)	2015		2014		2013	
	January 1 reserves	Reserve reestimate	January 1 reserves	Reserve reestimate	January 1 reserves	Reserve reestimate
Asbestos claims	\$1,014	\$39	\$1,017	\$87	\$1,026	\$74
Environmental claims	203	1	208	15	193	30
Other discontinued lines	395	13	421	10	418	38
Total Discontinued Lines and Coverages	\$1,612	\$53	\$1,646	\$112	\$1,637	\$142
Underwriting loss		\$(55 )		\$(115 )		\$(143 )
Reserve reestimates as a % of underwriting loss		(96.4 )%		(97.4 )%		(99.3 )%

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 asbestos in 2013 were primarily related to a cedent's settlement with a bankrupt insured of asbestos claims in excess of a previously advised amount and loss trends from other claims.

Reserve additions for environmental in 2014 were primarily related to greater reported loss activity than expected. Reserve additions for environmental in 2013 were primarily related to an adverse court ruling for site-specific disputed coverage.

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)	2015		2014		2013		
	Gross	Net	Gross	Net	Gross	Net	
<b>Asbestos claims</b>							
Beginning reserves	\$1,492	\$1,014	\$1,495	\$1,017	\$1,522	\$1,026	
Incurred claims and claims expense	51	39	124	87	84	74	
Claims and claims expense paid	(125)	(93)	(127)	(90)	(111)	(83)	
Ending reserves	\$1,418	\$960	\$1,492	\$1,014	\$1,495	\$1,017	
Annual survival ratio	11.3	10.3	11.7	11.3	13.5	12.3	
3-year survival ratio	11.7	10.8	12.5	12.1	14.2	14.5	
<b>Environmental claims</b>							
Beginning reserves	\$267	\$203	\$268	\$208	\$241	\$193	
Incurred claims and claims expense	(13)	1	22	15	44	30	
Claims and claims expense paid	(32)	(25)	(23)	(20)	(17)	(15)	
Ending reserves	\$222	\$179	\$267	\$203	\$268	\$208	
Annual survival ratio	6.9	7.2	11.6	10.2	15.8	13.9	
3-year survival ratio	9.3	9.0	14.1	12.7	14.9	13.9	
<b>Combined environmental and asbestos claims</b>							
Annual survival ratio	10.4	9.7	11.7	11.1	13.8	12.5	
3-year survival ratio	11.3	10.4	12.7	12.2	14.3	14.4	
Percentage of IBNR in ending reserves		56.9	%	56.9	%	55.4	%

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 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, 2015			December 31, 2014			December 31, 2013		
	Active policyholders	Net reserves	% of reserves	Active policyholders	Net reserves	% of reserves	Active policyholders	Net reserves	% of reserves
<b>Direct policyholders:</b>									
Primary	48	\$10	1 %	44	\$8	1 %	53	\$7	1 %
Excess	298	248	26	296	265	26	301	267	26
Total	346	258	27	340	273	27	354	274	27
Assumed reinsurance		156	16		166	16		171	17
IBNR		546	57		575	57		572	56
Total net reserves		\$960	100 %		\$1,014	100 %		\$1,017	100 %
Total reserve additions		\$39			\$87			\$74	

During the last three years, 40 direct primary and excess policyholders reported new claims, and claims of 47 policyholders were closed, decreasing the number of active policyholders by 7 during the period. 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. There was a net increase of 1 in 2013, including 12 new policyholders reporting new claims and the closing of 11 policyholders' claims.

IBNR net reserves decreased \$29 million as of December 31, 2015 compared to December 31, 2014. As of December 31, 2015 and 2014 IBNR represented 57% of total net asbestos reserves. 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	2015	2014	2013
<b>Asbestos</b>			
Pending, beginning of year	7,306	7,444	7,447
New	530	727	736
Total closed	(685	) (865	) (739
Pending, end of year	7,151	7,306	7,444
Closed without payment	398	433	451
<b>Environmental</b>			
Pending, beginning of year	3,552	3,717	3,676
New	347	381	464
Total closed	(395	) (546	) (423
Pending, end of year	3,504	3,552	3,717
Closed without payment	254	369	299

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 Michigan Catastrophic Claim Association provides indemnification for losses over a retention level and under the National Flood Insurance Program 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)	Standard & Poor's financial strength rating <sup>(1)</sup>	Reinsurance recoverable on paid and unpaid claims, net	
		2015	2014
Industry pools and facilities			
Michigan Catastrophic Claim Association ("MCCA")	N/A	\$4,664	\$4,419
New Jersey Property-Liability Insurance Guaranty Association ("PLIGA")	N/A	500	508
North Carolina Reinsurance Facility	N/A	71	60
National Flood Insurance Program	N/A	27	7
Other		3	2
Subtotal		5,265	4,996
Other reinsurance			
Lloyd's of London ("Lloyd's")	A+	183	202
Westport Insurance Corporation	AA-	62	65
New England Reinsurance Corporation	N/A	32	33
Clearwater Insurance Company	N/A	28	27
R&Q Reinsurance Company	N/A	26	28
Bedivere Insurance Company	N/A	23	23
Other, including allowance for future uncollectible reinsurance recoverables		360	409
Subtotal		714	787
Total Property-Liability		\$5,979	\$5,783

<sup>(1)</sup> N/A reflects no rating available.

As of December 31, 2015 and 2014, MCCA includes \$29 million and \$32 million of reinsurance recoverable on

<sup>(2)</sup> paid claims, respectively, and \$4.61 billion and \$4.39 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 \$80 million and \$95 million as of December 31, 2015 and 2014, respectively. The allowance for Discontinued Lines and Coverages represents 11.9% and 12.9% of the related reinsurance recoverable balances as of December 31, 2015 and 2014, 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, 2015, 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 \$21 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)	2015	2014	2013
Ceded property-liability premiums earned	\$1,006	\$1,030	\$1,069
Ceded property-liability claims and claims expense			
Industry pool and facilities			
MCCA	\$337	\$1,042	\$954
National Flood Insurance Program	120	38	289
PLIGA	9	158	356
Other	78	69	63
Subtotal industry pools and facilities	544	1,307	1,662
Other	58	86	55
Ceded property-liability claims and claims expense	\$602	\$1,393	\$1,717

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 National Flood Insurance Program and the MCCA. In 2014, ceded property-liability premiums earned decreased \$39 million, primarily due to decreased reinsurance premium rates and acquiring additional reinsurance in the capital markets. MCCA ceded premiums were \$84 million, \$99 million and \$101 million in 2015, 2014 and 2013, respectively.

Ceded property-liability claims and claims expense decreased in 2015 primarily due to lower reserve increases for the MCCA and PLIGA programs. Ceded property-liability claims and claims expense decreased in 2014 primarily due to lower amounts ceded to the National Flood Insurance Program and lower reserve increases for the PLIGA program. Reserve increases in the PLIGA program in 2015 are attributable to limited personal injury protection coverage on policies written prior to 2004. Reserve increases in the PLIGA program in 2014 are attributable to unlimited personal injury protection coverage on policies written prior to 1991. The ceded claims reflects 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 auto insurance law provides unlimited lifetime coverage for medical expenses resulting from 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 auto policies in Michigan with unlimited personal injury protection coverage, we expect pending MCCA covered 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)	2015		2014		2013	
	Gross	Net	Gross	Net	Gross	Net
Beginning reserves	\$4,804	\$417	\$3,798	\$365	\$2,866	\$299
Incurred claims and claims expense-current year	526	200	420	178	417	181
Incurred claims and claims expense-prior years	37	26	819	19	731	13

Edgar Filing: ALLSTATE CORP - Form 10-K

Claims and claims expense paid-current year <sup>(2)</sup>	(56 )	(55 )	(46 )	(45 )	(44 )	(42 )
Claims and claims expense paid-prior years <sup>(2)</sup>	(190 )	(102 )	(187 )	(100 )	(172 )	(86 )
Ending reserves	\$5,121 <sup>(1)</sup>	\$486	\$4,804 <sup>(1)</sup>	\$417	\$3,798 <sup>(1)</sup>	\$365

---

Reserves for the years ended December 31, 2015 and 2014, comprise 86% case reserves (claims with a file review <sup>(1)</sup> conducted) and 14% IBNR. Reserves for the year ended December 31, 2013 comprise 66% case reserves and 34% IBNR.

<sup>(2)</sup> Paid claims and claims expenses, reported in the table for the current and prior year, recovered from the MCCA totaled \$89 million, \$88 million and \$88 million in 2015, 2014 and 2013, respectively.

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	2015	2014	2013
Pending, beginning of year	4,936	4,684	4,029
New	8,956	8,620	8,531
Total closed	(8,765	) (8,368	) (7,876
Pending, end of year	5,127	4,936	4,684

As of December 31, 2015, approximately 1,250 of our pending claims have been reported to the MCCA, of which approximately 65% represents claims that occurred more than 5 years ago. There are 68 Allstate brand claims with reserves in excess of \$15 million as of December 31, 2015 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.

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, tornados, 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 2016 catastrophe reinsurance program in the second quarter of 2016.

We expect the program will be similar to our 2015 catastrophe reinsurance program. For further details of the existing 2015 program, see Note 10 of the consolidated financial statements.

#### ALLSTATE FINANCIAL 2015 HIGHLIGHTS

Allstate Financial net income applicable to common shareholders was \$663 million in 2015 compared to \$631 million in 2014.

Allstate Financial premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled \$2.14 billion in 2015, an increase of 0.5% from \$2.13 billion in 2014.

Allstate Financial investments totaled \$36.79 billion as of December 31, 2015, reflecting a decrease of \$2.02 billion from \$38.81 billion as of December 31, 2014. Net investment income decreased 11.6% to \$1.88 billion in 2015 from \$2.13 billion in 2014.

Allstate Financial net realized capital gains totaled \$267 million in 2015 compared to \$144 million in 2014.

Allstate Financial contractholder funds totaled \$21.30 billion as of December 31, 2015, reflecting a decrease of \$1.23 billion from \$22.53 billion as of December 31, 2014.

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, and institutional products consisting of funding agreements sold to unaffiliated trusts that use them to back medium-term notes. Allstate exclusive agencies and exclusive financial specialists have a portfolio of non-proprietary products to sell, including mutual funds, fixed and variable annuities, disability insurance and long-term care insurance, to help meet customer needs.

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), managing the run-off of our in-force annuity products while taking actions to improve returns, and emphasizing capital efficiency and shareholder returns.

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

Our employer relationships through Allstate Benefits also afford opportunities to offer Allstate products to more customers and grow our business. 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 life. Allstate Benefits differentiates itself by offering a broad product portfolio, flexible enrollment solutions and technology (including significant presence on private exchanges), 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 lower cost benefits, 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 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.

Allstate Benefits is partnering with other Allstate Protection Emerging Businesses to expand our small business presence and enhance small business enrollment capabilities and technology. Additionally, we are increasing Allstate exclusive agency engagement to drive cross selling of voluntary benefits products, and developing opportunities for revenue growth through new product and fee income offerings. The Allstate Benefits strategy for growth also 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 for increased new sales. Allstate Benefits new business written premiums increased 6.0% and 5.0% in 2015 and 2014, respectively. Allstate Benefits also expanded into the Canadian market in 2015.

Our in force deferred and immediate annuity business has 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. We have initiated a mortality study for our structured settlement annuities with life contingencies, which is expected to be completed in 2016, to update our mortality assumptions concerning these trends. 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. We continue to increase investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic asset

or operating performance to more appropriately match the long-term nature of our immediate annuities. To transition our annuity business to a more efficient variable cost structure, we continue to assess additional utilization of outsourcing arrangements for the administration of the business.

Allstate Financial outlook

Our growth initiatives continue to focus on increasing the number of customers served through our proprietary Allstate agency and Allstate Benefits channels.

We expect lower investment spread on annuities due to the continuing managed reduction in contractholder funds, the low interest rate environment and investment maturity profile shortening actions.

Allstate Financial will continue to focus on improving long-term returns on our in-force annuity products and managing the impacts of historically low interest rates. We anticipate a continuation of our asset allocation strategy for long-term immediate annuities to have less reliance on investments whose returns come primarily from interest payments to investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic asset or operating performance, including performance-based investments. 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.

Allstate Financial continues 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)	2015	2014	2013
<b>Revenues</b>			
Life and annuity premiums and contract charges	\$2,158	\$2,157	\$2,352
Net investment income	1,884	2,131	2,538
Realized capital gains and losses	267	144	74
Total revenues	4,309	4,432	4,964
<b>Costs and expenses</b>			
Life and annuity contract benefits	(1,803)	(1,765)	(1,917)
Interest credited to contractholder funds	(761)	(919)	(1,278)
Amortization of DAC	(262)	(260)	(328)
Operating costs and expenses	(472)	(466)	(565)
Restructuring and related charges	—	(2)	(7)
Total costs and expenses	(3,298)	(3,412)	(4,095)
Gain (loss) on disposition of operations	3	(90)	(687)
Income tax expense	(351)	(299)	(87)
Net income applicable to common shareholders	\$663	\$631	\$95
<b>Life insurance</b>			
Life insurance	\$248	\$242	\$15
Accident and health insurance	85	105	87
Annuities and institutional products	330	284	(7)
Net income applicable to common shareholders	\$663	\$631	\$95
<b>Allstate Life</b>			
Allstate Life	\$229	\$232	\$2
Allstate Benefits	104	115	100
Allstate Annuities	330	284	(7)
Net income applicable to common shareholders	\$663	\$631	\$95

Edgar Filing: ALLSTATE CORP - Form 10-K

Investments as of December 31	\$36,792	\$38,809	\$39,105
Investments classified as held for sale as of December 31	—	—	11,983

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 sale of LBL on April 1, 2014. 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.

