

ALLSTATE CORP

Form 10-Q

August 01, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

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

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

36-3871531

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2775 Sanders Road, Northbrook, Illinois 60062

(Address of principal executive offices) (Zip Code)

(847) 402-5000

(Registrant's telephone number, including area code)

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

Yes ☒ 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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 ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes ☐ No ☒

As of July 17, 2017, the registrant had 361,359,566 common shares, \$.01 par value, outstanding.

The Allstate Corporation  
Index to Quarterly Report on Form 10-Q  
June 30, 2017

|                |                                                                                                                                              |            |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Part I         | Financial Information                                                                                                                        | Page       |
| <u>Item 1.</u> | <u>Financial Statements</u>                                                                                                                  |            |
|                | Condensed Consolidated Statements of Operations for the Three-Month and Six-Month Periods Ended June 30, 2017 and 2016 (unaudited)           | <u>1</u>   |
|                | Condensed Consolidated Statements of Comprehensive Income for the Three-Month and Six-Month Periods Ended June 30, 2017 and 2016 (unaudited) | <u>2</u>   |
|                | Condensed Consolidated Statements of Financial Position as of June 30, 2017 (unaudited) and December 31, 2016                                | <u>3</u>   |
|                | Condensed Consolidated Statements of Shareholders' Equity for the Six-Month Periods Ended June 30, 2017 and 2016 (unaudited)                 | <u>4</u>   |
|                | Condensed Consolidated Statements of Cash Flows for the Six-Month Periods Ended June 30, 2017 and 2016 (unaudited)                           | <u>5</u>   |
|                | <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>                                                                      | <u>6</u>   |
|                | <u>Report of Independent Registered Public Accounting Firm</u>                                                                               | <u>46</u>  |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                                 |            |
|                | Overview                                                                                                                                     | <u>47</u>  |
|                | <u>Consolidated Net Income</u>                                                                                                               | <u>49</u>  |
|                | <u>Property-Liability Results</u>                                                                                                            | <u>50</u>  |
|                | <u>Allstate Protection Segment</u>                                                                                                           | <u>54</u>  |
|                | Allstate brand                                                                                                                               | <u>62</u>  |
|                | Esurance brand                                                                                                                               | <u>69</u>  |
|                | Encompass brand                                                                                                                              | <u>73</u>  |
|                | SquareTrade                                                                                                                                  | <u>77</u>  |
|                | <u>Discontinued Lines and Coverages Segment</u>                                                                                              | <u>78</u>  |
|                | <u>Allstate Financial Segment</u>                                                                                                            | <u>80</u>  |
|                | Allstate Life                                                                                                                                | <u>81</u>  |
|                | Allstate Benefits                                                                                                                            | <u>84</u>  |
|                | Allstate Annuities                                                                                                                           | <u>86</u>  |
|                | <u>Investments</u>                                                                                                                           | <u>89</u>  |
|                | <u>Capital Resources and Liquidity</u>                                                                                                       | <u>98</u>  |
|                | <u>Forward-Looking Statements</u>                                                                                                            | <u>103</u> |
| <u>Item 4.</u> | <u>Controls and Procedures</u>                                                                                                               | <u>103</u> |
| Part II        | Other Information                                                                                                                            |            |
| <u>Item 1.</u> | <u>Legal Proceedings</u>                                                                                                                     | <u>104</u> |
| <u>Item</u>    | <u>Risk Factors</u>                                                                                                                          | <u>104</u> |
| <u>1A.</u>     |                                                                                                                                              |            |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                                                           | <u>104</u> |
| <u>Item 6.</u> | <u>Exhibits</u>                                                                                                                              | <u>105</u> |

## Part I. Financial Information

## Item 1. Financial Statements

## The Allstate Corporation and Subsidiaries

## Condensed Consolidated Statements of Operations

(\$ in millions, except per share data)

|                                                                         | Three months<br>ended June 30,<br>2017    2016<br>(unaudited) |         | Six months ended<br>June 30,<br>2017    2016<br>(unaudited) |          |
|-------------------------------------------------------------------------|---------------------------------------------------------------|---------|-------------------------------------------------------------|----------|
| Revenues                                                                |                                                               |         |                                                             |          |
| Property-liability insurance premiums                                   | \$8,018                                                       | \$7,814 | \$15,977                                                    | \$15,537 |
| Life and annuity premiums and contract charges                          | 591                                                           | 564     | 1,184                                                       | 1,130    |
| Net investment income                                                   | 897                                                           | 762     | 1,645                                                       | 1,493    |
| Realized capital gains and losses:                                      |                                                               |         |                                                             |          |
| Total other-than-temporary impairment ("OTTI") losses                   | (47)                                                          | (77)    | (109)                                                       | (168)    |
| OTTI losses reclassified to (from) other comprehensive income           | (3)                                                           | (2)     | —                                                           | 8        |
| Net OTTI losses recognized in earnings                                  | (50)                                                          | (79)    | (109)                                                       | (160)    |
| Sales and other realized capital gains and losses                       | 131                                                           | 103     | 324                                                         | 35       |
| Total realized capital gains and losses                                 | 81                                                            | 24      | 215                                                         | (125)    |
|                                                                         | 9,587                                                         | 9,164   | 19,021                                                      | 18,035   |
| Costs and expenses                                                      |                                                               |         |                                                             |          |
| Property-liability insurance claims and claims expense                  | 5,689                                                         | 5,901   | 11,105                                                      | 11,585   |
| Life and annuity contract benefits                                      | 486                                                           | 454     | 960                                                         | 909      |
| Interest credited to contractholder funds                               | 175                                                           | 185     | 348                                                         | 375      |
| Amortization of deferred policy acquisition costs                       | 1,176                                                         | 1,126   | 2,345                                                       | 2,255    |
| Operating costs and expenses                                            | 1,086                                                         | 1,040   | 2,183                                                       | 2,022    |
| Restructuring and related charges                                       | 53                                                            | 11      | 63                                                          | 16       |
| Interest expense                                                        | 83                                                            | 72      | 168                                                         | 145      |
|                                                                         | 8,748                                                         | 8,789   | 17,172                                                      | 17,307   |
| Gain on disposition of operations                                       | 12                                                            | 1       | 14                                                          | 3        |
| Income from operations before income tax expense                        | 851                                                           | 376     | 1,863                                                       | 731      |
| Income tax expense                                                      | 272                                                           | 105     | 589                                                         | 214      |
| Net income                                                              | 579                                                           | 271     | 1,274                                                       | 517      |
| Preferred stock dividends                                               | 29                                                            | 29      | 58                                                          | 58       |
| Net income applicable to common shareholders                            | \$550                                                         | \$242   | \$1,216                                                     | \$459    |
| Earnings per common share:                                              |                                                               |         |                                                             |          |
| Net income applicable to common shareholders per common share - Basic   | \$1.51                                                        | \$0.65  | \$3.34                                                      | \$1.22   |
| Weighted average common shares - Basic                                  | 363.6                                                         | 373.6   | 364.6                                                       | 375.8    |
| Net income applicable to common shareholders per common share - Diluted | \$1.49                                                        | \$0.64  | \$3.29                                                      | \$1.21   |
| Weighted average common shares - Diluted                                | 369.0                                                         | 378.1   | 370.1                                                       | 380.5    |
| Cash dividends declared per common share                                | \$0.37                                                        | \$0.33  | \$0.74                                                      | \$0.66   |

See notes to condensed consolidated financial statements.

The Allstate Corporation 1

---

Edgar Filing: ALLSTATE CORP - Form 10-Q

The Allstate Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

| (\$ in millions)                                           | Three months ended June 30, |       | Six months ended June 30, |         |
|------------------------------------------------------------|-----------------------------|-------|---------------------------|---------|
|                                                            | 2017                        | 2016  | 2017                      | 2016    |
|                                                            | (unaudited)                 |       | (unaudited)               |         |
| Net income                                                 | \$579                       | \$271 | \$1,274                   | \$517   |
| Other comprehensive income, after-tax                      |                             |       |                           |         |
| Changes in:                                                |                             |       |                           |         |
| Unrealized net capital gains and losses                    | 270                         | 424   | 473                       | 1,004   |
| Unrealized foreign currency translation adjustments        | 11                          | 5     | 8                         | 19      |
| Unrecognized pension and other postretirement benefit cost | 18                          | 16    | 37                        | 27      |
| Other comprehensive income, after-tax                      | 299                         | 445   | 518                       | 1,050   |
| Comprehensive income                                       | \$878                       | \$716 | \$1,792                   | \$1,567 |

See notes to condensed consolidated financial statements.

2 [www.allstate.com](http://www.allstate.com)

---

The Allstate Corporation and Subsidiaries  
Condensed Consolidated Statements of Financial Position

| (\$ in millions, except par value data)                                                                                                                                                | June 30,<br>2017<br>(unaudited) | December<br>31, 2016 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| <b>Assets</b>                                                                                                                                                                          |                                 |                      |
| Investments                                                                                                                                                                            |                                 |                      |
| Fixed income securities, at fair value (amortized cost \$56,901 and \$56,576)                                                                                                          | \$ 58,656                       | \$ 57,839            |
| Equity securities, at fair value (cost \$5,321 and \$5,157)                                                                                                                            | 6,117                           | 5,666                |
| Mortgage loans                                                                                                                                                                         | 4,336                           | 4,486                |
| Limited partnership interests                                                                                                                                                          | 6,206                           | 5,814                |
| Short-term, at fair value (amortized cost \$2,175 and \$4,288)                                                                                                                         | 2,175                           | 4,288                |
| Other                                                                                                                                                                                  | 3,815                           | 3,706                |
| Total investments                                                                                                                                                                      | 81,305                          | 81,799               |
| Cash                                                                                                                                                                                   | 482                             | 436                  |
| Premium installment receivables, net                                                                                                                                                   | 5,693                           | 5,597                |
| Deferred policy acquisition costs                                                                                                                                                      | 4,037                           | 3,954                |
| Reinsurance recoverables, net                                                                                                                                                          | 8,722                           | 8,745                |
| Accrued investment income                                                                                                                                                              | 573                             | 567                  |
| Property and equipment, net                                                                                                                                                            | 1,072                           | 1,065                |
| Goodwill                                                                                                                                                                               | 2,309                           | 1,219                |
| Other assets                                                                                                                                                                           | 3,256                           | 1,835                |
| Separate Accounts                                                                                                                                                                      | 3,416                           | 3,393                |
| Total assets                                                                                                                                                                           | \$ 110,865                      | \$ 108,610           |
| <b>Liabilities</b>                                                                                                                                                                     |                                 |                      |
| Reserve for property-liability insurance claims and claims expense                                                                                                                     | \$ 25,884                       | \$ 25,250            |
| Reserve for life-contingent contract benefits                                                                                                                                          | 12,234                          | 12,239               |
| Contractholder funds                                                                                                                                                                   | 19,832                          | 20,260               |
| Unearned premiums                                                                                                                                                                      | 13,024                          | 12,583               |
| Claim payments outstanding                                                                                                                                                             | 939                             | 879                  |
| Deferred income taxes                                                                                                                                                                  | 1,104                           | 487                  |
| Other liabilities and accrued expenses                                                                                                                                                 | 6,583                           | 6,599                |
| Long-term debt                                                                                                                                                                         | 6,348                           | 6,347                |
| Separate Accounts                                                                                                                                                                      | 3,416                           | 3,393                |
| Total liabilities                                                                                                                                                                      | 89,364                          | 88,037               |
| Commitments and Contingent Liabilities (Note 11)                                                                                                                                       |                                 |                      |
| Shareholders' equity                                                                                                                                                                   |                                 |                      |
| Preferred stock and additional capital paid-in, \$1 par value, 25 million shares authorized, 72.2 thousand shares issued and outstanding, and \$1,805 aggregate liquidation preference | 1,746                           | 1,746                |
| Common stock, \$.01 par value, 2.0 billion shares authorized and 900 million issued, 361 million and 366 million shares outstanding                                                    | 9                               | 9                    |
| Additional capital paid-in                                                                                                                                                             | 3,269                           | 3,303                |
| Retained income                                                                                                                                                                        | 41,622                          | 40,678               |
| Deferred ESOP expense                                                                                                                                                                  | (6                              | ) (6                 |
| Treasury stock, at cost (539 million and 534 million shares)                                                                                                                           | (25,241                         | ) (24,741            |
| Accumulated other comprehensive income:                                                                                                                                                |                                 |                      |
| Unrealized net capital gains and losses:                                                                                                                                               |                                 |                      |
| Unrealized net capital gains and losses on fixed income securities with OTTI                                                                                                           | 65                              | 57                   |
| Other unrealized net capital gains and losses                                                                                                                                          | 1,590                           | 1,091                |
| Unrealized adjustment to DAC, DSI and insurance reserves                                                                                                                               | (129                            | ) (95                |
| Total unrealized net capital gains and losses                                                                                                                                          | 1,526                           | 1,053                |

Edgar Filing: ALLSTATE CORP - Form 10-Q

|                                                            |            |            |   |
|------------------------------------------------------------|------------|------------|---|
| Unrealized foreign currency translation adjustments        | (42        | ) (50      | ) |
| Unrecognized pension and other postretirement benefit cost | (1,382     | ) (1,419   | ) |
| Total accumulated other comprehensive income (loss)        | 102        | (416       | ) |
| Total shareholders' equity                                 | 21,501     | 20,573     |   |
| Total liabilities and shareholders' equity                 | \$ 110,865 | \$ 108,610 |   |
| See notes to condensed consolidated financial statements.  |            |            |   |

The Allstate Corporation 3

---



Edgar Filing: ALLSTATE CORP - Form 10-Q

The Allstate Corporate and Subsidiaries  
Condensed Consolidated Statements of Shareholders' Equity

| (\$ in millions)                                                     | Six months ended<br>June 30, |           |
|----------------------------------------------------------------------|------------------------------|-----------|
|                                                                      | 2017                         | 2016      |
|                                                                      | (unaudited)                  |           |
| Preferred stock par value                                            | \$—                          | \$—       |
| Preferred stock additional capital paid-in                           | 1,746                        | 1,746     |
| Common stock                                                         | 9                            | 9         |
| Additional capital paid-in                                           |                              |           |
| Balance, beginning of period                                         | 3,303                        | 3,245     |
| Forward contract on accelerated share repurchase agreement           | (38                          | ) (52     |
| Equity incentive plans activity                                      | 4                            | 10        |
| Balance, end of period                                               | 3,269                        | 3,203     |
| Retained income                                                      |                              |           |
| Balance, beginning of period                                         | 40,678                       | 39,413    |
| Net income                                                           | 1,274                        | 517       |
| Dividends on common stock                                            | (272                         | ) (249    |
| Dividends on preferred stock                                         | (58                          | ) (58     |
| Balance, end of period                                               | 41,622                       | 39,623    |
| Deferred ESOP expense                                                | (6                           | ) (13     |
| Treasury stock                                                       |                              |           |
| Balance, beginning of period                                         | (24,741                      | ) (23,620 |
| Shares acquired                                                      | (646                         | ) (829    |
| Shares reissued under equity incentive plans, net                    | 146                          | 139       |
| Balance, end of period                                               | (25,241                      | ) (24,310 |
| Accumulated other comprehensive income                               |                              |           |
| Balance, beginning of period                                         | (416                         | ) (755    |
| Change in unrealized net capital gains and losses                    | 473                          | 1,004     |
| Change in unrealized foreign currency translation adjustments        | 8                            | 19        |
| Change in unrecognized pension and other postretirement benefit cost | 37                           | 27        |
| Balance, end of period                                               | 102                          | 295       |
| Total shareholders' equity                                           | \$21,501                     | \$20,553  |

See notes to condensed consolidated financial statements.