Net income applicable to common shareholders was \$631 million in 2014 compared to \$95 million in 2013. The increase primarily relates to lower loss on disposition charges related to the LBL sale, partially offset by the reduction in business due to the sale of LBL on April 1, 2014. Net income applicable to common shareholders in 2014 and 2013 included an after-tax loss on disposition of LBL totaling \$60 million and \$521 million, respectively. Excluding the loss on disposition as well as the net income of the LBL business for second through fourth quarter 2013 of \$116 million, net income applicable to common shareholders increased \$191 million in 2014 compared to 2013, primarily due to lower interest credited to contractholder funds, higher net realized capital gains, lower operating costs and expenses, lower amortization of DAC, and higher life and annuity premiums and contract charges, partially offset by higher life and annuity contract benefits and lower net investment income.

**Analysis of revenues** 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. Total revenues decreased 10.7% or \$532 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of \$651 million, total revenues increased 2.8% or \$119 million in 2014 compared to 2013, 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, immediate annuities with life contingencies, and accident and health insurance products that have significant mortality or morbidity risk. Contract charges are revenues generated from interest-sensitive and variable life insurance and fixed annuities for which deposits are classified as contractholder funds or separate account liabilities. Contract charges are assessed against the contractholder account values for maintenance, administration, cost of insurance and surrender prior to contractually specified dates.

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

(\$ in millions)	2015	2014	2013
<b>Underwritten products</b>			
Traditional life insurance premiums	\$505	\$476	\$455
Accident and health insurance premiums	2	8	26
Interest-sensitive life insurance contract charges	716	781	991
Subtotal — Allstate Life	1,223	1,265	1,472
Traditional life insurance premiums	37	35	36
Accident and health insurance premiums	778	736	694
Interest-sensitive life insurance contract charges	106	98	95
Subtotal — Allstate Benefits	921	869	825
Total underwritten products	2,144	2,134	2,297
<b>Annuities</b>			
Immediate annuities with life contingencies premiums	—	4	37
Other fixed annuity contract charges	14	19	18
Total — Allstate Annuities	14	23	55
Life and annuity premiums and contract charges <sup>(1)</sup>	\$2,158	\$2,157	\$2,352

(1) Contract charges related to the cost of insurance totaled \$550 million, \$593 million and \$725 million in 2015, 2014 and 2013, respectively.

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.

Total premiums and contract charges decreased 8.3% or \$195 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of \$254 million, premiums and contract charges increased \$59 million in 2014 compared to 2013, primarily due to growth in Allstate Benefits accident and health insurance business and increased traditional life insurance premiums due to higher renewals and sales through Allstate agencies, partially offset by lower premiums on immediate annuities with life contingencies due to discontinuing new sales January 1, 2014. The growth at Allstate Benefits primarily relates to accident and critical illness products and an increase in the number of employer groups.

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)	2015	2014	2013
Contractholder funds, beginning balance	\$22,529	\$24,304	\$39,319
Contractholder funds classified as held for sale, beginning balance	—	10,945	—
Total contractholder funds, including those classified as held for sale	22,529	35,249	39,319
<b>Deposits</b>			
Interest-sensitive life insurance	1,004	1,059	1,378
Fixed annuities	199	274	1,062
Total deposits	1,203	1,333	2,440
Interest credited	760	919	1,295
<b>Benefits, withdrawals, maturities and other adjustments</b>			
Benefits	(1,077	) (1,197	) (1,535
Surrenders and partial withdrawals	(1,278	) (2,273	) (3,299
Maturities of and interest payments on institutional products	(1	) (2	) (1,799
Contract charges	(818	) (881	) (1,112
Net transfers from separate accounts	7	7	12
Other adjustments <sup>(1)</sup>	(30	) 36	(72
Total benefits, withdrawals, maturities and other adjustments	(3,197	) (4,310	) (7,805
Contractholder funds sold in LBL disposition	—	(10,662	) —
Contractholder funds classified as held for sale, ending balance	—	—	(10,945
Contractholder funds, ending balance	\$21,295	\$22,529	\$24,304

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 <sup>(1)</sup> 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 5.5% and 7.3% in 2015 and 2014, respectively, primarily due to the continued runoff of our deferred fixed annuity business that we stopped offering beginning January 1, 2014.

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. Contractholder deposits decreased 45.4% in 2014 compared to 2013, primarily due to no longer offering fixed annuity products beginning January 1, 2014, as well as lower deposits on interest-sensitive life insurance due to the LBL sale.

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. Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 31.1% to \$2.27 billion in 2014 from \$3.30 billion in 2013, primarily due to the LBL sale. 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 7.1% in 2015 compared to 9.9% in 2014 and 10.2% in 2013.

Maturities of and interest payments on institutional products included a \$1.75 billion maturity in 2013. There are \$85 million of institutional products outstanding as of December 31, 2015.

Edgar Filing: ALLSTATE CORP - Form 10-K

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

(\$ in millions)	2015	2014	2013
Fixed income securities	\$1,296	\$1,561	\$1,986
Equity securities	29	22	13
Mortgage loans	213	248	352
Limited partnership interests	287	267	175
Short-term investments	3	2	1
Other	114	100	114
Investment income, before expense	1,942	2,200	2,641
Investment expense	(58)	(69)	(103)
Net investment income	\$1,884	\$2,131	\$2,538

Allstate Life	\$490	\$519	\$622
Allstate Benefits	71	72	72
Allstate Annuities	1,323	1,540	1,844
Net investment income	\$1,884	\$2,131	\$2,538

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 invested in shorter duration fixed income securities and public equity securities that are expected to contribute lower net investment income and portfolio yields. Over time, we will shift the majority of the proceeds to performance-based investments in which a greater proportion of return is derived from idiosyncratic asset or operating performance, to more appropriately 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. While the dispositions generated net realized capital gains, investment income will be impacted by lower yields on the reinvested proceeds until repositioned to performance-based investments.

Net investment income decreased 16.0% or \$407 million to \$2.13 billion in 2014 from \$2.54 billion in 2013.

Excluding results of the LBL business for second through fourth quarter 2013 of \$397 million, net investment income decreased \$10 million in 2014 compared to 2013, primarily due to lower average investment balances, partially offset by higher limited partnership income.

The average pre-tax investment yields were 5.4% for 2015, 5.6% for 2014 and 5.1% for 2013.

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

(\$ in millions)	2015	2014	2013
Impairment write-downs	\$(63)	\$(11)	\$(33)
Change in intent write-downs	(65)	(44)	(19)
Net other-than-temporary impairment losses recognized in earnings	(128)	(55)	(52)
Sales and other	385	185	112
Valuation and settlements of derivative instruments	10	14	14
Realized capital gains and losses, pre-tax	267	144	74
Income tax expense	(94)	(50)	(28)
Realized capital gains and losses, after-tax	\$173	\$94	\$46

Allstate Life	\$1	\$4	\$(5)
Allstate Benefits	—	1	(1)
Allstate Annuities	172	89	52
Realized capital gains and losses, after-tax	\$173	\$94	\$46

For further discussion of realized capital gains and losses, see the Investments section of the MD&A.

Analysis of costs and expenses 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. Total costs and expenses decreased 16.7% or \$683 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of \$475 million, total costs and expenses decreased \$208 million in 2014 compared to

2013, primarily due to lower interest credited to contractholder funds, lower operating costs and expenses and lower amortization of DAC, partially offset by higher life and annuity contract benefits.

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.

Life and annuity contract benefits decreased 7.9% or \$152 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of \$173 million, life and annuity contract benefits increased \$21 million in 2014 compared to 2013, primarily due to worse mortality experience on life insurance and growth at Allstate Benefits. Our 2014 annual review of assumptions resulted in an \$11 million increase in reserves primarily for secondary guarantees on interest-sensitive life insurance due to increased projected exposure to secondary guarantees. 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, \$521 million and \$527 million in 2015, 2014 and 2013, respectively.

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

(\$ in millions)	2015	2014	2013
Life insurance	\$250	\$287	\$301
Accident and health insurance	(10	) (8	) (18
Subtotal — Allstate Life	240	279	283
Life insurance	24	17	21
Accident and health insurance	396	397	356
Subtotal — Allstate Benefits	420	414	377
Allstate Annuities	(80	) (85	) (77
Total benefit spread	\$580	\$608	\$583

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.

Benefit spread increased 4.3% or \$25 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of \$11 million, benefit spread increased \$36 million in 2014 compared to 2013, primarily due to growth in Allstate Benefits accident and health insurance and higher premiums and cost of insurance contract charges on life insurance, partially offset by worse mortality experience on life insurance and immediate annuities.

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. Interest credited to contractholder funds decreased 28.1% or \$359 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of \$270 million, interest credited to contractholder funds decreased \$89 million in 2014 compared to 2013, 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 \$2 million in 2015 compared to \$22 million in 2014 and \$24 million in 2013.

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)	2015	2014	2013
Life insurance	\$130	\$93	\$93
Accident and health insurance	5	8	14
Net investment income on investments supporting capital	76	110	113
Subtotal — Allstate Life	211	211	220
Life insurance	10	10	12
Accident and health insurance	11	11	11
Net investment income on investments supporting capital	14	15	14
Subtotal — Allstate Benefits	35	36	37
Annuities and institutional products	238	320	342
Net investment income on investments supporting capital	130	146	158
Subtotal — Allstate Annuities	368	466	500
Investment spread before valuation changes on embedded derivatives that are not hedged	614	713	757
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	(2)	(22)	(24)
Total investment spread	\$612	\$691	\$733

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. Investment spread before valuation changes on embedded derivatives that are not hedged decreased 5.8% or \$44 million in 2014 compared to 2013. Excluding results of the LBL business for the second through fourth quarter of 2013 of \$149 million, investment spread before valuation changes on embedded derivatives that are not hedged increased \$105 million in 2014 compared to 2013, primarily due to higher limited partnership income, higher fixed income yields and lower crediting rates, partially offset by the continued managed reduction in our spread-based business in force.

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		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Interest-sensitive life insurance	5.2	5.3	5.1	3.9	3.9	3.8	1.3	1.4	1.3
Deferred fixed annuities and institutional products	4.3	4.5	4.5	2.8	2.9	2.9	1.5	1.6	1.6
Immediate fixed annuities with and without life contingencies	7.0	7.3	6.9	5.9	6.0	6.0	1.1	1.3	0.9
Investments supporting capital, traditional life and other products	4.0	4.4	4.0	n/a	n/a	n/a	n/a	n/a	n/a





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

(\$ in millions)	2015	2014	2013
Immediate fixed annuities with life contingencies	\$8,714	\$8,904	\$8,928
Other life contingent contracts and other	3,533	3,476	3,458
Reserve for life-contingent contract benefits	\$12,247	\$12,380	\$12,386
Interest-sensitive life insurance	\$7,975	\$7,880	\$7,777
Deferred fixed annuities	9,748	10,860	12,524
Immediate fixed annuities without life contingencies	3,226	3,450	3,675
Institutional products	85	85	85
Other	261	254	243
Contractholder funds	\$21,295	\$22,529	\$24,304
Liabilities held for sale	\$—	\$—	\$12,839

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

(\$ in millions)	2015	2014	2013
Allstate Life	\$2,535	\$2,481	\$2,509
Allstate Benefits	897	874	855
Allstate Annuities	8,815	9,025	9,022
Reserve for life-contingent contract benefits	\$12,247	\$12,380	\$12,386
Allstate Life	\$7,226	\$7,130	\$7,016
Allstate Benefits	942	929	919
Allstate Annuities	13,127	14,470	16,369
Contractholder funds	\$21,295	\$22,529	\$24,304

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

(\$ in millions)	2015	2014	2013
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	\$256	\$263	\$298
Amortization relating to realized capital gains and losses <sup>(1)</sup> and valuation changes on embedded derivatives that are not hedged	5	5	7
Amortization acceleration (deceleration) for changes in assumptions (“DAC unlocking”)	1	(8	) 23
Total amortization of DAC	\$262	\$260	\$328
Allstate Life	\$133	\$140	\$223
Allstate Benefits	124	112	102
Allstate Annuities	5	8	3
Total amortization of DAC	\$262	\$260	\$328

The impact of realized capital gains and losses on amortization of DAC is dependent upon the relationship between <sup>(1)</sup> 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 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.

Amortization of DAC decreased 20.7% or \$68 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of \$1 million, amortization of DAC decreased \$67 million in 2014 compared to 2013, primarily due to amortization deceleration for changes in assumptions in 2014 compared to amortization acceleration in 2013, partially offset by higher amortization on accident and health insurance resulting from growth.

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 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 (credit to income) 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.

In 2013, the review resulted in an acceleration of DAC amortization of \$23 million. Amortization acceleration of \$38 million related to interest-sensitive life insurance and was primarily due to an increase in projected mortality and expenses, partially offset by increased projected investment margins. Amortization deceleration of \$12 million related to fixed annuities and was primarily due to an increase in projected investment margins. Amortization deceleration of \$3 million related to variable life insurance.

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	
	2015	2014	2015	2014	2015	2014	2015	2014
Balance, beginning of year	\$753	\$711	\$905	\$991	\$47	\$45	\$1,705	\$1,747
Classified as held for sale, beginning balance	—	13	—	700	—	30	—	743
Total, including those classified as held for sale	753	724	905	1,691	47	75	1,705	2,490
Acquisition costs deferred	178	167	107	113	—	—	285	280
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 <sup>(1)</sup>	(139 )	(125 )	(111 )	(130 )	(6 )	(8 )	(256 )	(263 )
Amortization relating to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged <sup>(1)</sup>	—	—	(6 )	(8 )	1	3	(5 )	(5 )
Amortization (acceleration) deceleration for changes in assumptions (“DAC unlocking” <sup>(2)</sup> )	—	—	(1 )	10	—	(2 )	(1 )	8
Effect of unrealized capital gains and losses <sup>(2)</sup>	—	—	99	(97 )	5	(1 )	104	(98 )
Sold in LBL disposition	—	(13 )	—	(674 )	—	(20 )	—	(707 )
Ending balance	\$792	\$753	\$993	\$905	\$47	\$47	\$1,832	\$1,705

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

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

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

Operating costs and expenses 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. Operating costs and expenses decreased 17.5% or \$99 million in 2014 compared to 2013. Excluding results of the LBL business for second through fourth quarter 2013 of \$31 million, operating costs and expenses decreased \$68 million in 2014 compared to 2013.

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

(\$ in millions)	2015	2014	2013
Non-deferrable commissions	\$95	\$99	\$103
General and administrative expenses	325	314	398
Taxes and licenses	52	53	64
Total operating costs and expenses	\$472	\$466	\$565

Edgar Filing: ALLSTATE CORP - Form 10-K

Restructuring and related charges	\$—	\$2	\$7
Allstate Life	\$212	\$232	\$282
Allstate Benefits	222	206	199
Allstate Annuities	38	28	84
Total operating costs and expenses	\$472	\$466	\$565

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.

General and administrative expenses decreased 21.1% or \$84 million in 2014 compared to 2013, primarily due to actions to improve strategic focus and modernize the operating model. This included the sale of LBL, exiting the master brokerage agency distribution channel, discontinuing sales of proprietary annuity products, and other rightsizing and profitability actions.

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

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, 2015 and 2014, 21% and 23%, respectively, of our face amount of life insurance in force was reinsured. Additionally, we ceded substantially all of the risk associated with our variable annuity business.

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

(\$ in millions)	Standard & Poor's financial strength rating <sup>(1)</sup>	Reinsurance recoverable on paid and unpaid benefits	
		2015	2014
Prudential Insurance Company of America	AA-	\$1,438	\$1,461
RGA Reinsurance Company	AA-	268	262
Swiss Re Life and Health America, Inc.	AA-	153	160
Munich American Reassurance	AA-	103	98
Scottish Re Group	N/A	94	82
Mutual of Omaha Insurance	AA-	85	92
Transamerica Life Group	AA-	83	84
Manulife Insurance Company	AA-	56	57
Triton Insurance Company	N/A	51	53
American Health & Life Insurance Co.	N/A	43	22
Lincoln National Life Insurance	AA-	34	37
Security Life of Denver	A	31	84
General Re Life Corporation	AA+	23	26
SCOR Global Life	AA-	18	17
Paul Revere Life Insurance Company	A	2	116
Other <sup>(2)</sup>		57	56
Total		\$2,539	\$2,707

<sup>(1)</sup> N/A reflects no Standard & Poor's ("S&P") rating available.

<sup>(2)</sup> As of December 31, 2015 and 2014, the other category includes \$47 million and \$44 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, 2015.

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 2015 HIGHLIGHTS

Investments totaled \$77.76 billion as of December 31, 2015, decreasing from \$81.11 billion as of December 31, 2014. Unrealized net capital gains totaled \$1.03 billion as of December 31, 2015, decreasing from \$3.17 billion as of December 31, 2014.

Net investment income was \$3.16 billion in 2015, a decrease of 8.8% from \$3.46 billion in 2014.

Net realized capital gains were \$30 million in 2015 compared to \$694 million in 2014.

## INVESTMENTS

**Overview and strategy** The return on our investment portfolios is an important component of our financial results. 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 and limited partnerships, as well as 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 and other equity investments. 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 move between strategies.

**Market-Based Core** strategy seeks to deliver predictive earnings aligned to business needs through investments primarily in public fixed income and equity. Private fixed income assets, such as commercial mortgages, bank loans and privately placed debt are also included in this category. As of December 31, 2015, 83% of the portfolio follows this strategy with 86% in fixed income securities and mortgage loans and 7% in equity securities, including \$1 billion of equity securities that we may not hold for a period of time sufficient to recover unrealized losses.

**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. As of December 31, 2015, 10% of the portfolio follows this strategy with 82% in fixed income securities and 9% in equity securities, including \$728 million of equity securities that we may not hold for a period of time sufficient to recover unrealized losses.

**Performance-Based Long-Term ("PBLT")** strategy seeks to deliver attractive risk-adjusted returns over a longer horizon. The achieved return is a function of both general market conditions and the performance of the underlying assets or businesses. The portfolio, which primarily includes private equity, real estate, infrastructure, timber and agriculture-related assets, is diversified across a number of characteristics, including managers or partners, vintage years, strategies, geographies (including international) and industry sectors or property types. These investments are

generally illiquid in nature, often require specialized expertise, typically involve a third party manager, and may offer the potential to add value through transformation at the company or property level. As of December 31, 2015, 7% of the portfolio follows this strategy with 89% in limited partnership interests.

Performance-Based Opportunistic strategy seeks to earn attractive returns by making investments that involve asset dislocations or special situations, often in private markets. The portfolio primarily includes distressed and event driven assets primarily in fixed income and equity.



## Investments outlook

The FOMC raised the federal funds target rate in December 2015 for the first time since December 2008, and in January 2016, the FOMC left the rate unchanged. We anticipate that interest rates will continue to increase but remain below historic averages for an extended period of time and that financial markets will 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 a result of maturity profile shortening in 2015 to reduce the risk of rising interest rates in Allstate Financial and 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 higher allocation to market-based active strategies.

• Continue to shift the portfolio mix to include more performance-based investments, primarily private equity, real estate, infrastructure, timber and agriculture-related assets. 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, 2015 is presented in the following table.

(\$ in millions)	Property-Liability <sup>(5)</sup>		Allstate Financial <sup>(5)</sup>		Corporate and Other <sup>(5)</sup>		Total	
		Percent to total		Percent to total		Percent to total		Percent to total
Fixed income securities <sup>(1)</sup>	\$29,732	77.3 %	\$26,038	70.8 %	\$2,178	87.6 %	\$57,948	74.5 %
Equity securities <sup>(2)</sup>	3,480	9.0	1,599	4.4	3	0.1	5,082	6.5
Mortgage loans	296	0.8	4,042	11.0	—	—	4,338	5.6
Limited partnership interests <sup>(3)</sup>	2,575	6.7	2,295	6.2	4	0.2	4,874	6.3
Short-term investments <sup>(4)</sup>	959	2.5	861	2.3	302	12.1	2,122	2.7
Other	1,437	3.7	1,957	5.3	—	—	3,394	4.4
Total	\$38,479	100.0 %	\$36,792	100.0 %	\$2,487	100.0 %	\$77,758	100.0 %

Fixed income securities are carried at fair value. Amortized cost basis for these securities was \$29.89 billion,

<sup>(1)</sup> \$25.15 billion, \$2.16 billion and \$57.20 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

<sup>(2)</sup> Equity securities are carried at fair value. Cost basis for these securities was \$3.24 billion, \$1.57 billion, \$3 million and \$4.81 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

<sup>(3)</sup> We have commitments to invest in additional limited partnership interests totaling \$1.28 billion, \$1.27 billion and \$2.55 billion for Property-Liability, Allstate Financial and in Total, respectively.

Short-term investments are carried at fair value. Amortized cost basis for these investments was \$959 million, \$861

<sup>(4)</sup> million, \$302 million and \$2.12 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

<sup>(5)</sup> Balances reflect the elimination of related party investments between segments.

Investments totaled \$77.76 billion as of December 31, 2015, decreasing from \$81.11 billion as of December 31, 2014, primarily due to common share repurchases, a decline in fixed income valuations resulting from widening credit spreads and an increase in risk-free interest rates, net reductions in contractholder funds, dividends paid to shareholders and a decline in equity valuations.

The Property-Liability investment portfolio totaled \$38.48 billion as of December 31, 2015, decreasing from \$39.08 billion as of December 31, 2014, primarily due to dividends paid by Allstate Insurance Company ("AIC") to The

Allstate Corporation (the “Corporation”) and a decline in fixed income and equity valuations, partially offset by positive operating cash flows.

The Allstate Financial investment portfolio totaled \$36.79 billion as of December 31, 2015, decreasing from \$38.81 billion as of December 31, 2014, primarily due to a decline in fixed income valuations, net reductions in contractholder funds and dividends paid by ALIC to AIC.

The Corporate and Other investment portfolio totaled \$2.49 billion as of December 31, 2015, decreasing from \$3.22 billion as of December 31, 2014, 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, 2015.

(\$ in millions)	Total	Market-Based Core	Market-Based Active	Performance-Based Long-Term	Performance-Based Opportunistic
Fixed income securities	\$57,948	\$51,175	\$6,691	\$ 47	\$ 35
Equity securities	5,082	4,210	764	77	31
Mortgage loans	4,338	4,338	—	—	—
Limited partnership interests	4,874	364	—	4,510	—
Short-term investments	2,122	1,631	491	—	—
Other	3,394	2,783	183	415	13
Total	\$77,758	\$64,501	\$8,129	\$ 5,049	\$ 79
% of total		83	% 10	% 7	% —
Property-Liability	\$38,479	\$28,525	\$7,137	\$ 2,764	\$ 53
% of Property-Liability		74	% 19	% 7	% —
Allstate Financial	\$36,792	\$33,490	\$992	\$ 2,284	\$ 26
% of Allstate Financial		91	% 3	% 6	% —
Corporate & Other	\$2,487	\$2,486	\$—	\$ 1	\$ —
% of Corporate & Other		100	% —	% —	% —

During 2015, 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 reduced the portfolio's maturity profile and invested proceeds from the sale of longer duration fixed income securities in shorter duration fixed income securities and public equity securities. These actions have reduced our exposure to rising interest rates. We continue increasing our performance-based investments in both the Property-Liability and Allstate Financial portfolios, consistent with our ongoing strategy to have a greater proportion of ownership of assets and equity investments. In Allstate Financial's portfolio, performance-based and other equity investments 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, 2015	Percent to total investments	Fair value as of December 31, 2014	Percent to total investments
U.S. government and agencies	\$3,922	5.0	\$4,328	5.3
Municipal	7,401	9.5	8,497	10.5
Corporate	41,827	53.8	42,144	52.0
Foreign government	1,033	1.4	1,645	2.0
ABS	2,327	3.0	3,978	4.9
RMBS	947	1.2	1,207	1.5
CMBS	466	0.6	615	0.8
Redeemable preferred stock	25	—	26	—
Total fixed income securities	\$57,948	74.5	\$62,440	77.0

As of December 31, 2015, 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, Fitch, Dominion, Kroll or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. Credit ratings below these designations are considered low credit quality or below investment grade, which includes high yield bonds. Fixed income securities are rated by third party credit rating agencies, the National Association of Insurance Commissioners ("NAIC"), and/or are internally rated. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third party rating. Our initial investment decisions and ongoing monitoring procedures for fixed income

securities are based on a thorough due diligence process which includes, but is not limited to, an assessment of the credit quality, sector, structure, and liquidity risks of each issue.

The following table summarizes the fair value and unrealized net capital gains and losses for fixed income securities by investment grade and below investment grade classifications as of December 31, 2015.

(\$ 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	\$3,922	\$86	\$—	\$—	\$3,922	\$86
Municipal						
Tax exempt	4,829	90	45	(4)	4,874	86
Taxable	2,461	275	66	8	2,527	283
Corporate						
Public	25,631	285	4,771	(251)	30,402	34
Privately placed	8,673	253	2,752	(134)	11,425	119
Foreign government	1,027	50	6	—	1,033	50
ABS						
Collateralized debt obligations (“CDO”)	709	(14)	68	(21)	777	(35)
Consumer and other asset-backed securities (“Consumer and other ABS”)	1,530	2	20	1	1,550	3
RMBS						
U.S. government sponsored entities (“U.S. Agency”)	199	7	—	—	199	7
Non-agency	68	1	680	82	748	83
CMBS	235	6	231	22	466	28
Redeemable preferred stock	25	3	—	—	25	3
Total fixed income securities	\$49,309	\$1,044	\$8,639	\$(297)	\$57,948	\$747

Municipal bonds, including tax exempt and taxable securities, totaled \$7.40 billion as of December 31, 2015 with an unrealized net capital gain of \$369 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 \$414 million of pre-refunded bonds, as of December 31, 2015.

(\$ in millions)	State general obligation	Local general obligation	Revenue <sup>(1)</sup>	Fair value	Amortized cost	Average credit rating
Texas	\$18	\$337	\$289	\$644	\$591	Aa
New York	10	108	419	537	519	Aa
California	74	185	180	439	394	Aa
Florida	87	36	273	396	380	Aa
Washington	223	2	165	390	376	Aa
Oregon	92	191	59	342	308	Aa
Michigan	153	8	116	277	269	Aa
Pennsylvania	65	48	130	243	237	Aa
Arizona	—	68	155	223	208	A
New Jersey	101	34	87	222	206	A
All others	790	686	1,798	3,274	3,150	Aa
Total	\$1,613	\$1,703	\$3,671	\$6,987	\$6,638	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, 2015, 99.6% of our insured municipal bond portfolio is rated investment grade.

Corporate bonds, including publicly traded and privately placed, totaled \$41.83 billion as of December 31, 2015, with an unrealized net capital gain of \$153 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 \$11.43 billion portfolio of privately placed securities is diversified by issuer, industry sector and country. The portfolio is made up of 459 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 \$7.52 billion of below investment grade bonds, \$2.75 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 291 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 \$1.03 billion as of December 31, 2015, with 99.4% rated investment grade and an unrealized net capital gain of \$50 million. Of these securities, 59.8% are in Canadian governmental and provincial securities (53.8% of which are held by our Canadian companies), 22.3% are backed by the U.S. government and the remaining 17.9% 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 \$2.33 billion as of December 31, 2015, with 96.2% rated investment grade and an unrealized net capital loss of \$32 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 \$777 million as of December 31, 2015, with 91.2% rated investment grade and an unrealized net capital loss of \$35 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 \$1.55 billion as of December 31, 2015, with 98.7% rated investment grade.

Consumer and other ABS consists of \$819 million of consumer auto, \$497 million of credit card and \$234 million of other ABS with unrealized net capital losses of \$3 million, unrealized net capital losses of \$1 million and unrealized net capital gains of \$7 million, respectively.

RMBS totaled \$947 million as of December 31, 2015, with 28.2% rated investment grade and an unrealized net capital gain of \$90 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

\$748 million as of December 31, 2015, with 9.1% rated investment grade and an unrealized net capital gain of \$83 million.