4 [www.allstate.com](http://www.allstate.com)

---

The Allstate Corporation and Subsidiaries  
Condensed Consolidated Statements of Cash Flows

(\$ in millions)

|                                                                                   | Six months<br>ended June 30, |          |
|-----------------------------------------------------------------------------------|------------------------------|----------|
|                                                                                   | 2017                         | 2016     |
|                                                                                   | (unaudited)                  |          |
| Cash flows from operating activities                                              | \$1,274                      | \$ 517   |
| Net income                                                                        |                              |          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |          |
| Depreciation, amortization and other non-cash items                               | 238                          | 188      |
| Realized capital gains and losses                                                 | (215 )                       | 125      |
| Gain on disposition of operations                                                 | (14 )                        | (3 )     |
| Interest credited to contractholder funds                                         | 348                          | 375      |
| Changes in:                                                                       |                              |          |
| Policy benefits and other insurance reserves                                      | 228                          | 577      |
| Unearned premiums                                                                 | 34                           | 62       |
| Deferred policy acquisition costs                                                 | (65 )                        | (72 )    |
| Premium installment receivables, net                                              | (51 )                        | (27 )    |
| Reinsurance recoverables, net                                                     | 6                            | (120 )   |
| Income taxes                                                                      | (42 )                        | (176 )   |
| Other operating assets and liabilities                                            | (393 )                       | (88 )    |
| Net cash provided by operating activities                                         | 1,348                        | 1,358    |
| Cash flows from investing activities                                              |                              |          |
| Proceeds from sales                                                               |                              |          |
| Fixed income securities                                                           | 14,521                       | 12,589   |
| Equity securities                                                                 | 3,430                        | 2,487    |
| Limited partnership interests                                                     | 481                          | 363      |
| Other investments                                                                 | 118                          | 144      |
| Investment collections                                                            |                              |          |
| Fixed income securities                                                           | 2,063                        | 2,138    |
| Mortgage loans                                                                    | 305                          | 150      |
| Other investments                                                                 | 337                          | 168      |
| Investment purchases                                                              |                              |          |
| Fixed income securities                                                           | (17,214)                     | (12,947) |
| Equity securities                                                                 | (3,473 )                     | (2,672)  |
| Limited partnership interests                                                     | (578 )                       | (703 )   |
| Mortgage loans                                                                    | (148 )                       | (264 )   |
| Other investments                                                                 | (532 )                       | (449 )   |
| Change in short-term investments, net                                             | 2,142                        | (669 )   |
| Change in other investments, net                                                  | 107                          | (39 )    |
| Purchases of property and equipment, net                                          | (146 )                       | (120 )   |
| Acquisition of operations                                                         | (1,356 )                     | —        |
| Net cash provided by investing activities                                         | 57                           | 176      |
| Cash flows from financing activities                                              |                              |          |
| Repayments of long-term debt                                                      | —                            | (16 )    |
| Contractholder fund deposits                                                      | 515                          | 522      |
| Contractholder fund withdrawals                                                   | (957 )                       | (1,013)  |
| Dividends paid on common stock                                                    | (257 )                       | (240 )   |
| Dividends paid on preferred stock                                                 | (58 )                        | (58 )    |
| Treasury stock purchases                                                          | (657 )                       | (904 )   |
| Shares reissued under equity incentive plans, net                                 | 108                          | 72       |

Edgar Filing: ALLSTATE CORP - Form 10-Q

|                                                         |        |           |
|---------------------------------------------------------|--------|-----------|
| Excess tax benefits on share-based payment arrangements | —      | 20        |
| Other                                                   | (53    | ) 34      |
| Net cash used in financing activities                   | (1,359 | ) (1,583) |
| Net increase (decrease) in cash                         | 46     | (49 )     |
| Cash at beginning of period                             | 436    | 495       |
| Cash at end of period                                   | \$482  | \$ 446    |

See notes to condensed consolidated financial statements.

The Allstate Corporation 5

---

The Allstate Corporation and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

1. General

Basis of presentation

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

The condensed consolidated financial statements and notes as of June 30, 2017 and for the three-month and six-month periods ended June 30, 2017 and 2016 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year. All significant intercompany accounts and transactions have been eliminated.

Adopted accounting standards

Employee Share-Based Payment Accounting

Effective January 1, 2017, the Company adopted new Financial Accounting Standards Board (“FASB”) guidance that amends the accounting for share-based payments on a prospective basis. Under the new guidance, reporting entities are required to recognize all tax effects related to share-based payments at settlement or expiration through the income statement and the requirement to delay recognition of certain tax benefits until they reduce current taxes payable is eliminated. The new guidance also permits employers to withhold shares issued in connection with an employee’s exercise of options or the settlement of stock awards, up to the employee’s maximum individual statutory tax rate, to meet tax withholding requirements without causing liability classification of the award. In addition, all tax-related cash flows resulting from share-based payments are reported as operating activities on the statement of cash flows whereas cash payments made to taxing authorities on an employee’s behalf for withheld shares are presented as financing activities. The adoption of this guidance had no impact on the Company’s results of operations or financial position on the date of adoption.

Transition to Equity Method Accounting

Effective January 1, 2017, the Company adopted new FASB guidance amending the accounting requirements for transitioning to the equity method of accounting (“EMA”), including a transition from the cost method. The guidance requires the cost of acquiring an additional interest in an investee to be added to the existing carrying value to establish the initial basis of the EMA investment. Under the new guidance, no retroactive adjustment is required when an investment initially qualifies for EMA treatment. The guidance is applied prospectively to investments that qualify for EMA after application of the cost method of accounting. Accordingly, the adoption of this guidance had no impact on the Company’s results of operations or financial position.

Pending accounting standards

Revenue from Contracts with Customers

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

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued guidance requiring equity investments, including equity securities and limited partnership interests, that are not accounted for under the equity method of accounting or result in consolidation to be measured at fair value with changes in fair value recognized in net income. Equity investments without readily determinable fair values may be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the

6 [www.allstate.com](http://www.allstate.com)

---

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 date of adoption. The new guidance related to equity investments without readily determinable fair values is applied prospectively as of the date of adoption. The most significant anticipated impacts, using values as of June 30, 2017, relate to the change in accounting for equity securities, where \$796 million of pre-tax unrealized net capital gains would be reclassified from accumulated other comprehensive income to retained income, and cost method limited partnership interests (excluding limited partnership interests accounted for on a cost recovery basis), where the carrying value would increase by approximately \$202 million, pre-tax, with the offsetting adjustment recognized in retained income.

#### Accounting for Leases

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

#### Measurement of Credit Losses on Financial Instruments

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

#### Goodwill Impairment

In January 2017, the FASB issued guidance to simplify the accounting for goodwill impairment which removes the second step of the goodwill impairment test that requires a hypothetical purchase price allocation. Under the new guidance, goodwill impairment will be measured and recognized as the amount by which a reporting unit's carrying value, including goodwill, exceeds its fair value, not to exceed the carrying amount of goodwill allocated to the

reporting unit. The revised guidance does not affect a reporting entity's ability to first assess qualitative factors by reporting unit to determine whether to perform the quantitative goodwill impairment test. The guidance is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The guidance is to be applied on a prospective basis, with the effects, if any, recognized in net income in the period of adoption. The impact to the Company upon adoption is dependent upon the excess, if any, of carrying value of the Company's reporting units, including goodwill, over their respective fair values, a measure that is not currently determinable.