CMBS totaled \$466 million as of December 31, 2015, with 50.4% rated investment grade and an unrealized net capital gain of \$28 million. The CMBS portfolio is subject to credit risk and has a sequential paydown structure. Of the CMBS investments, 95.7% 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 \$5.08 billion as of December 31, 2015, with an unrealized net capital gain of \$276 million. As of December 31, 2015, equity securities that we may not hold for a period of time sufficient to recover unrealized losses totaled \$1.7 billion, which is discussed further in the realized capital gains and losses section.

Mortgage loans, which are primarily held in the Allstate Financial portfolio, totaled \$4.34 billion as of December 31, 2015 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, 2015.

(\$ in millions)	Private equity	Real estate	Other	Total
Cost method of accounting ("Cost")	\$982	\$172	\$—	\$1,154
Equity method of accounting ("EMA")	2,362	994	364	3,720
Total	\$3,344	\$1,166	\$364	\$4,874
Number of managers	108	37	12	157
Number of individual investments	199	80	17	296
Largest exposure to single investment	\$147	\$81	\$206	\$206

Short-term investments totaled \$2.12 billion as of December 31, 2015.

Other investments primarily comprise \$1.57 billion of bank loans, \$905 million of policy loans, \$422 million of agent loans (loans issued to exclusive Allstate agents) and \$53 million of derivatives as of December 31, 2015. For further detail on our use of derivatives, see Note 7 of the consolidated financial statements.

Unrealized net capital gains totaled \$1.03 billion as of December 31, 2015 compared to \$3.17 billion as of December 31, 2014. The decrease for fixed income securities was primarily due to wider credit spreads, an increase in risk-free interest rates and the realization of unrealized net capital gains through sales. The decrease for equity securities was primarily due to negative equity market performance and the realization of unrealized net capital gains through sales, partially offset by the realization of unrealized net capital losses through write-downs.

The following table presents unrealized net capital gains and losses as of December 31.

(\$ in millions)	2015	2014
U.S. government and agencies	\$86	\$136
Municipal	369	620
Corporate	153	1,758
Foreign government	50	102
ABS	(32)	) 7
RMBS	90	99
CMBS	28	42
Redeemable preferred stock	3	4
Fixed income securities	747	2,768
Equity securities	276	412
Derivatives	6	(2)
EMA limited partnerships	(4)	) (5)
Unrealized net capital gains and losses, pre-tax	\$1,025	\$3,173

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, 2015 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 \$747 million, comprised of \$1.71 billion of gross unrealized gains and \$960 million of gross unrealized losses as of December 31, 2015. This is compared to an unrealized net capital gain for the fixed income portfolio totaling \$2.77 billion, comprised of \$3.08 billion of gross unrealized gains and \$314 million of gross unrealized losses as of December 31, 2014.

Gross unrealized gains and losses on fixed income securities by type and sector as of December 31, 2015 are provided in the following table.

(\$ in millions)	Amortized cost	Gross unrealized Gains	Losses	Fair value
Corporate:				
Energy	\$4,549	\$52	\$(345)	) \$4,256
Consumer goods (cyclical and non-cyclical)	12,103	210	(119)	) 12,194
Basic industry	1,880	28	(103)	) 1,805
Utilities	4,605	323	(64)	) 4,864
Technology	3,040	37	(57)	) 3,020
Communications	3,132	64	(57)	) 3,139
Capital goods	4,023	112	(46)	) 4,089
Banking	3,462	39	(42)	) 3,459
Transportation	1,677	73	(27)	) 1,723
Financial services	2,673	63	(16)	) 2,720
Other	530	31	(3)	) 558
Total corporate fixed income portfolio	41,674	1,032	(879)	) 41,827
U.S. government and agencies	3,836	90	(4)	) 3,922
Municipal	7,032	389	(20)	) 7,401
Foreign government	983	50	—	) 1,033
ABS	2,359	11	(43)	) 2,327
RMBS	857	100	(10)	) 947
CMBS	438	32	(4)	) 466
Redeemable preferred stock	22	3	—	) 25
Total fixed income securities	\$57,201	\$1,707	\$(960)	) \$57,948

The consumer goods, utilities, energy and capital goods sectors comprise 29%, 12%, 10% and 10%, respectively, of the carrying value of our corporate fixed income securities portfolio as of December 31, 2015. The energy, consumer goods, basic industry and utilities sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of December 31, 2015. In general, the gross unrealized losses are related to widening credit spreads or increasing risk-free interest rates since the time of initial purchase.

Global oil prices have declined significantly since September 30, 2014 and natural gas and other commodity values have also declined significantly in 2015. Among commodity exposed companies, those in the metal and mining sectors have experienced the largest decline in values of their debt. In the fixed income and equity securities tables above and below, oil and natural gas exposure is reflected within the energy sector and metals and mining exposure is reflected within the basic industry sector. Within these sectors, we continue to monitor the impact to our investment portfolio for those companies that may be adversely affected, both directly and indirectly. If oil, natural gas and commodity prices remain at depressed levels for an extended period or decline further, certain issuers and investments may come under duress and may result in an increase in other-than-temporary impairments.

Corporate fixed income and equity securities with gross unrealized losses that have direct exposure to the energy sector, have an aggregate carrying value of \$3.15 billion and gross unrealized losses of \$377 million as of December

31, 2015. 83% of the corporate fixed income securities with direct exposure to the energy sector were investment grade as of December 31, 2015. Of the remaining below investment grade fixed income securities with gross unrealized losses that have a direct exposure to the energy sector, \$35 million had been in an unrealized loss position for twelve or more consecutive months as of December 31, 2015. Additionally, private equity limited partnership interests with exposure to energy totaled approximately \$350 million as of December 31, 2015.

Corporate fixed income and equity securities with gross unrealized losses that have direct exposure to the metals and mining sectors, have an aggregate carrying value of \$468 million and gross unrealized losses of \$81 million as of December 31, 2015. Approximately 55% of the \$437 million of corporate fixed income securities with direct exposure to the metals and mining sectors were investment grade as of December 31, 2015.

The following table summarizes the fair value and gross unrealized losses of fixed income securities by type and investment grade classification as of December 31, 2015.

(\$ in millions)	Investment grade		Below investment grade		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
U.S. government and agencies	\$1,874	\$(4 )	\$—	\$—	\$1,874	\$(4 )
Municipal	802	(6 )	44	(14 )	846	(20 )
Corporate:						
Energy	2,320	(188 )	676	(157 )	2,996	(345 )
Consumer goods (cyclical and non-cyclical)	4,028	(43 )	1,657	(76 )	5,685	(119 )
Basic industry	768	(47 )	347	(56 )	1,115	(103 )
Utilities	1,004	(30 )	257	(34 )	1,261	(64 )
Technology	989	(23 )	500	(34 )	1,489	(57 )
Communications	702	(11 )	859	(46 )	1,561	(57 )
Capital goods	1,065	(26 )	562	(20 )	1,627	(46 )
Banking	1,528	(34 )	43	(8 )	1,571	(42 )
Transportation	520	(22 )	71	(5 )	591	(27 )
Financial services	735	(7 )	265	(9 )	1,000	(16 )
Other	43	(3 )	—	—	43	(3 )
Total corporate fixed income portfolio	13,702	(434 )	5,237	(445 )	18,939	(879 )
Foreign government	42	—	2	—	44	—
ABS	1,984	(22 )	73	(21 )	2,057	(43 )
RMBS	72	(1 )	122	(9 )	194	(10 )
CMBS	17	—	60	(4 )	77	(4 )
Total fixed income securities	\$18,493	\$(467 )	\$5,538	\$(493 )	\$24,031	\$(960 )









The unrealized net capital gain for the equity portfolio totaled \$276 million, comprised of \$415 million of gross unrealized gains and \$139 million of gross unrealized losses as of December 31, 2015. This is compared to an unrealized net capital gain for the equity portfolio totaling \$412 million, comprised of \$467 million of gross unrealized gains and \$55 million of gross unrealized losses as of December 31, 2014.

Gross unrealized gains and losses on equity securities by sector as of December 31, 2015 are provided in the table below.

(\$ in millions)	Amortized cost	Gross unrealized Gains	Losses	Fair value
Energy	\$255	\$12	\$(32)	) \$235
Consumer goods (cyclical and non-cyclical)	1,319	131	(22)	) 1,428
Banking	352	35	(17)	) 370
Financial services	822	53	(13)	) 862
Capital goods	415	25	(13)	) 427
Basic industry	160	9	(10)	) 159
Technology	500	58	(10)	) 548
Communications	259	15	(9)	) 265
Transportation	74	9	(5)	) 78
Utilities	114	4	(3)	) 115
Index-based funds	393	56	(3)	) 446
Real estate	121	7	(2)	) 126
Emerging market equity funds	22	1	—	) 23
Total equity securities	\$4,806	\$415	\$(139)	) \$5,082

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

As of December 31, 2015, 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, 2015, we have the intent and ability to hold equity securities with unrealized losses for a period of time sufficient for them to recover.

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

(\$ in millions)	2015	2014	2013
Fixed income securities	\$2,218	\$2,447	\$2,921
Equity securities	110	117	149
Mortgage loans	228	265	372
Limited partnership interests	549	614	541
Short-term investments	9	7	5
Other	192	170	161
Investment income, before expense	3,306	3,620	4,149
Investment expense	(150)	) (161)	) (206)
Net investment income	\$3,156	\$3,459	\$3,943

Net investment income decreased 8.8% or \$303 million in 2015 compared to 2014, after decreasing 12.3% or \$484 million in 2014 compared to 2013. 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 2015 includes \$65 million related to prepayment fee income and litigation proceeds compared to \$114 million in 2014. These items may vary significantly from period to period and may not recur. The 2014 decrease was primarily due to lower average investment balances relating to the sale of LBL on April 1, 2014, lower fixed income yields and equity dividends, partially offset by higher limited partnership income.



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)	2015	2014	2013
Impairment write-downs	\$(195)	\$(32)	\$(72)
Change in intent write-downs	(221)	(213)	(143)
Net other-than-temporary impairment losses recognized in earnings	(416)	(245)	(215)
Sales and other	470	975	819
Valuation and settlements of derivative instruments	(24)	(36)	(10)
Realized capital gains and losses, pre-tax	30	694	594
Income tax expense	(11)	(243)	(209)
Realized capital gains and losses, after-tax	\$19	\$451	\$385

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)	2015	2014	2013
Fixed income securities	\$(75)	\$(24)	\$(49)
Equity securities	(59)	(6)	(12)
Mortgage loans	4	5	11
Limited partnership interests	(51)	(7)	(18)
Other investments	(14)	—	(4)
Impairment write-downs	\$(195)	\$(32)	\$(72)

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 the above table include \$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.

Impairment write-downs on fixed income securities in 2013 were primarily driven by CMBS that experienced deterioration in expected cash flows and municipal bonds 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, 2013 decreased compared to December 31, 2012 primarily due to reversals related to loans no longer deemed impaired.

Change in intent write-downs totaled \$221 million, \$213 million and \$143 million in 2015, 2014 and 2013, respectively. The change in intent write-downs in 2015 reflect market volatility and our preference to maintain flexibility to reposition the portfolio, as well as a higher allocation to our market-based active strategy. Change in intent losses are primarily related to equity securities that we may not hold for a period of time sufficient to recover unrealized losses. As of December 31, 2015, these holdings totaled \$1.7 billion and we recognized change in intent

write-downs of \$215 million in 2015. Unrealized gains reflect certain of our previously written-down equity securities which recovered in value. The change in intent write-downs in 2014 and 2013 were primarily related to the repositioning and ongoing portfolio management of our equity securities. 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, 2015, these holdings totaled \$47 million and we recognized change in intent write-downs of \$6 million in 2015.

Sales and other generated \$470 million, \$975 million and \$819 million of net realized capital gains in 2015, 2014 and 2013, respectively. 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. Sales and other in 2013 primarily related to equity securities in connection with portfolio repositioning and ongoing portfolio management and municipal and corporate fixed income securities in conjunction with reducing our exposure to interest rate risk in the Property-Liability portfolio.

Valuation and settlements of derivative instruments generated net realized capital losses of \$24 million, \$36 million and \$10 million in 2015, 2014, and 2013, respectively. 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. The net realized capital losses in 2013 primarily comprised 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.

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 and realized capital gains and losses for PBLT investments for the years ended December 31.

(\$ in millions)	Investment income		Realized capital gains and losses	
	2015	2014	2015	2014
Limited partnerships				
Private equity	\$402	\$391	\$(46 )	\$(40 )
Real estate	158	211	(4 )	53
Timber and agriculture-related	(1 )	—	—	—
PBLT - limited partnerships <sup>(1)</sup>	559	602	(50 )	13
Other				
Private equity	1	—	6	—
Real estate	22	14	(3 )	7
Timber and agriculture-related	7	9	1	—
PBLT - other	30	23	4	7
Total				
Private equity	403	391	(40 )	(40 )
Real estate	180	225	(7 )	60
Timber and agriculture-related	6	9	1	—
Total PBLT	\$589	\$625	\$(46 )	\$20
Asset level operating expenses <sup>(2)</sup>	\$(19 )	\$(14 )		

(1) Other limited partnership interests are located in the market-based core investing strategy and are not included in the performance-based long-term table above. Investment income was \$(10) million and \$12 million and realized capital gains and losses were \$(43) million and zero in 2015 and 2014, respectively, for these limited partnership interests.

(2) Asset level operating expenses are netted against income for directly held real estate, timber and other consolidated investments for purposes of the pre-tax yield calculations.

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.