#### Presentation of Net Periodic Pension and Postretirement Benefits Costs

In March 2017, the FASB issued guidance to improve the presentation of net periodic pension and postretirement benefits costs that requires the service cost component to be reported in operating expenses together with other employee compensation

The Allstate Corporation 7

---



costs and all other components of net periodic pension and postretirement benefits costs reported in non-operating expenses. If the reporting entity does not separately report operating and non-operating expenses on the statement of operations it is required to identify, on the statement of operations or in disclosures, the line items in which the components of net periodic pension and postretirement benefits costs are presented. The new guidance permits only the service cost component to be eligible for capitalization where applicable. The guidance is effective for annual periods beginning after December 15, 2017 and for interim periods within those annual periods. The guidance is to be applied on a prospective basis for capitalization of service costs where applicable and on a retrospective basis for the presentation of the service cost and other components of net periodic pension benefit costs in the statements of operations or in disclosures. The impact of adoption is not expected to be material to the Company's results of operations or financial position.

## 2. Earnings per Common Share

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

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

| (\$ in millions, except per share data)                                  | Three months ended June 30, |        | Six months ended June 30, |        |
|--------------------------------------------------------------------------|-----------------------------|--------|---------------------------|--------|
|                                                                          | 2017                        | 2016   | 2017                      | 2016   |
| Numerator:                                                               |                             |        |                           |        |
| Net income                                                               | \$579                       | \$271  | \$1,274                   | \$517  |
| Less: Preferred stock dividends                                          | 29                          | 29     | 58                        | 58     |
| Net income applicable to common shareholders <sup>(1)</sup>              | \$550                       | \$242  | \$1,216                   | \$459  |
| Denominator:                                                             |                             |        |                           |        |
| Weighted average common shares outstanding                               | 363.6                       | 373.6  | 364.6                     | 375.8  |
| Effect of dilutive potential common shares:                              |                             |        |                           |        |
| Stock options                                                            | 4.3                         | 3.4    | 4.2                       | 3.4    |
| Restricted stock units (non-participating) and performance stock awards  | 1.1                         | 1.1    | 1.3                       | 1.3    |
| Weighted average common and dilutive potential common shares outstanding | 369.0                       | 378.1  | 370.1                     | 380.5  |
| Earnings per common share - Basic                                        | \$1.51                      | \$0.65 | \$3.34                    | \$1.22 |
| Earnings per common share - Diluted                                      | \$1.49                      | \$0.64 | \$3.29                    | \$1.21 |

<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 2.5 million and 4.8 million Allstate common shares, with exercise prices ranging from \$74.03 to \$86.61 and \$57.29 to \$71.29, were outstanding for the three-month periods ended June 30, 2017 and 2016, respectively, but were not included in the computation of diluted earnings per common share in those periods. Options to purchase 2.6 million and 4.8 million Allstate common shares, with exercise prices ranging from \$69.95 to \$86.61 and \$57.29 to \$71.29, were outstanding for the six-month periods ended June 30, 2017 and 2016, respectively, but were not included in the computation of diluted earnings per common share in those periods.

## 3. Acquisition

On January 3, 2017, the Company acquired SquareTrade Holding Company, Inc. ("SquareTrade"), a consumer product protection plan provider that distributes through many of America's major retailers and Europe's mobile operators, for

\$1.4 billion in cash. SquareTrade provides protection plans primarily covering consumer appliances and electronics, such as TVs, smartphones and computers. This acquisition broadens Allstate's unique product offerings to better meet consumers' needs.

In connection with the acquisition, the Company recorded goodwill of \$1.08 billion, commissions paid to retailers (reported in deferred policy acquisition costs) of \$70 million, other intangible assets (reported in other assets) of \$555 million, contractual liability insurance policy premium expenses (reported in other assets) of \$201 million, unearned premiums of \$373 million and net deferred income tax liability of \$140 million. The Company increased goodwill in the second quarter of 2017 by \$14 million related to an adjustment to the fair value of the opening balance sheet liabilities.

As of June 30, 2017, the Company has \$30 million of restricted cash related to an escrow account in connection with the acquisition that is recorded in other assets.

#### 4. Reporting Segments

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

| (\$ in millions)                                     | Three months<br>ended June 30, |         | Six months ended<br>June 30, |          |
|------------------------------------------------------|--------------------------------|---------|------------------------------|----------|
|                                                      | 2017                           | 2016    | 2017                         | 2016     |
| <b>Property-Liability</b>                            |                                |         |                              |          |
| Property-liability insurance premiums                |                                |         |                              |          |
| Auto                                                 | \$5,437                        | \$5,306 | \$10,825                     | \$10,526 |
| Homeowners                                           | 1,815                          | 1,815   | 3,630                        | 3,625    |
| Other personal lines                                 | 436                            | 424     | 867                          | 845      |
| Commercial lines                                     | 118                            | 127     | 243                          | 256      |
| Other business lines                                 | 142                            | 142     | 283                          | 285      |
| SquareTrade                                          | 70                             | —       | 129                          | —        |
| Allstate Protection                                  | 8,018                          | 7,814   | 15,977                       | 15,537   |
| Discontinued Lines and Coverages                     | —                              | —       | —                            | —        |
| Total property-liability insurance premiums          | 8,018                          | 7,814   | 15,977                       | 15,537   |
| Net investment income                                | 391                            | 316     | 702                          | 618      |
| Realized capital gains and losses                    | 85                             | 26      | 220                          | (73 )    |
| Total Property-Liability                             | 8,494                          | 8,156   | 16,899                       | 16,082   |
| <b>Allstate Financial</b>                            |                                |         |                              |          |
| Life and annuity premiums and contract charges       |                                |         |                              |          |
| Premiums                                             |                                |         |                              |          |
| Traditional life insurance                           | 148                            | 139     | 297                          | 277      |
| Accident and health insurance                        | 233                            | 214     | 465                          | 430      |
| Total premiums                                       | 381                            | 353     | 762                          | 707      |
| Contract charges                                     |                                |         |                              |          |
| Interest-sensitive life insurance                    | 207                            | 208     | 416                          | 417      |
| Fixed annuities                                      | 3                              | 3       | 6                            | 6        |
| Total contract charges                               | 210                            | 211     | 422                          | 423      |
| Total life and annuity premiums and contract charges | 591                            | 564     | 1,184                        | 1,130    |
| Net investment income                                | 496                            | 435     | 922                          | 854      |
| Realized capital gains and losses                    | (4 )                           | —       | (5 )                         | (49 )    |
| Total Allstate Financial                             | 1,083                          | 999     | 2,101                        | 1,935    |
| <b>Corporate and Other</b>                           |                                |         |                              |          |
| Net investment income                                | 10                             | 11      | 21                           | 21       |
| Realized capital gains and losses                    | —                              | (2 )    | —                            | (3 )     |
| Total Corporate and Other                            | 10                             | 9       | 21                           | 18       |
| Consolidated revenues                                | \$9,587                        | \$9,164 | \$19,021                     | \$18,035 |