Realized capital losses on PBLT investments in 2015 were \$46 million compared to realized capital gains of \$20 million in 2014. Included in 2015 were impairment write-downs primarily related to two energy related investments that have 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, 2015, the difference between our asset and liability duration was a (1.25) gap compared to a (1.26) gap as of December 31, 2014. 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, 2015, 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, 2015, 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 \$963 million, compared to an increase of \$991 million as of December 31, 2014, 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 the traditional and interest-sensitive life insurance products that are not considered financial instruments and the \$9.86 billion of assets supporting them and the associated liabilities. The \$9.86 billion of assets excluded from the calculation decreased from \$9.91 billion as of December 31, 2014. Based on assumptions described above, in the event of a 100 basis point immediate increase in interest rates, the assets supporting life insurance products would decrease in value by \$558 million compared to a decrease of \$583 million as of December 31, 2014.

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, 2015, the spread duration of Property-Liability assets was 3.38, compared to 3.24 as of December 31, 2014, and the spread duration of Allstate Financial assets was 4.91, compared to 5.81 as of December 31, 2014. Based upon the information and assumptions we use in this spread duration calculation, and spreads in effect as of December 31, 2015, 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 \$2.52 billion compared to \$2.91 billion as of December 31, 2014. Reflected in the duration calculation are the effects of our tactical actions that

use credit default swaps to manage spread risk. The selection of a 100 basis point immediate parallel change in spreads should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

Equity price risk is the risk that we will incur losses due to adverse changes in the general levels of the equity markets. As of December 31, 2015, we held \$4.98 billion in common stocks and exchange traded and mutual funds and \$4.98 billion in other securities with equity risk (including primarily limited partnership interests and non-redeemable preferred securities), compared to \$3.99 billion and \$4.64 billion, respectively, as of December 31, 2014. 68.3% of the common stocks and exchange traded and mutual funds and 53.4% of the other securities with equity risk are in Property-Liability as of December 31, 2015, compared to 74.8% and 55.8%, respectively, as of December 31, 2014. As of December 31, 2015, our portfolio of common stocks and other securities with equity risk had a cash market portfolio beta of 1.17, compared to a beta of 1.21 as of December 31, 2014. Beta represents a widely used methodology to describe, quantitatively, an investment's market risk characteristics relative to an index such as the Standard & Poor's 500 Composite Price Index ("S&P 500"). Based on the beta analysis, we estimate that if the S&P 500 increases or decreases by 10%, the fair value of our equity investments will increase or decrease by 11.7%, respectively. Based upon the information and assumptions we used to calculate beta as of December 31, 2015, 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 \$1.17 billion, compared to \$1.05 billion as of December 31, 2014. 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, 2015 and 2014, we had separate account assets related to variable annuity and variable life contracts with account values totaling \$3.66 billion and \$4.40 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 2015 and 2014 were \$40 million and \$47 million, respectively. Separate account liabilities related to variable life contracts were \$69 million and \$77 million as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014 we had \$1.42 billion and \$1.49 billion, respectively, in equity-indexed annuity liabilities that provide customers with interest crediting rates based on the performance of the S&P 500. We hedge the majority of the risk associated with these liabilities using equity-indexed options and futures and eurodollar futures, maintaining risk within specified value-at-risk limits.

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; however, derivatives are used to hedge approximately 87% of this foreign currency risk.

As of December 31, 2015, we had \$1.97 billion in foreign currency denominated equity investments, \$780 million net investment in our foreign subsidiaries, primarily related to our Canadian operations, and \$17 million in unhedged non-dollar fixed income securities. These amounts were \$1.35 billion, \$843 million, and \$283 million respectively, as of December 31, 2014. 71% of the foreign currency exposure is in the Property-Liability business.

Based upon the information and assumptions used as of December 31, 2015, 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 \$278 million, compared with an estimated \$235 million decrease as of December 31, 2014. 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, 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. 92% 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, 2015, unrecognized pension and other postretirement benefit cost totaled \$1.32 billion comprising \$1.52 billion of unrecognized costs related to pension benefits and a \$209 million gain related to other postretirement benefits. The unrecognized pension and other postretirement benefit cost decreased by \$48 million as of December 31, 2015 from \$1.36 billion as of December 31, 2014. 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 reduction in the unrecognized pension and other postretirement benefit cost is primarily related to actuarial assumptions and census data updates, including increases in the discount rate assumptions, partially offset by lump sum payments at discount rates lower than actuarial assumptions and asset returns that were less than expected.

The components of net periodic pension cost for all pension plans for the years ended December 31 are as follows:

(\$ in millions)	2015	2014	2013
Service cost	\$114	\$96	\$140
Interest cost	258	262	265
Expected return on plan assets	(424	) (398	) (394
Amortization of:			
Prior service credit	(56	) (58	) (28
Net actuarial loss	190	127	235
Settlement loss	31	54	277
Net periodic cost	\$113	\$83	\$495

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 \$139 million as of December 31, 2015. 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.

86

---

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.

An increase in the discount rate decreased the net actuarial loss by \$465 million in 2015, a decrease in the discount rate increased the net actuarial loss by \$576 million in 2014, and an increase in the discount rate decreased the net actuarial loss by \$593 million in 2013. The difference between actual and expected returns on plan assets increased the net actuarial loss by \$466 million in 2015 and decreased the loss by \$144 million and \$172 million in 2014, and 2013, respectively.

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 and interest cost for the period. The value of lump sums paid in 2015 were higher than 2014, in the primary employee plan, but did not exceed the settlement charge threshold. The value of lump sums paid in 2014 were lower as fewer employees retired than in 2013. The value of lump sums paid to employees electing retirement in 2013 was elevated due to historically low interest rates. Voluntary retirement activity during the fourth quarter of 2013 was almost five times the typical level.

Net periodic pension cost in 2016 is estimated to be \$150 million including expected settlement charges of \$31 million primarily for agent lump sum payments. Expected returns on plan assets and amortization of prior service credits partially offset the other components of pension cost. The increase is primarily due to higher interest costs as a result of increases 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 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. Net periodic pension cost decreased in 2014 to \$83 million compared to \$495 million in 2013 due to a decrease in service cost from the new benefit formula, a decrease in the amortization expense for the prior year's net actuarial losses which decreased due to a higher discount rate used to value the pension plan and lower settlement charges from fewer lump sum payments. In 2015, 2014 and 2013, 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 agent pension obligations by making lump sum distributions to agents. 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 2016, there may be an increase in employees electing retirement, which could trigger settlement charges in 2016.

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 2016 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 used to determine 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 \$33 million, pre-tax, in net periodic pension cost and a \$426 million after-tax, increase in the unrecognized pension cost liability recorded as accumulated other comprehensive income as of December 31, 2015, compared to an increase of \$31 million, pre-tax, in net periodic pension cost and a \$444 million, after-tax, increase in the unrecognized pension cost liability as of December 31, 2014. A hypothetical increase of 100 basis points in the discount rate would decrease net periodic pension cost by \$30 million, pre-tax, and would decrease the unrecognized pension cost liability recorded as accumulated other comprehensive income by \$360 million, after-tax, as of December 31, 2015, compared to a decrease in net periodic pension cost of \$29 million, pre-tax, and a \$377 million, after-tax, decrease in the unrecognized pension cost liability recorded as accumulated other comprehensive income as of December 31, 2014. 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 \$54 million in pension cost as of December 31, 2015, compared to \$57 million as of December 31, 2014. 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 \$54 million as of December 31, 2015, compared to \$57 million as of December 31, 2014.

The primary qualified plans have unrealized net gains as of December 31, 2015 of \$219 million, a decrease of \$291 million from the prior year. \$283 million of unrealized gains are related to equity securities as of December 31, 2015 compared to \$413 million as of December 31, 2014. During 2015, the two primary qualified plans realized capital gains of \$138 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 regulations under the Internal Revenue Code ("IRC") and generally accepted actuarial principles. Our funding levels were within our targeted range as of December 31, 2015. In 2015, we contributed \$125 million to our pension plans. We expect to contribute \$129 million for the 2016 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, 2015 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 2015, we completed our annual goodwill impairment test using information as of September 30, 2015. 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, 2015 and no reporting unit was at risk of having its carrying value including goodwill exceed its fair value.

#### CAPITAL RESOURCES AND LIQUIDITY 2015 HIGHLIGHTS

Shareholders' equity as of December 31, 2015 was \$20.03 billion, a decrease of 10.2% from \$22.30 billion as of December 31, 2014.

On January 2, 2015, April 1, 2015, July 1, 2015 and October 1, 2015, we paid common shareholder dividends of \$0.28, \$0.30, \$0.30 and \$0.30, respectively. On November 19, 2015, we declared a common shareholder dividend of \$0.30 payable on January 4, 2016. On February 12, 2016, we declared a common shareholder dividend of \$0.33 payable on April 1, 2016.

In 2015, we returned \$3.3 billion to shareholders through a combination of common stock dividends and repurchasing 4.02% of our beginning-of-year-outstanding shares. As of December 31, 2015, there was \$532 million remaining on the \$3 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)	2015	2014	2013	
Preferred stock, common stock, treasury stock, retained income and other shareholders' equity items	\$20,780	\$21,743	\$20,434	
Accumulated other comprehensive (loss) income	(755)	) 561	1,046	
Total shareholders' equity	20,025	22,304	21,480	
Debt <sup>(1)</sup>	5,124	5,140	6,141	
Total capital resources	\$25,149	\$27,444	\$27,621	
Ratio of debt to shareholders' equity	25.6	% 23.0	% 28.6	%
Ratio of debt to capital resources	20.4	% 18.7	% 22.2	%

<sup>(1)</sup> Due to the adoption of new accounting guidance related to the presentation of debt issuance costs, long-term debt is reported net of debt issuance costs. All prior periods have been adjusted.

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. In 2015, we paid dividends of \$483 million and \$116 million related to our common and preferred shares, respectively. Shareholders' equity increased in 2014, primarily due to net income, the issuance of preferred stock and increased unrealized net capital gains on investments, partially offset by common share repurchases, an increase in the unrecognized pension and other postretirement benefit cost and dividends paid to shareholders.

Debt In May 2015, Federal Home Loan Bank advances of \$8 million were repaid. In August 2015, we repurchased principal amounts of \$11 million of Junior Subordinated Debentures. We have no debt maturities until 2018. As of December 31, 2015 and 2014, there were no outstanding commercial paper borrowings. For further information on outstanding debt, see Note 12 of the consolidated financial statements.

Capital resources comprise an increased mix of preferred stock and subordinated debt due to issuances in 2013 and 2014 and the completion of a tender offer to repurchase debt in 2013. As of December 31, 2015, capital resources includes \$1.75 billion or 7.0% of preferred stock and \$2.04 billion or 8.1% of subordinated debt, a total of 15.1%

compared to 13.8% as of December 31, 2014 and 10.2% as of December 31, 2013. These resources increase our strategic flexibility by decreasing our debt to shareholders' equity ratio, which is one determinant of borrowing capacity.

**Common share repurchases** In March 2015, we commenced a \$3 billion common share repurchase program that is expected to be completed by July 2016. As of December 31, 2015, there was \$532 million remaining on the common share repurchase program. In February 2015, we completed a \$2.5 billion common share repurchase program that commenced in February 2014. During 2015, we repurchased 42.8 million common shares for \$2.80 billion in the market.

Since 1995, we have acquired 645 million shares of our common stock at a cost of \$28.23 billion, primarily as part of various stock repurchase programs. We have reissued 127 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 518 million shares or 57.6%, 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, 2015.

	Moody's	Standard & Poor's	A.M. Best
The Allstate Corporation (debt)	A3	A-	a-
The Allstate Corporation (short-term issuer)	P-2	A-1	AMB-1
Allstate Insurance Company (insurance financial strength)	Aa3	AA-	A+
Allstate Life Insurance Company (insurance financial strength)	A1	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 February 2015, 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. In June 2015, Moody's affirmed The Allstate Corporation's debt and short-term issuer ratings of A3 and P-2, respectively, and the insurance financial strength ratings of Aa3 for AIC and A1 for ALIC. The outlook for the ratings remained stable. In July 2015, S&P affirmed The Allstate Corporation's debt and short-term issuer ratings of A- and A-1, respectively, and the insurance financial strength ratings of AA- for AIC and A+ for ALIC. The outlook for the ratings remained stable.

We have distinct and separately capitalized groups of subsidiaries licensed to sell property and casualty insurance in New Jersey and Florida 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 February 2015, A.M. Best affirmed the Allstate New Jersey Insurance Company, which writes auto and homeowners insurance, rating of A-. The outlook for this rating is stable. Allstate New Jersey Insurance Company also has a Financial Stability Rating® of A" from Demotech, which was affirmed in October 2015. In July 2015, A.M. Best affirmed the Castle Key Insurance Company, which underwrites personal lines property insurance in Florida, rating of B-. The outlook for the rating was revised to stable from negative. Castle Key Insurance Company also has a Financial Stability Rating® of A' from Demotech, which was affirmed in October 2015.

Beginning in 2015, Allstate Financial uses a separately capitalized subsidiary, Allstate Assurance Company ("AAC"), to write certain life insurance business sold by Allstate exclusive agencies and exclusive financial specialists. As AAC launched its products throughout the nation, LBL ceased writing that type of new business for Allstate Financial. LBL life business sold through the Allstate agency channel and all LBL payout annuity business continues to be reinsured and serviced by ALIC. AAC has a financial strength rating of A from A.M. Best and A1 by Moody's as of December 31, 2015.

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 companies, each of which has individual company dividend limitations. As of December 31, 2015, total statutory surplus is \$16.49 billion compared to \$17.32 billion as of December 31, 2014. Property-Liability surplus was \$13.33 billion as of December 31, 2015, compared to \$14.41 billion as of December 31, 2014. Allstate Financial surplus was \$3.16 billion as of December 31, 2015, compared to \$2.91 billion as of December 31, 2014. In 2015, we initiated a mortality study for our structured settlement annuities with life contingencies, which is expected to be completed in 2016. The study thus far indicates that annuitants may be living longer and receiving benefits for a longer period than originally estimated. The preliminary results of the study were incorporated in the statutory reserving process and led to a \$244 million increase in statutory reserves as of December 31, 2015. This decreased Allstate Financial's surplus by approximately \$175 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 December 31, 2015 compared to 1.7x as of December 31, 2014.

The NAIC has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System to assist state insurance regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or actions by state insurance regulators. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with defined "usual ranges". Additional regulatory scrutiny may occur if a company's ratios fall outside the usual ranges for four or more of the ratios. Our domestic insurance companies have no significant departure from these ranges.

Liquidity sources and uses Our potential sources of funds principally include activities shown in the following table.

	Property- Liability	Allstate Financial	Corporate and Other
Receipt of insurance premiums	X	X	
Contractholder fund deposits		X	
Reinsurance recoveries	X	X	
Receipts of principal, interest and dividends on investments	X	X	X
Sales of investments	X	X	X
Funds from securities lending, commercial paper and line of credit agreements	X	X	X
Intercompany loans	X	X	X
Capital contributions from parent	X	X	
Dividends or return of capital from subsidiaries	X		X
Tax refunds/settlements	X	X	X
Funds from periodic issuance of additional securities			X
Receipt of intercompany settlements related to employee benefit plans			X

Our potential uses of funds principally include activities shown in the following table.

	Property- Liability	Allstate Financial	Corporate and Other
Payment of claims and related expenses	X		
Payment of contract benefits, maturities, surrenders and withdrawals		X	
Reinsurance cessions and payments	X	X	
Operating costs and expenses	X	X	X
Purchase of investments	X	X	X
Repayment of securities lending, commercial paper and line of credit agreements	X	X	X
Payment or repayment of intercompany loans	X	X	X
Capital contributions to subsidiaries	X		X
Dividends or return of capital to shareholders/parent company	X	X	X

Edgar Filing: ALLSTATE CORP - Form 10-K

Tax payments/settlements	X	X	
Common share repurchases			X
Debt service expenses and repayment	X	X	X
Payments related to employee and agent benefit plans	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, 2015, we held \$7.56 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, 2015, estimated liquidity available within one quarter without generating significant net realized capital losses was \$20.91 billion. As of December 31, 2015, gross unrealized losses related to fixed income and equity securities totaled \$1.10 billion.

**Parent company capital capacity** At the parent holding company level, we have deployable assets totaling \$2.62 billion as of December 31, 2015 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 2016, AIC will have the capacity to pay dividends currently estimated at \$1.71 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 2015, AIC paid dividends totaling \$2.31 billion to its parent, Allstate Insurance Holdings, LLC ("AIH"), which then paid \$2.30 billion of dividends to the Corporation. In 2014, AIC paid dividends totaling \$2.47 billion to its parent, AIH, which then paid \$2.46 billion of dividends to the Corporation. In December 2014, AIC repurchased 2,967 common shares held by its parent, 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 2013, AIC paid dividends totaling \$1.95 billion to its parent, AIH which then paid the same amount of dividends to the Corporation. In 2015, 2014 and 2013, ALIC paid \$103 million, \$700 million and \$700 million, respectively, of returns of capital, repayments of surplus notes and dividends to AIC. In 2015, 2014 and 2013, American Heritage Life Insurance Company paid dividends totaling \$80 million, \$106 million and \$74 million, respectively, to Allstate Financial Insurance Holdings Corporation, which then paid zero, \$42 million and \$40 million, respectively, of dividends to the Corporation. There were no capital contributions paid by the Corporation to AIC in 2015, 2014 and 2013. There were no capital contributions by AIC to ALIC in 2015, 2014 or 2013.

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, 2015, 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 2015, 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, 2015, there were no balances outstanding and therefore the remaining borrowing capacity was \$1.00 billion; however, the outstanding balance can fluctuate daily.
- The Corporation, AIC and ALIC have access to a \$1.00 billion unsecured revolving credit facility that is available for short-term liquidity requirements. In April 2015, we extended the maturity date of this facility to April 2020. The facility is fully subscribed among 11 lenders with the largest commitment being \$115 million. The commitments of the lenders are several and no lender is responsible for any other lender's commitment if such lender fails to make a loan under the facility. This facility contains an increase provision that would allow up to an additional \$500 million of borrowing. This facility has a financial covenant requiring that we not exceed a 37.5% debt to capitalization ratio as defined in the agreement. This ratio was 12.0% as of December 31, 2015. 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 2015.

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 519 million shares of treasury stock as of December 31, 2015), 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 \$21.30 billion as of December 31, 2015. The following table summarizes contractholder funds by their contractual withdrawal provisions as of December 31, 2015.

(\$ in millions)		Percent to total	
Not subject to discretionary withdrawal	\$3,424	16.1	%
Subject to discretionary withdrawal with adjustments:			
Specified surrender charges <sup>(1)</sup>	5,630	26.4	
Market value adjustments <sup>(2)</sup>	1,891	8.9	
Subject to discretionary withdrawal without adjustments <sup>(3)</sup>	10,350	48.6	
Total contractholder funds <sup>(4)</sup>	\$21,295	100.0	%

- <sup>(1)</sup> Includes \$1.86 billion of liabilities with a contractual surrender charge of less than 5% of the account balance. \$1.28 billion of the contracts with market value adjusted surrenders have a 30-45 day period at the end of their initial and subsequent interest rate guarantee periods (which are typically 5, 7 or 10 years) during which there is no surrender charge or market value adjustment. \$325 million of these contracts have their 30-45 day window period in 2016.
- <sup>(2)</sup> initial and subsequent interest rate guarantee periods (which are typically 5, 7 or 10 years) during which there is no surrender charge or market value adjustment. \$325 million of these contracts have their 30-45 day window period in 2016.
- <sup>(3)</sup> 88% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.
- <sup>(4)</sup> Includes \$812 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 7.1% and 9.9% in 2015 and 2014, 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 <sup>(1)</sup>			Allstate Financial <sup>(1)</sup>			Corporate and Other <sup>(1)</sup>			Consolidated		
	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
Net cash provided by (used in):												
Operating activities	\$3,198	\$2,765	\$3,058	\$383	\$720	\$1,068	\$35	\$(249)	\$116	\$3,616	\$3,236	\$4,242
Investing activities	(839)	) 99	(1,858)	) 867	2,315	3,833	714	(793)	) (395)	) 742	1,621	1,580
Financing activities	52	(3)	) 38	(1,275)	(2,274)	(4,393)	) (3,297)	(2,598)	(1,598)	(4,520)	(4,875)	(5,953)
										\$ (162)	) \$(18)	) \$(131)

Net decrease in  
consolidated  
cash

---

<sup>(1)</sup> Business unit cash flows reflect the elimination of intersegment dividends, contributions and borrowings. Property-Liability 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. Lower cash provided by operating activities in 2014 compared to 2013 was primarily due to higher claim payments, the proceeds received in 2013 from the surrender of company owned life insurance and higher income tax payments, partially offset by increased premiums and lower contributions to benefit plans.

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. Cash provided by investing activities in 2014 compared to cash used in investing activities in 2013 was primarily the result of increased sales of securities and short-term investments, partially offset by increased purchases of securities. Increased sales and purchases of securities resulted from more active portfolio management.

93

---

Allstate Financial 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 operating activities in 2014 compared to 2013 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 2015 compared to 2014 was the result of lower cash used in financing activities due to lower contractholder fund disbursements. Lower cash was provided by investing activities in 2014 compared to 2013 as proceeds from the sale of LBL and higher sales of investments were more than offset by lower collections and higher purchases of investments. Lower collections resulted from funding a large institutional product maturity in 2013 from the portfolio.

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. Lower cash used in financing activities in 2014 compared to 2013 was primarily due to a \$1.75 billion institutional product maturity in 2013 and lower contractholder benefits and withdrawals on fixed annuities and interest-sensitive life insurance, partially offset by lower deposits. 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, 2015 and the payments due by period are shown in the following table.

(\$ in millions)	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Liabilities for collateral <sup>(1)</sup>	\$840	\$840	\$—	\$—	\$—
Contractholder funds <sup>(2)</sup>	41,138	2,774	4,816	4,020	29,528
Reserve for life-contingent contract benefits <sup>(2)</sup>	35,912	1,311	2,517	2,372	29,712
Long-term debt <sup>(3)</sup>	12,258	287	745	833	10,393
Capital lease obligations <sup>(4)</sup>	5	5	—	—	—
Operating leases <sup>(4)</sup>	630	132	192	131	175
Unconditional purchase obligations <sup>(4)</sup>	574	225	209	134	6
Defined benefit pension plans and other postretirement benefit plans <sup>(4)(5)</sup>	1,035	41	111	116	767
Reserve for property-liability insurance claims and claims expense <sup>(6)</sup>	23,869	10,472	7,765	2,834	2,798
Other liabilities and accrued expenses <sup>(7)(8)</sup>	4,054	3,996	35	14	9
Net unrecognized tax benefits <sup>(9)</sup>	7	7	—	—	—
Total contractual cash obligations	\$120,322	\$20,090	\$16,390	\$10,454	\$73,388

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.

<sup>(2)</sup> Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life, fixed annuities, including immediate annuities without life contingencies, and institutional products. The reserve for life-contingent contract benefits relates primarily to traditional life insurance, immediate annuities with life contingencies and voluntary accident and health insurance. These amounts reflect the present

value of estimated cash payments to be made to contractholders and policyholders. Certain of these contracts, such as immediate annuities without life contingencies and institutional products, involve payment obligations where the amount and timing of the payment is essentially fixed and determinable. These amounts relate to (i) policies or contracts where we are currently making payments and will continue to do so and (ii) contracts where the timing of a portion or all of the payments has been determined by the contract. Other contracts, such as interest-sensitive life, fixed deferred annuities, traditional life insurance 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 \$21.30 billion for contractholder funds and \$12.25 billion for reserve for life-contingent

contract benefits as included in the Consolidated Statements of Financial Position as of December 31, 2015. 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, 2015 because the long-term debt amount above includes interest and excludes debt issuance costs. Our payment obligations relating to capital lease obligations, operating leases, unconditional purchase obligations
- (4) and pension and other postretirement benefits (“OPEB”) contributions are managed within the structure of our intermediate to long-term liquidity management program.
- The pension plans’ obligations in the next 12 months represent our planned contributions 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 \$549 million included in other liabilities and accrued expenses on the Consolidated Statements of Financial Position.
- (5) Reserve for property-liability insurance claims and claims expense is an estimate of amounts necessary to settle all outstanding claims, including claims that have been IBNR as of the balance sheet date. We have estimated the timing of these payments based on our historical experience and our expectation of future payment patterns.
- (6) However, the timing of these payments may vary significantly from the amounts shown above, especially for IBNR claims. The ultimate cost of losses may vary materially from recorded amounts which are our best estimates. The reserve for property-liability insurance claims and claims expense includes loss reserves related to asbestos and environmental claims as of December 31, 2015, of \$1.42 billion and \$222 million, respectively.
- Other liabilities primarily include accrued expenses and certain benefit obligations and claim payments and other
- (7) 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 \$7 million. Balance sheet liabilities not included in the table above include unearned and advance premiums of \$12.99 billion and gross deferred tax liabilities of \$1.93 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
- (8) represent an accounting mechanism that allows us to present our financial statements on an accrual basis. In addition, other liabilities of \$223 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.
- 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.
- (9)

Our contractual commitments as of December 31, 2015 and the periods in which the commitments expire are shown in the following table.

(\$ in millions)	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Other commitments – conditional	\$135	\$68	\$20	\$1	\$46
Other commitments – unconditional	2,587	143	141	220	2,083
Total commitments	\$2,722	\$211	\$161	\$221	\$2,129

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 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. Allstate manages enterprise risk under an integrated Enterprise Risk and Return Management (“ERRM”) framework with risk-return principles, governance, modeling and analytics, and importantly, transparent management dialogue. This framework provides a comprehensive view of risks and opportunities and is used by senior leaders and business managers to provide risk and return insight and drive strategic and business decisions. Allstate’s risk management strategies adapt to changes in business and market environments and seek to optimize returns. Allstate continually validates and improves its ERRM practices by benchmarking and securing external perspectives for our processes. Our risk-return principles define how we operate and guide decision-making around risk and return. These principles state that, first and foremost, 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 risks and returns.

ERRM governance includes board oversight, an executive management committee structure, and 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, including integration with strategy and operations. The Risk and Return Committee of the Allstate Board oversees effectiveness of the ERRM framework, governance structure and decision-making, while focusing on the



Company's risk and return position. The Audit Committee oversees effectiveness of management's control framework for risks. The Enterprise Risk & 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.

CROs are appointed for the enterprise and for Allstate Protection, Allstate Financial, Allstate Investments, and Allstate's technology organization. Collectively, the CROs create an integrated approach to risk and return management to ensure risk management practices and strategies are aligned with Allstate's overall enterprise objectives. Various enterprise risk and return committees with CRO, senior management and cross-functional business representation govern management of key risks. The shared ERRM framework establishes a basis for transparency and dialogue across the organization and for continuous learning by embedding the risk and return management culture of identifying, measuring, managing, monitoring and reporting risks.

Our ERRM governance is supported with an analytic framework to manage significant insurance, investment, financial, strategic, and operational risk exposures and optimize returns on risk-adjusted capital. Management and the ERRC use enterprise stochastic modeling, risk expertise and judgment to determine an appropriate level of targeted enterprise economic capital to hold considering a broad range of risk objectives and external constraints. These include limiting risks of financial stress, insolvency, likelihood of capital stress and volatility, maintaining stakeholder value and financial strength ratings and satisfying regulatory and rating agency risk-based capital requirements. Potential risk events that we consider for capital evaluations include catastrophe and pandemic events and investment market shocks. 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 \$16.49 billion and \$2.62 billion, respectively, as of December 31, 2015.

Using our governance and analytic framework, Allstate designs business and enterprise strategies that seek to optimize returns on risk-adjusted capital. Examples include reducing exposure to rising interest rates; improving auto profitability; shifting our investment portfolio mix over time to have less reliance on investments with returns that come primarily from interest payments to investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic asset or operating performance; and accelerating homeowners growth while maintaining profitability.