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

| (\$ in millions)                                                                                                                                   | Three months<br>ended June<br>30, |        | Six months<br>ended June 30, |         |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|--------|------------------------------|---------|
|                                                                                                                                                    | 2017                              | 2016   | 2017                         | 2016    |
| Property-Liability                                                                                                                                 |                                   |        |                              |         |
| Underwriting income                                                                                                                                |                                   |        |                              |         |
| Allstate Protection                                                                                                                                | \$232                             | \$(64) | \$741                        | \$63    |
| Discontinued Lines and Coverages                                                                                                                   | (5)                               | (2)    | (7)                          | (4)     |
| Total underwriting income (loss)                                                                                                                   | 227                               | (66)   | 734                          | 59      |
| Net investment income                                                                                                                              | 391                               | 316    | 702                          | 618     |
| Income tax expense on operations                                                                                                                   | (196)                             | (70)   | (451)                        | (211)   |
| Realized capital gains and losses, after-tax                                                                                                       | 56                                | 18     | 145                          | (46)    |
| Gain on disposition of operations, after-tax                                                                                                       | 6                                 | —      | 6                            | —       |
| Property-Liability net income applicable to common shareholders                                                                                    | 484                               | 198    | 1,136                        | 420     |
| Allstate Financial                                                                                                                                 |                                   |        |                              |         |
| Life and annuity premiums and contract charges                                                                                                     | 591                               | 564    | 1,184                        | 1,130   |
| Net investment income                                                                                                                              | 496                               | 435    | 922                          | 854     |
| Contract benefits and interest credited to contractholder funds                                                                                    | (659)                             | (633)  | (1,306)                      | (1,272) |
| Operating costs and expenses and amortization of deferred policy acquisition costs                                                                 | (199)                             | (189)  | (409)                        | (383)   |
| Restructuring and related charges                                                                                                                  | (1)                               | (1)    | (1)                          | (1)     |
| Income tax expense on operations                                                                                                                   | (75)                              | (56)   | (127)                        | (104)   |
| Operating income                                                                                                                                   | 153                               | 120    | 263                          | 224     |
| Realized capital gains and losses, after-tax                                                                                                       | (3)                               | —      | (4)                          | (32)    |
| Valuation changes on embedded derivatives that are not hedged, after-tax                                                                           | (1)                               | (4)    | (1)                          | (8)     |
| DAC and DSI amortization related to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax | (3)                               | (1)    | (6)                          | (2)     |
| Gain on disposition of operations, after-tax                                                                                                       | —                                 | 1      | 2                            | 2       |
| Allstate Financial net income applicable to common shareholders                                                                                    | 146                               | 116    | 254                          | 184     |
| Corporate and Other                                                                                                                                |                                   |        |                              |         |
| Net investment income                                                                                                                              | 10                                | 11     | 21                           | 21      |
| Operating costs and expenses                                                                                                                       | (92)                              | (79)   | (185)                        | (158)   |
| Income tax benefit on operations                                                                                                                   | 31                                | 26     | 61                           | 51      |
| Preferred stock dividends                                                                                                                          | (29)                              | (29)   | (58)                         | (58)    |
| Operating loss                                                                                                                                     | (80)                              | (71)   | (161)                        | (144)   |
| Realized capital gains and losses, after-tax                                                                                                       | —                                 | (1)    | —                            | (1)     |
| Business combination expenses, after-tax                                                                                                           | —                                 | —      | (13)                         | —       |
| Corporate and Other net loss applicable to common shareholders                                                                                     | (80)                              | (72)   | (174)                        | (145)   |
| Consolidated net income applicable to common shareholders                                                                                          | \$550                             | \$242  | \$1,216                      | \$459   |

## 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<br>cost | Gross<br>unrealized<br>Gains | Losses  | Fair<br>value |
|-------------------------------------------------|-------------------|------------------------------|---------|---------------|
| June 30, 2017                                   |                   |                              |         |               |
| U.S. government and agencies                    | \$ 3,363          | \$70                         | \$(7 )  | \$3,426       |
| Municipal                                       | 7,543             | 336                          | (24 )   | 7,855         |
| Corporate                                       | 43,007            | 1,394                        | (150 )  | 44,251        |
| Foreign government                              | 1,019             | 34                           | (6 )    | 1,047         |
| Asset-backed securities ("ABS")                 | 1,237             | 16                           | (10 )   | 1,243         |
| Residential mortgage-backed securities ("RMBS") | 549               | 96                           | (4 )    | 641           |
| Commercial mortgage-backed securities ("CMBS")  | 163               | 14                           | (7 )    | 170           |
| Redeemable preferred stock                      | 20                | 3                            | —       | 23            |
| Total fixed income securities                   | \$ 56,901         | \$ 1,963                     | \$(208) | \$58,656      |

## December 31, 2016

|                               |           |          |         |          |
|-------------------------------|-----------|----------|---------|----------|
| U.S. government and agencies  | \$ 3,572  | \$74     | \$(9 )  | \$3,637  |
| Municipal                     | 7,116     | 304      | (87 )   | 7,333    |
| Corporate                     | 42,742    | 1,178    | (319 )  | 43,601   |
| Foreign government            | 1,043     | 36       | (4 )    | 1,075    |
| ABS                           | 1,169     | 13       | (11 )   | 1,171    |
| RMBS                          | 651       | 85       | (8 )    | 728      |
| CMBS                          | 262       | 17       | (9 )    | 270      |
| Redeemable preferred stock    | 21        | 3        | —       | 24       |
| Total fixed income securities | \$ 56,576 | \$ 1,710 | \$(447) | \$57,839 |

## Scheduled maturities

The scheduled maturities for fixed income securities are as follows as of June 30, 2017:

| (\$ in millions)                       | Amortized<br>cost | Fair<br>value |
|----------------------------------------|-------------------|---------------|
| Due in one year or less                | \$ 4,226          | \$4,247       |
| Due after one year through five years  | 28,770            | 29,347        |
| Due after five years through ten years | 16,870            | 17,293        |
| Due after ten years                    | 5,086             | 5,715         |
|                                        | 54,952            | 56,602        |
| ABS, RMBS and CMBS                     | 1,949             | 2,054         |
| Total                                  | \$ 56,901         | \$58,656      |

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

## Net investment income

Net investment income is as follows:

| (\$ in millions)                  | Three months<br>ended June<br>30, |       | Six months<br>ended June 30, |         |
|-----------------------------------|-----------------------------------|-------|------------------------------|---------|
|                                   | 2017                              | 2016  | 2017                         | 2016    |
| Fixed income securities           | \$527                             | \$520 | \$1,045                      | \$1,038 |
| Equity securities                 | 49                                | 44    | 93                           | 72      |
| Mortgage loans                    | 50                                | 53    | 105                          | 106     |
| Limited partnership interests     | 253                               | 126   | 373                          | 247     |
| Short-term investments            | 6                                 | 3     | 12                           | 7       |
| Other                             | 60                                | 57    | 116                          | 108     |
| Investment income, before expense | 945                               | 803   | 1,744                        | 1,578   |
| Investment expense                | (48 )                             | (41 ) | (99 )                        | (85 )   |
| Net investment income             | \$897                             | \$762 | \$1,645                      | \$1,493 |

## Realized capital gains and losses

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

| (\$ in millions)                  | Three<br>months<br>ended June<br>30, |       | Six months<br>ended June<br>30, |         |
|-----------------------------------|--------------------------------------|-------|---------------------------------|---------|
|                                   | 2017                                 | 2016  | 2017                            | 2016    |
| Fixed income securities           | \$32                                 | \$24  | \$37                            | \$(47 ) |
| Equity securities                 | 19                                   | 11    | 125                             | (79 )   |
| Mortgage loans                    | —                                    | 1     | —                               | 1       |
| Limited partnership interests     | 31                                   | (13 ) | 71                              | 13      |
| Derivatives                       | (8 )                                 | 2     | (23 )                           | (7 )    |
| Other                             | 7                                    | (1 )  | 5                               | (6 )    |
| Realized capital gains and losses | \$81                                 | \$24  | \$215                           | \$(125) |