#### 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, 2015 and 2014, 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, 2015 by source of fair value determination.

(\$ in millions)	Fair value	Percent to total	
Fair value based on internal sources	\$3,791	5.8	%
Fair value based on external sources <sup>(1)</sup>	61,361	94.2	
Total	\$65,152	100.0	%

<sup>(1)</sup> Includes \$1.32 billion 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 insurance is amortized over the premium paying period of the related policies in proportion to the estimated revenues on such business. Significant assumptions relating to estimated premiums, investment returns, as well as mortality, persistency and expenses to administer the business are established at the time the policy is issued and are generally not revised during the life of the policy. The assumptions for determining the timing and amount of DAC amortization are consistent with the assumptions used to calculate the reserve for life-contingent contract benefits. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies may result in a change to the rate of amortization in the period such events occur. Generally, the amortization periods for these policies approximates the estimated lives of the policies. The recovery of DAC is dependent upon the future profitability of the business. We periodically review the adequacy of reserves and recoverability of DAC for these policies on an aggregate basis using actual experience. We aggregate all traditional life insurance products and immediate annuities with life contingencies in the analysis. In the event actual experience is significantly adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance must be expensed to the extent not recoverable and a premium deficiency reserve may be required if the remaining DAC balance is insufficient to absorb the deficiency. In 2015, 2014 and 2013, our reviews concluded that no premium deficiency adjustments were necessary, primarily due to projected profit from traditional life insurance more than offsetting the projected losses in immediate annuities with life contingencies.

DAC related to interest-sensitive life 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 persistency, mortality, expenses, investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of any hedges, and these assumptions are reasonably likely to have the greatest impact on the amount

of DAC amortization. Changes in these assumptions can be offsetting and we are unable to reasonably predict their future movements or offsetting impacts over time.

Each reporting period, DAC amortization is recognized in proportion to AGP for that period adjusted for interest on the prior period DAC balance. This amortization process includes an assessment of AGP compared to EGP, the actual amount of business remaining in force and realized capital gains and losses on investments supporting the product liability. The impact of realized capital gains and losses on amortization of DAC depends upon which product liability is supported by the assets that give rise to the gain or loss. If the AGP is greater than EGP in the period, but the total EGP is unchanged, the amount of DAC amortization will generally increase, resulting in a current period decrease to earnings. The opposite result generally occurs when the AGP is



less than the EGP in the period, but the total EGP is unchanged. However, when DAC amortization or a component of gross profits for a quarterly period is potentially negative (which would result in an increase of the DAC balance) as a result of negative AGP, the specific facts and circumstances surrounding the potential negative amortization are considered to determine whether it is appropriate for recognition in the consolidated financial statements. Negative amortization is only recorded when the increased DAC balance is determined to be recoverable based on facts and circumstances. 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 persistency, mortality, 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)	2015	2014	2013
Investment margin	\$2	\$11	\$(17)
Benefit margin	1	35	15
Expense margin	(2)	(54)	25
Net acceleration (deceleration)	\$1	\$(8)	\$23

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.

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

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, 2015.

(\$ in millions)	Increase/(reduction) in DAC
Increase in future investment margins of 25 basis points	\$52
Decrease in future investment margins of 25 basis points	\$(58)
Decrease in future life mortality by 1%	\$14
Increase in future life mortality by 1%	\$(14)

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

For additional detail related to DAC, see the 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. Occasionally, unusual aberrations in loss patterns are caused by external and internal factors such as changes in claim reporting, settlement patterns, unusually large losses, process changes, legal or regulatory changes, and other influences. In these instances, analyses of alternate development factor selections are performed to evaluate the effect of these factors and actuarial judgment is applied to make appropriate development factor assumptions needed to develop a best estimate of ultimate losses.

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, as a percent of net income applicable to common shareholders were (2.6)% unfavorable in 2015, 2.0% favorable in 2014 and 3.5% favorable in 2013. The 3-year average of net reserve reestimates as a percentage of total reserves was a favorable 0.2% for Property-Liability, a favorable 0.9% for Allstate Protection and an unfavorable 6.4% 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)	2015	2014	2013
Allstate Protection			
Auto	\$12,459	\$11,698	\$11,616
Homeowners	1,937	1,849	1,821
Other lines	2,065	2,070	2,110
Total Allstate Protection	16,461	15,617	15,547
Discontinued Lines and Coverages			
Asbestos	960	1,014	1,017
Environmental	179	203	208
Other discontinued lines	377	395	421
Total Discontinued Lines and Coverages	1,516	1,612	1,646
Total Property-Liability	\$17,977	\$17,229	\$17,193

#### 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. Typically, IBNR comprises about 10% of total reserves. 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. As an example, in 2005 to complete an estimate for certain areas affected by Hurricane Katrina and not yet inspected by our claims adjusting staff, or where we believed our historical loss development factors were not predictive, we relied on analysis of actual claim notices received compared to total PIF, as well as visual, governmental and third party information, including aerial photos, 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 twenty 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 \$500 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 auto and motorcycle accidents. The administration of this program is through a private, non-profit association created by the state of Michigan, the MCCA. Due to increasing costs of providing healthcare related to serious injuries and advances in medical care extending the duration of treatment, the estimation processes have been enhanced and assumptions for this reserve balance have been contemporized to the current validated conditions.

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 refined our ultimate claim reserve

estimation techniques in 2011 through 2014, including relying more on paid loss development methods and increasing our view of future claim development and longevity of claimants, as a result of conducting comprehensive claim file reviews to develop case reserve type estimates of specific claims and other estimation refinements. In 2015, we updated 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 participating 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. In 2013, we adopted similar actuarial estimating techniques as for the MCCA exposures

to estimate loss reserves for unlimited personal injury protection coverage for policies covered by PLIGA. Upon completion of our comprehensive review in 2014, we updated our reserve estimation techniques and factors, similar to the processes followed to develop the MCCA reserves, which resulted in an increase in reserves for unlimited personal injury protection coverage for policies covered by the 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, 2015 and 2014, IBNR was 56.9% 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)	2015	2014	2013
Other mass torts	\$162	\$167	\$183
Workers' compensation	88	94	105
Commercial and other	127	134	133
Other discontinued lines	\$377	\$395	\$421

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 2015, 2014 and 2013, our reviews concluded that no premium deficiency adjustments were necessary, primarily due to projected profit from traditional life insurance more than offsetting the projected losses in immediate annuities with life contingencies. In 2015 there was an increase in projected profit from traditional life insurance and an increase in projected losses in immediate annuities with life contingencies. 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 2015, 2014 and 2013, our reviews concluded that there were projected profits in each year of the projection period.

We will continue to monitor the experience of our traditional life insurance and immediate annuities. In 2015, we initiated a mortality study for our structured settlement annuities with life contingencies, which is expected to be completed in 2016. The study thus far indicates that annuitants may be living longer and receiving benefits for a longer period than originally estimated. The preliminary results of the study were considered in the premium deficiency and profits followed by losses evaluations described above. We anticipate that mortality, investment and reinvestment yields, and policy terminations are the factors that would be most likely to require premium deficiency adjustments to these reserves or related DAC.

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

#### 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

107

---



Item 8. Financial Statements and Supplementary Data

	Page
<u>Consolidated Statements of Operations</u>	<u>109</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>110</u>
<u>Consolidated Statements of Financial Position</u>	<u>111</u>
Consolidated Statements of Shareholders' Equity	<u>112</u>
<u>Consolidated Statements of Cash Flows</u>	<u>113</u>
<u>Notes to Consolidated Financial Statements (Notes)</u>	<u>114</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>187</u>

108

---

THE ALLSTATE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(\$ in millions, except per share data)

	Year Ended December 31,		
	2015	2014	2013
Revenues			
Property-liability insurance premiums (net of reinsurance ceded of \$1,006, \$1,030 and \$1,069)	\$30,309	\$28,929	\$27,618
Life and annuity premiums and contract charges (net of reinsurance ceded of \$332, \$416 and \$639)	2,158	2,157	2,352
Net investment income	3,156	3,459	3,943
Realized capital gains and losses:			
Total other-than-temporary impairment (“OTTI”) losses	(452	) (242	) (207
OTTI losses reclassified to (from) other comprehensive income	36	(3	) (8
Net OTTI losses recognized in earnings	(416	) (245	) (215
Sales and other realized capital gains and losses	446	939	809
Total realized capital gains and losses	30	694	594
	35,653	35,239	34,507
Costs and expenses			
Property-liability insurance claims and claims expense (net of reinsurance ceded of \$602, \$1,393 and \$1,717)	21,034	19,428	17,911
Life and annuity contract benefits (net of reinsurance ceded of \$219, \$356 and \$355)	1,803	1,765	1,917
Interest credited to contractholder funds (net of reinsurance ceded of \$25, \$26 and \$27)	761	919	1,278
Amortization of deferred policy acquisition costs	4,364	4,135	4,002
Operating costs and expenses	4,081	4,341	4,387
Restructuring and related charges	39	18	70
Loss on extinguishment of debt	—	1	491
Interest expense	292	322	367
	32,374	30,929	30,423
Gain (loss) on disposition of operations	3	(74	) (688
Income from operations before income tax expense	3,282	4,236	3,396
Income tax expense	1,111	1,386	1,116
Net income	2,171	2,850	2,280
Preferred stock dividends	116	104	17
Net income applicable to common shareholders	\$2,055	\$2,746	\$2,263
Earnings per common share:			
Net income applicable to common shareholders per common share - Basic	\$5.12	\$6.37	\$4.87
Weighted average common shares - Basic	401.1	431.4	464.4
Net income applicable to common shareholders per common share - Diluted	\$5.05	\$6.27	\$4.81
Weighted average common shares - Diluted	406.8	438.2	470.3

Cash dividends declared per common share	\$1.20	\$1.12	\$1.00
--	--------	--------	--------

See notes to consolidated financial statements.

109

---

THE ALLSTATE CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ in millions)	Year Ended December 31,		
	2015	2014	2013
Net income	\$2,171	\$2,850	\$2,280
Other comprehensive (loss) income, after-tax			
Changes in:			
Unrealized net capital gains and losses	(1,306	) 280	(1,188
Unrealized foreign currency translation adjustments	(58	) (40	) (32
Unrecognized pension and other postretirement benefit cost	48	(725	) 1,091
Other comprehensive loss, after-tax	(1,316	) (485	) (129
Comprehensive income	\$855	\$2,365	\$2,151

See notes to consolidated financial statements.



THE ALLSTATE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ in millions, except par value data)

	December 31,	
	2015	2014
Assets		
Investments		
Fixed income securities, at fair value (amortized cost \$57,201 and \$59,672)	\$57,948	\$62,440
Equity securities, at fair value (cost \$4,806 and \$3,692)	5,082	4,104
Mortgage loans	4,338	4,188
Limited partnership interests	4,874	4,527
Short-term, at fair value (amortized cost \$2,122 and \$2,540)	2,122	2,540
Other	3,394	3,314
Total investments	77,758	81,113
Cash	495	657
Premium installment receivables, net	5,544	5,465
Deferred policy acquisition costs	3,861	3,525
Reinsurance recoverables, net	8,518	8,490
Accrued investment income	569	591
Property and equipment, net	1,024	1,031
Goodwill	1,219	1,219
Other assets	2,010	1,992
Separate Accounts	3,658	4,396
Total assets	\$104,656	\$108,479
Liabilities		
Reserve for property-liability insurance claims and claims expense	\$23,869	\$22,923
Reserve for life-contingent contract benefits	12,247	12,380
Contractholder funds	21,295	22,529
Unearned premiums	12,202	11,655
Claim payments outstanding	842	784
Deferred income taxes	90	715
Other liabilities and accrued expenses	5,304	5,653
Long-term debt	5,124	5,140
Separate Accounts	3,658	4,396
Total liabilities	84,631	86,175
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, and \$1,805 aggregate liquidation preference	1,746	1,746
Common stock, \$.01 par value, 2.0 billion shares authorized and 900 million issued, 381 million and 418 million shares outstanding	9	9
Additional capital paid-in	3,245	3,199
Retained income	39,413	37,842
Deferred ESOP expense	(13	) (23
Treasury stock, at cost (519 million and 482 million shares)	(23,620	) (21,030
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	56	72
Other unrealized net capital gains and losses	608	1,988
Unrealized adjustment to DAC, DSI and insurance reserves	(44	) (134

Edgar Filing: ALLSTATE CORP - Form 10-K

Total unrealized net capital gains and losses	620	1,926	
Unrealized foreign currency translation adjustments	(60	) (2	)
Unrecognized pension and other postretirement benefit cost	(1,315	) (1,363	)
Total accumulated other comprehensive (loss) income	(755	) 561	
Total shareholders' equity	20,025	22,304	
Total liabilities and shareholders' equity	\$104,656	\$108,479	

See notes to consolidated financial statements.

111

---

THE ALLSTATE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(\$ in millions)	Year Ended December 31,		
	2015	2014	2013
Preferred stock par value	\$—	\$—	\$—
Preferred stock additional capital paid-in			
Balance, beginning of year	1,746	780	—
Preferred stock issuance	—	966	780
Balance, end of year	1,746	1,746	780
Common stock	9	9	9
Additional capital paid-in			
Balance, beginning of year	3,199	3,143	3,162
Equity incentive plans activity	46	56	(19 )
Balance, end of year	3,245	3,199	3,143
Retained income			
Balance, beginning of year	37,842	35,580	33,783
Net income	2,171	2,850	2,280
Dividends on common stock	(484 )	(484 )	(466 )
Dividends on preferred stock	(116 )	(104 )	(17 )
Balance, end of year	39,413	37,842	35,580
Deferred ESOP expense			
Balance, beginning of year	(23 )	(31 )	(41 )
Payments	10	8	10
Balance, end of year	(13 )	(23 )	(31 )
Treasury stock			
Balance, beginning of year	(21,030 )	(19,047 )	(17,508 )
Shares acquired	(2,804 )	(2,306 )	(1,845 )
Shares reissued under equity incentive plans, net	214	323	306
Balance, end of year	(23,620 )	(21,030 )	(19,047 )
Accumulated other comprehensive (loss) income			
Balance, beginning of year	561	1,046	1,175
Change in unrealized net capital gains and losses	(1,306 )	280	(1,188 )
Change in unrealized foreign currency translation adjustments	(58 )	(40 )	(32 )
Change in unrecognized pension and other postretirement benefit cost	48	(725 )	1,091
Balance, end of year	(755 )	561	1,046
Total shareholders' equity	\$20,025	\$22,304	\$21,480



See notes to consolidated financial statements.