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

| (\$ in millions)                                                  | Three<br>months<br>ended June<br>30, |        | Six months<br>ended June<br>30, |         |
|-------------------------------------------------------------------|--------------------------------------|--------|---------------------------------|---------|
|                                                                   | 2017                                 | 2016   | 2017                            | 2016    |
| Impairment write-downs                                            | \$(28)                               | \$(63) | \$(71 )                         | \$(122) |
| Change in intent write-downs                                      | (22 )                                | (16 )  | (38 )                           | (38 )   |
| Net other-than-temporary impairment losses recognized in earnings | (50 )                                | (79 )  | (109 )                          | (160 )  |
| Sales and other                                                   | 139                                  | 104    | 347                             | 45      |
| Valuation and settlements of derivative instruments               | (8 )                                 | (1 )   | (23 )                           | (10 )   |
| Realized capital gains and losses                                 | \$81                                 | \$24   | \$215                           | \$(125) |

Gross gains of \$141 million and \$163 million and gross losses of \$50 million and \$74 million were realized on sales of fixed income and equity securities during the three months ended June 30, 2017 and 2016, respectively. Gross gains of \$376 million and \$306 million and gross losses of \$125 million and \$285 million were realized on sales of fixed income and equity securities during the six months ended June 30, 2017 and 2016, respectively.

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

| (\$ in millions)                       | Three months ended<br>June 30, 2017 |                    |         | Three months ended<br>June 30, 2016 |                    |         |
|----------------------------------------|-------------------------------------|--------------------|---------|-------------------------------------|--------------------|---------|
|                                        | Gross                               | Included<br>in OCI | Net     | Gross                               | Included<br>in OCI | Net     |
| Fixed income securities:               |                                     |                    |         |                                     |                    |         |
| Municipal                              | \$(1 )                              | \$ (2 )            | \$(3 )  | \$—                                 | \$ —               | \$—     |
| Corporate                              | —                                   | —                  | —       | (1 )                                | —                  | (1 )    |
| ABS                                    | (1 )                                | —                  | (1 )    | —                                   | (1 )               | (1 )    |
| CMBS                                   | (2 )                                | (1 )               | (3 )    | —                                   | (1 )               | (1 )    |
| Total fixed income securities          | (4 )                                | (3 )               | (7 )    | (1 )                                | (2 )               | (3 )    |
| Equity securities                      | (32 )                               | —                  | (32 )   | (51 )                               | —                  | (51 )   |
| Limited partnership interests          | (9 )                                | —                  | (9 )    | (24 )                               | —                  | (24 )   |
| Other                                  | (2 )                                | —                  | (2 )    | (1 )                                | —                  | (1 )    |
| Other-than-temporary impairment losses | \$(47 )                             | \$ (3 )            | \$(50 ) | \$(77 )                             | \$ (2 )            | \$(79 ) |

|                                        | Six months ended June<br>30, 2017 |                    |          | Six months ended June<br>30, 2016 |                    |          |
|----------------------------------------|-----------------------------------|--------------------|----------|-----------------------------------|--------------------|----------|
|                                        | Gross                             | Included<br>in OCI | Net      | Gross                             | Included<br>in OCI | Net      |
| Fixed income securities:               |                                   |                    |          |                                   |                    |          |
| Municipal                              | \$(1 )                            | \$ (2 )            | \$(3 )   | \$—                               | \$ —               | \$—      |
| Corporate                              | (9 )                              | 3                  | (6 )     | (17 )                             | 7                  | (10 )    |
| ABS                                    | (1 )                              | —                  | (1 )     | (6 )                              | —                  | (6 )     |
| RMBS                                   | (1 )                              | (3 )               | (4 )     | —                                 | —                  | —        |
| CMBS                                   | (8 )                              | 2                  | (6 )     | (4 )                              | 1                  | (3 )     |
| Total fixed income securities          | (20 )                             | —                  | (20 )    | (27 )                             | 8                  | (19 )    |
| Equity securities                      | (68 )                             | —                  | (68 )    | (128 )                            | —                  | (128 )   |
| Limited partnership interests          | (16 )                             | —                  | (16 )    | (11 )                             | —                  | (11 )    |
| Other                                  | (5 )                              | —                  | (5 )     | (2 )                              | —                  | (2 )     |
| Other-than-temporary impairment losses | \$(109 )                          | \$ —               | \$(109 ) | \$(168 )                          | \$ 8               | \$(160 ) |

The total amount of other-than-temporary impairment losses included in accumulated other comprehensive income at the time of impairment for fixed income securities, which were not included in earnings, are presented in the following table. The amounts exclude \$231 million and \$221 million as of June 30, 2017 and December 31, 2016, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

| (\$ in millions) | June 30, December 31, |           |
|------------------|-----------------------|-----------|
|                  | 2017                  | 2016      |
| Municipal        | \$(5 )                | \$ (8 )   |
| Corporate        | (3 )                  | (7 )      |
| ABS              | (16 )                 | (21 )     |
| RMBS             | (99 )                 | (90 )     |
| CMBS             | (8 )                  | (7 )      |
| Total            | \$(131 )              | \$ (133 ) |

The Allstate Corporation 13

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

| (\$ in millions)                                                                     | Three months ended June 30, |         | Six months ended June 30, |         |
|--------------------------------------------------------------------------------------|-----------------------------|---------|---------------------------|---------|
|                                                                                      | 2017                        | 2016    | 2017                      | 2016    |
| Beginning balance                                                                    | \$(294)                     | \$(350) | \$(318)                   | \$(392) |
| Additional credit loss for securities previously other-than-temporarily impaired     | (6)                         | (3)     | (13)                      | (11)    |
| Additional credit loss for securities not previously other-than-temporarily impaired | (1)                         | —       | (7)                       | (8)     |
| Reduction in credit loss for securities disposed or collected                        | 19                          | 22      | 56                        | 80      |
| Change in credit loss due to accretion of increase in cash flows                     | 1                           | —       | 1                         | —       |
| Ending balance                                                                       | \$(281)                     | \$(331) | \$(281)                   | \$(331) |

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



# Unrealized net capital gains and losses

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

| (\$ in millions)                                         | Fair value | Gross unrealized Gains | Losses   | Unrealized net gains (losses) |
|----------------------------------------------------------|------------|------------------------|----------|-------------------------------|
| June 30, 2017                                            |            |                        |          |                               |
| Fixed income securities                                  | \$58,656   | \$ 1,963               | \$(208 ) | \$ 1,755                      |
| Equity securities                                        | 6,117      | 837                    | (41 )    | 796                           |
| Short-term investments                                   | 2,175      | —                      | —        | —                             |
| Derivative instruments <sup>(1)</sup>                    | 3          | 3                      | (4 )     | (1 )                          |
| Equity method (“EMA”) limited partnership <sup>(2)</sup> |            |                        |          | (1 )                          |
| Unrealized net capital gains and losses, pre-tax         |            |                        |          | 2,549                         |
| Amounts recognized for:                                  |            |                        |          |                               |
| Insurance reserves <sup>(3)</sup>                        |            |                        |          | —                             |
| DAC and DSI <sup>(4)</sup>                               |            |                        |          | (198 )                        |
| Amounts recognized                                       |            |                        |          | (198 )                        |
| Deferred income taxes                                    |            |                        |          | (825 )                        |
| Unrealized net capital gains and losses, after-tax       |            |                        |          | \$ 1,526                      |

<sup>(1)</sup> Included in the fair value of derivative instruments is \$(3) million classified as liabilities.

Unrealized net capital gains and losses for limited partnership interests represent the Company’s share of EMA

<sup>(2)</sup> limited partnerships’ other comprehensive income. Fair value and gross unrealized gains and losses are not applicable.

The insurance reserves adjustment represents the amount by which the reserve balance would increase if the net unrealized gains in the applicable product portfolios were realized and reinvested at current lower interest rates,

<sup>(3)</sup> resulting in a premium deficiency. Although the Company evaluates premium deficiencies on the combined performance of life insurance and immediate annuities with life contingencies, the adjustment, if any, primarily relates to structured settlement annuities with life contingencies, in addition to annuity buy-outs and certain payout annuities with life contingencies.

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

| (\$ in millions)                                   | Fair value | Gross unrealized Gains | Losses   | Unrealized net gains (losses) |
|----------------------------------------------------|------------|------------------------|----------|-------------------------------|
| December 31, 2016                                  |            |                        |          |                               |
| Fixed income securities                            | \$57,839   | \$ 1,710               | \$(447 ) | \$ 1,263                      |
| Equity securities                                  | 5,666      | 594                    | (85 )    | 509                           |
| Short-term investments                             | 4,288      | —                      | —        | —                             |
| Derivative instruments <sup>(1)</sup>              | 5          | 5                      | (3 )     | 2                             |
| EMA limited partnerships                           |            |                        |          | (4 )                          |
| Unrealized net capital gains and losses, pre-tax   |            |                        |          | 1,770                         |
| Amounts recognized for:                            |            |                        |          |                               |
| Insurance reserves                                 |            |                        |          | —                             |
| DAC and DSI                                        |            |                        |          | (146 )                        |
| Amounts recognized                                 |            |                        |          | (146 )                        |
| Deferred income taxes                              |            |                        |          | (571 )                        |
| Unrealized net capital gains and losses, after-tax |            |                        |          | \$ 1,053                      |

<sup>(1)</sup> Included in the fair value of derivative instruments is \$5 million classified as assets.

# Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the six months ended June 30, 2017 is as follows:

(\$ in millions)

|                                                                |        |
|----------------------------------------------------------------|--------|
| Fixed income securities                                        | \$492  |
| Equity securities                                              | 287    |
| Derivative instruments                                         | (3 )   |
| EMA limited partnerships                                       | 3      |
| Total                                                          | 779    |
| Amounts recognized for:                                        |        |
| Insurance reserves                                             | —      |
| DAC and DSI                                                    | (52 )  |
| Amounts recognized                                             | (52 )  |
| Deferred income taxes                                          | (254 ) |
| Increase in unrealized net capital gains and losses, after-tax | \$473  |

## Portfolio monitoring

The Company has a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value may be other-than-temporarily impaired.

For each fixed income security in an unrealized loss position, the Company assesses whether management with the appropriate authority has made the decision to sell or whether it is more likely than not the Company will be required to sell the security before recovery of the amortized cost basis for reasons such as liquidity, contractual or regulatory purposes. If a security meets either of these criteria, the security's decline in fair value is considered other than temporary and is recorded in earnings.

If the Company has not made the decision to sell the fixed income security and it is not more likely than not the Company will be required to sell the fixed income security before recovery of its amortized cost basis, the Company evaluates whether it expects to receive cash flows sufficient to recover the entire amortized cost basis of the security. The Company calculates the estimated recovery value by discounting the best estimate of future cash flows at the security's original or current effective rate, as appropriate, and compares this to the amortized cost of the security. If the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the fixed income security, the credit loss component of the impairment is recorded in earnings, with the remaining amount of the unrealized loss related to other factors recognized in other comprehensive income.

For equity securities, the Company considers various factors, including whether it has the intent and ability to hold the equity security for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the equity security's decline in fair value is considered other than temporary and is recorded in earnings.

For fixed income and equity securities managed by third parties, either the Company has contractually retained its decision making authority as it pertains to selling securities that are in an unrealized loss position or it recognizes any unrealized loss at the end of the period through a charge to earnings.

The Company's portfolio monitoring process includes a quarterly review of all securities to identify instances where the fair value of a security compared to its amortized cost (for fixed income securities) or cost (for equity securities) is below established thresholds. The process also includes the monitoring of other impairment indicators such as ratings, ratings downgrades and payment defaults. The securities identified, in addition to other securities for which the Company may have a concern, are evaluated for potential other-than-temporary impairment using all reasonably available information relevant to the collectability or recovery of the security. Inherent in the Company's evaluation of other-than-temporary impairment for these fixed income and equity securities are assumptions and estimates about the financial condition and future earnings potential of the issue or issuer. Some of the factors that may be considered in evaluating whether a decline in fair value is other than temporary are: 1) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; 2) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity; and 3) the length of time and extent to which the fair value has been less than amortized cost or cost.



The following table summarizes the gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position.

| (\$ in millions)                               | Less than 12 months |            |                   | 12 months or more |            |                   | Total             |
|------------------------------------------------|---------------------|------------|-------------------|-------------------|------------|-------------------|-------------------|
|                                                | Number of issues    | Fair value | Unrealized losses | Number of issues  | Fair value | Unrealized losses | unrealized losses |
| June 30, 2017                                  |                     |            |                   |                   |            |                   |                   |
| Fixed income securities                        |                     |            |                   |                   |            |                   |                   |
| U.S. government and agencies                   | 62                  | \$ 1,840   | \$ (7 )           | —                 | \$ —       | \$ —              | \$ (7 )           |
| Municipal                                      | 903                 | 1,842      | (20 )             | 4                 | 14         | (4 )              | (24 )             |
| Corporate                                      | 615                 | 8,649      | (109 )            | 44                | 358        | (41 )             | (150 )            |
| Foreign government                             | 57                  | 625        | (6 )              | —                 | —          | —                 | (6 )              |
| ABS                                            | 35                  | 242        | (1 )              | 10                | 39         | (9 )              | (10 )             |
| RMBS                                           | 79                  | 41         | (1 )              | 179               | 66         | (3 )              | (4 )              |
| CMBS                                           | 6                   | 23         | (2 )              | 5                 | 14         | (5 )              | (7 )              |
| Redeemable preferred stock                     | 1                   | —          | —                 | —                 | —          | —                 | —                 |
| Total fixed income securities                  | 1,758               | 13,262     | (146 )            | 242               | 491        | (62 )             | (208 )            |
| Equity securities                              | 137                 | 547        | (34 )             | 13                | 43         | (7 )              | (41 )             |
| Total fixed income and equity securities       | 1,895               | \$ 13,809  | \$ (180 )         | 255               | \$ 534     | \$ (69 )          | \$ (249 )         |
| Investment grade fixed income securities       | 1,655               | \$ 12,373  | \$ (124 )         | 183               | \$ 295     | \$ (31 )          | \$ (155 )         |
| Below investment grade fixed income securities | 103                 | 889        | (22 )             | 59                | 196        | (31 )             | (53 )             |
| Total fixed income securities                  | 1,758               | \$ 13,262  | \$ (146 )         | 242               | \$ 491     | \$ (62 )          | \$ (208 )         |

#### December 31, 2016

|                                                |       |           |           |     |          |           |           |
|------------------------------------------------|-------|-----------|-----------|-----|----------|-----------|-----------|
| Fixed income securities                        |       |           |           |     |          |           |           |
| U.S. government and agencies                   | 46    | \$ 943    | \$ (9 )   | —   | \$ —     | \$ —      | \$ (9 )   |
| Municipal                                      | 1,310 | 3,073     | (76 )     | 8   | 29       | (11 )     | (87 )     |
| Corporate                                      | 862   | 13,343    | (256 )    | 83  | 678      | (63 )     | (319 )    |
| Foreign government                             | 41    | 225       | (4 )      | —   | —        | —         | (4 )      |
| ABS                                            | 31    | 222       | (1 )      | 14  | 109      | (10 )     | (11 )     |
| RMBS                                           | 89    | 53        | (1 )      | 179 | 91       | (7 )      | (8 )      |
| CMBS                                           | 15    | 59        | (4 )      | 4   | 15       | (5 )      | (9 )      |
| Redeemable preferred stock                     | 1     | —         | —         | —   | —        | —         | —         |
| Total fixed income securities                  | 2,395 | 17,918    | (351 )    | 288 | 922      | (96 )     | (447 )    |
| Equity securities                              | 195   | 654       | (56 )     | 46  | 165      | (29 )     | (85 )     |
| Total fixed income and equity securities       | 2,590 | \$ 18,572 | \$ (407 ) | 334 | \$ 1,087 | \$ (125 ) | \$ (532 ) |
| Investment grade fixed income securities       | 2,202 | \$ 15,678 | \$ (293 ) | 201 | \$ 493   | \$ (51 )  | \$ (344 ) |
| Below investment grade fixed income securities | 193   | 2,240     | (58 )     | 87  | 429      | (45 )     | (103 )    |
| Total fixed income securities                  | 2,395 | \$ 17,918 | \$ (351 ) | 288 | \$ 922   | \$ (96 )  | \$ (447 ) |

As of June 30, 2017, \$207 million of the \$249 million unrealized losses are related to securities with an unrealized loss position less than 20% of amortized cost or cost, the degree of which suggests that these securities do not pose a high risk of being other-than-temporarily impaired. Of the \$207 million, \$139 million are related to unrealized losses on investment grade fixed income securities and \$34 million are related to equity securities. Of the remaining \$34 million, \$19 million have been in an unrealized loss position for less than 12 months. Investment grade is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P Global Ratings ("S&P"), a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third party rating. Unrealized losses on investment grade securities are principally related to an increase in market yields which may include increased risk-free interest rates and/or wider credit spreads since the time of initial purchase.

As of June 30, 2017, the remaining \$42 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost. Investment grade fixed income securities comprising \$16 million of these unrealized losses were evaluated based on factors such as discounted cash flows and the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations. Of the \$42 million, \$19 million are related to below investment grade fixed income securities and \$7 million are related to equity securities. Of these amounts, \$7 million are related to below investment grade fixed income securities that had been in an unrealized loss position greater than or equal to 20% of amortized cost for a period of twelve or more consecutive months as of June 30, 2017.

The Allstate Corporation 17

---

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

As of June 30, 2017, the Company has not made the decision to sell and it is not more likely than not the Company will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis. As of June 30, 2017, the Company had the intent and ability to hold equity securities with unrealized losses for a period of time sufficient for them to recover.

#### Limited partnerships

As of June 30, 2017 and December 31, 2016, the carrying value of equity method limited partnerships totaled \$4.94 billion and \$4.53 billion, respectively. The Company recognizes an impairment loss for equity method limited partnerships when evidence demonstrates that the loss is other than temporary. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment.

As of June 30, 2017 and December 31, 2016, the carrying value for cost method limited partnerships was \$1.27 billion and \$1.28 billion, respectively. To determine if an other-than-temporary impairment has occurred, the Company evaluates whether an impairment indicator has occurred in the period that may have a significant adverse effect on the carrying value of the investment. Impairment indicators may include: significantly reduced valuations of the investments held by the limited partnerships; actual recent cash flows received being significantly less than expected cash flows; reduced valuations based on financing completed at a lower value; completed sale of a material underlying investment at a price significantly lower than expected; or any other adverse events since the last financial statements received that might affect the fair value of the investee's capital. Additionally, the Company's portfolio monitoring process includes a quarterly review of all cost method limited partnerships to identify instances where the net asset value is below established thresholds for certain periods of time, as well as investments that are performing below expectations, for further impairment consideration. If a cost method limited partnership is other-than-temporarily impaired, the carrying value is written down to fair value, generally estimated to be equivalent to the reported net asset value.

#### Mortgage loans

Mortgage loans are evaluated for impairment on a specific loan basis through a quarterly credit monitoring process and review of key credit quality indicators. Mortgage loans are considered impaired when it is probable that the Company will not collect the contractual principal and interest. Valuation allowances are established for impaired loans to reduce the carrying value to the fair value of the collateral less costs to sell or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate. Impaired mortgage loans may not have a valuation allowance when the fair value of the collateral less costs to sell is higher than the carrying value. Valuation allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell or present value of the loan's expected future repayment cash flows. Mortgage loans are charged off against their corresponding valuation allowances when there is no reasonable expectation of recovery. The impairment evaluation is non-statistical in respect to the aggregate portfolio but considers facts and circumstances attributable to each loan. It is not considered probable that additional impairment losses, beyond those identified on a specific loan basis, have been incurred as of June 30, 2017.

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

Debt service coverage ratio is considered a key credit quality indicator when mortgage loans are evaluated for impairment. Debt service coverage ratio represents the amount of estimated cash flows from the property available to

the borrower to meet principal and interest payment obligations. Debt service coverage ratio estimates are updated annually or more frequently if conditions are warranted based on the Company's credit monitoring process.

18 [www.allstate.com](http://www.allstate.com)

---

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

| (\$ in millions)                         | June 30, 2017             |                              |         | December 31, 2016         |                              |         |
|------------------------------------------|---------------------------|------------------------------|---------|---------------------------|------------------------------|---------|
|                                          | Fixed rate mortgage loans | Variable rate mortgage loans | Total   | Fixed rate mortgage loans | Variable rate mortgage loans | Total   |
| Debt service coverage ratio distribution |                           |                              |         |                           |                              |         |
| Below 1.0                                | \$18                      | \$ —                         | \$18    | \$60                      | \$ —                         | \$60    |
| 1.0 - 1.25                               | 329                       | —                            | 329     | 324                       | —                            | 324     |
| 1.26 - 1.50                              | 1,245                     | —                            | 1,245   | 1,293                     | —                            | 1,293   |
| Above 1.50                               | 2,700                     | 39                           | 2,739   | 2,765                     | 39                           | 2,804   |
| Total non-impaired mortgage loans        | \$4,292                   | \$ 39                        | \$4,331 | \$4,442                   | \$ 39                        | \$4,481 |

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

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

| (\$ in millions)                                      | June 30, 2017 | December 31, 2016 |
|-------------------------------------------------------|---------------|-------------------|
| Impaired mortgage loans with a valuation allowance    | \$ 5          | \$ 5              |
| Impaired mortgage loans without a valuation allowance | —             | —                 |
| Total impaired mortgage loans                         | \$ 5          | \$ 5              |
| Valuation allowance on impaired mortgage loans        | \$ 3          | \$ 3              |

The average balance of impaired loans was \$5 million and \$6 million for the six months ended June 30, 2017 and 2016, respectively.

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

| (\$ in millions)  | Three months ended |               | Six months ended |               |
|-------------------|--------------------|---------------|------------------|---------------|
|                   | June 30, 2017      | June 30, 2016 | June 30, 2017    | June 30, 2016 |
| Beginning balance | \$ 3               | \$ 3          | \$ 3             | \$ 3          |
| Charge offs       | —                  | —             | —                | —             |
| Ending balance    | \$ 3               | \$ 3          | \$ 3             | \$ 3          |

Payments on all mortgage loans were current as of June 30, 2017 and December 31, 