112

---

THE ALLSTATE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities			
Net income	\$2,171	\$2,850	\$2,280
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and other non-cash items	371	366	368
Realized capital gains and losses	(30)	) (694	) (594)
Loss on extinguishment of debt	—	1	491
(Gain) loss on disposition of operations	(3	) 74	688
Interest credited to contractholder funds	761	919	1,278
Changes in:			
Policy benefits and other insurance reserves	473	541	(55)
Unearned premiums	638	766	602
Deferred policy acquisition costs	(239	) (220	) (268)
Premium installment receivables, net	(134	) (257	) (205)
Reinsurance recoverables, net	(178	) (1,068	) (729)
Income taxes	(119	) 205	573
Other operating assets and liabilities	(95	) (247	) (187)
Net cash provided by operating activities	3,616	3,236	4,242
Cash flows from investing activities			
Proceeds from sales			
Fixed income securities	28,693	34,609	21,243
Equity securities	3,754	6,755	3,173
Limited partnership interests	1,101	1,473	1,045
Mortgage loans	6	10	24
Other investments	545	406	151
Investment collections			
Fixed income securities	4,432	3,736	5,908
Mortgage loans	538	1,106	1,020
Other investments	293	191	275
Investment purchases			
Fixed income securities	(30,758	) (38,759	) (24,087)
Equity securities	(4,960	) (5,443	) (3,677)
Limited partnership interests	(1,343	) (1,398	) (1,312)
Mortgage loans	(687	) (501	) (538)
Other investments	(902	) (972	) (1,084)
Change in short-term investments, net	385	272	(427)
Change in other investments, net	(52	) 46	97
Purchases of property and equipment, net	(303	) (288	) (207)
Disposition (acquisition) of operations	—	378	(24)
Net cash provided by investing activities	742	1,621	1,580
Cash flows from financing activities			
Proceeds from issuance of long-term debt		—	2,271
Repayments of long-term debt	(20	) (1,006	) (2,627)
Proceeds from issuance of preferred stock	—	965	781
Contractholder fund deposits	1,052	1,184	2,174
Contractholder fund withdrawals	(2,327	) (3,446	) (6,556)

Edgar Filing: ALLSTATE CORP - Form 10-K

Dividends paid on common stock	(483	) (477	) (352	)
Dividends paid on preferred stock	(116	) (87	) (6	)
Treasury stock purchases	(2,808	) (2,301	) (1,834	)
Shares reissued under equity incentive plans, net	130	266	170	
Excess tax benefits on share-based payment arrangements	45	41	38	
Other	7	(14	) (12	)
Net cash used in financing activities	(4,520	) (4,875	) (5,953	)
Net decrease in cash	(162	) (18	) (131	)
Cash at beginning of year	657	675	806	
Cash at end of year	\$495	\$657	\$675	
See notes to consolidated financial statements.				

113

---

## 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.

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

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

## Nature of operations

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 85% of Allstate’s 2015 consolidated revenues. Allstate was the country’s second largest personal property and casualty insurer as of December 31, 2014. 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 2015, 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, and institutional products consisting of funding agreements sold to unaffiliated trusts that use them to back medium-term notes.

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 2015, the top geographic locations for 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 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 money market funds, commercial paper and other short-term investments, are carried at fair value. Other investments primarily consist of bank loans, policy loans, agent loans 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 \$905 million and \$909 million as of December 31, 2015 and 2014, 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. Derivatives are carried at fair value.

Investment income primarily consists of interest, dividends, income from limited partnership interests, 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

115

---

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, and periodic changes in fair value and settlements of certain derivatives including hedge ineffectiveness. Realized capital gains and losses on investment sales are determined on a specific identification basis.

#### Derivative and embedded derivative financial instruments

Derivative financial instruments include interest rate swaps, credit default swaps, futures (interest rate and equity), options (including swaptions), interest rate caps, warrants 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. 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 \$90 million and \$83 million as of December 31, 2015 and 2014, 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 in relation to premiums, so that profits are recognized over the life of the policy.

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

recognized in relation to premiums. Profits from these policies come from investment income, which is recognized over the life of the contract.

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

specified dates. These contract charges are recognized as revenue when assessed against the contractholder account balance. 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 ("S&P") 500 Index. Interest credited also includes amortization of DSI expenses. DSI is amortized into interest credited using the same method used to amortize DAC.

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

#### Deferred policy acquisition and sales inducement costs

Costs that are related directly to the successful acquisition of new or renewal 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 insurance, DAC is amortized over the premium paying period of the related policies in proportion to the estimated revenues on such business. Assumptions used in the amortization of DAC and reserve calculations are established at the time the policy is issued and are generally not revised during the life of the policy. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies may result in a change to the rate of amortization in the period such events occur.

Generally, the amortization periods for these policies approximates the estimated lives of the policies. The Company periodically reviews the recoverability of DAC for these policies on an aggregate basis using actual experience. The Company aggregates all traditional life insurance products and immediate annuities with life contingencies in the analysis. If actual experience is significantly adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance would be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required.

For interest-sensitive life 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 persistency, mortality, expenses, investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of any hedges. For products whose supporting investments are exposed to capital losses in excess of the Company's expectations which may cause periodic AGP to become temporarily negative, EGP and AGP utilized in DAC and DSI amortization may be modified to exclude the excess capital losses.

The Company performs quarterly reviews of DAC and DSI recoverability for interest-sensitive life 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 \$58 million and \$66 million as of December 31, 2015 and 2014, respectively. Amortization expense of the present value of future profits was \$8 million, \$13 million and \$16 million in 2015, 2014 and 2013, 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, 2015 and 2014 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, 2015 or 2014.

### 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. Certain facilities and equipment held under capital leases are also classified as property and equipment with the related lease obligations recorded as liabilities. 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 \$2.09 billion and \$2.12 billion as of December 31, 2015 and 2014, respectively. Depreciation expense on property and equipment was \$255 million, \$228 million and \$208 million in 2015, 2014 and 2013, 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.

### Reserves for property-liability insurance claims and claims expense and life-contingent contract benefits

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 regularly reviewed and updated, using the most current information available. Any resulting reestimates are reflected in current results of operations.

The reserve for life-contingent contract benefits payable under insurance policies, including traditional life insurance, life-contingent immediate annuities and voluntary accident and health insurance products, is computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses.



These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by characteristics such as type of coverage, year of issue and policy duration. The assumptions are established at the time the policy is issued and are generally not changed during the life of the policy. The Company periodically reviews the adequacy of reserves for these policies on an aggregate basis using actual experience. If actual experience is significantly adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance would be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required. To the extent that unrealized gains on fixed income securities would result in a premium deficiency if those gains were realized, the

related increase in reserves for certain immediate annuities with life contingencies is recorded net of tax as a reduction of unrealized net capital gains included in accumulated other comprehensive income.

#### Contractholder funds

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

#### Separate accounts

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

121

---

### 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 unvested 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)	2015	2014	2013
Numerator:			
Net income	\$2,171	\$2,850	\$2,280
Less: Preferred stock dividends	116	104	17
Net income applicable to common shareholders <sup>(1)</sup>	\$2,055	\$2,746	\$2,263
Denominator:			
Weighted average common shares outstanding	401.1	431.4	464.4
Effect of dilutive potential common shares:			
Stock options	4.0	4.7	4.1
Restricted stock units (non-participating) and performance stock awards	1.7	2.1	1.8
Weighted average common and dilutive potential common shares outstanding	406.8	438.2	470.3
Earnings per common share – Basic	\$5.12	\$6.37	\$4.87
Earnings per common share – Diluted	\$5.05	\$6.27	\$4.81

<sup>(1)</sup> 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 2.2 million, 3.0 million and 8.8 million Allstate common shares, with exercise prices ranging from \$57.98 to \$71.29, \$49.96 to \$67.61 and \$40.49 to \$62.42, were outstanding in 2015, 2014 and 2013, respectively, but were not included in the computation of diluted earnings per common share in those years.

### Adopted accounting standard

#### Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the Financial Accounting Standards Board ("FASB") issued guidance which allows entities that invest in certain qualified affordable housing projects through limited liability entities the option to account for these investments using the proportional amortization method if certain conditions are met. Under the proportional amortization method, the entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. Adoption of the new guidance in the first quarter of 2015 resulted in a one-time \$45

million increase in income tax expense.

**Presentation of Debt Issuance Costs**

In April 2015, the FASB issued guidance that amends the accounting for debt issuance costs. The amended guidance requires that debt issuance costs related to a recognized debt liability be presented as a direct reduction in the carrying amount of the debt liability. The amortization of debt issuance costs should be classified as interest expense. In August 2015, the FASB expanded the guidance on debt issuance costs to address debt issuance costs associated with line-of-credit agreements. The guidance allows

122

---

reporting entities to defer and present debt issuance costs associated with line-of-credit arrangements as an asset and subsequently amortize the deferred costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company adopted the new guidance on a retrospective basis in the fourth quarter of 2015. The impact of the retrospective adjustments on the previously issued December 31, 2014 consolidated statement of financial position was a \$54 million decrease in both other assets and long-term debt. The adoption had no impact on the Company's results of operations.

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.

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 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 guidance is effective for reporting periods beginning after December 15, 2015. The Company's existing accounting policy for performance targets that affect the vesting of share-based payment awards is consistent with the proposed guidance and as such the impact of adoption is not expected to impact 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 guidance is effective for annual and interim reporting periods beginning after December 15, 2015. The Company is in the process of assessing the impact of adoption which is not expected to be material to the Company's results of operations or financial position.

Disclosures about Short-Duration Contracts

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

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued guidance requiring equity investments, including equity securities and limited partnership interests, that are not accounted for under the equity method of accounting or result in consolidation to be measured at fair value with changes in fair value recognized in net income. Equity investments without readily

determinable fair values may be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. When a qualitative assessment of equity investments without readily determinable fair values indicates that impairment exists, the carrying value is required to be adjusted to fair value, if lower. The guidance clarifies that an entity should evaluate the realizability of a deferred tax asset related to available-for-sale fixed income securities in combination with the entity's other deferred tax assets. The guidance also changes certain disclosure requirements.

The guidance is effective for interim and annual periods beginning after December 15, 2017, and is to be applied through a cumulative-effect adjustment to beginning retained income as of the beginning of the period of adoption. The new guidance related to equity investments without readily determinable fair values is to be applied prospectively as of the date of adoption. The Company is in the process of evaluating the impact of adoption. The most significant impact is expected to be the change in accounting for equity securities and cost method limited partnership interests.

### 3. Disposition

On April 1, 2014, the Company sold Lincoln Benefit Life Company (“LBL”), LBL’s life insurance business generated through independent master brokerage agencies, and all of LBL’s deferred fixed annuity and long-term care insurance business to Resolution Life Holdings, Inc. The gross sale price was \$797 million, representing \$596 million of cash and the retention of tax benefits. The loss on disposition was \$698 million, pre-tax (\$521 million, after-tax), and \$101 million, pre-tax (\$60 million, after-tax), in 2013 and 2014, respectively. The loss on disposition in 2014 included a \$22 million, pre-tax, reduction in goodwill.

### 4. Supplemental Cash Flow Information

Non-cash investing activities include \$131 million, \$120 million and \$322 million related to modifications of certain mortgage loans, fixed income securities, limited partnership interests and other investments, as well as mergers completed with equity securities in 2015, 2014 and 2013, respectively, and a \$89 million obligation to fund a limited partnership investment in 2015. Non-cash financing activities include \$74 million, \$47 million and \$94 million related to the issuance of Allstate common shares for vested equity awards in 2015, 2014 and 2013, respectively.

Liabilities for collateral received in conjunction with the Company’s securities lending program were \$829 million, \$780 million and \$609 million as of December 31, 2015, 2014 and 2013, respectively, and are reported in other liabilities and accrued expenses. Obligations to return cash collateral for over-the-counter (“OTC”) and cleared derivatives were \$11 million, \$2 million and \$15 million as of December 31, 2015, 2014 and 2013, 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)	2015	2014	2013
Net change in proceeds managed			
Net change in short-term investments	\$(59	) \$(167	) \$190
Operating cash flow (used) provided	(59	) (167	) 190
Net change in cash	1	9	(6
Net change in proceeds managed	\$(58	) \$(158	) \$184
Net change in liabilities			
Liabilities for collateral, beginning of year	\$(782	) \$(624	) \$(808
Liabilities for collateral, end of year	(840	) (782	) (624
Operating cash flow provided (used)	\$58	\$158	\$(184

### 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, 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



Edgar Filing: ALLSTATE CORP - Form 10-K

Redeemable preferred stock	22	3	—	25
Total fixed income securities	\$57,201	\$1,707	\$(960)	) \$57,948

December 31, 2014

U.S. government and agencies	\$4,192	\$139	\$(3)	) \$4,328
Municipal	7,877	645	(25)	) 8,497
Corporate	40,386	1,998	(240)	) 42,144
Foreign government	1,543	102	—	1,645
ABS	3,971	38	(31)	) 3,978
RMBS	1,108	112	(13)	) 1,207
CMBS	573	44	(2)	) 615
Redeemable preferred stock	22	4	—	26
Total fixed income securities	\$59,672	\$3,082	\$(314)	) \$62,440

Scheduled maturities

The scheduled maturities for fixed income securities are as follows as of December 31, 2015: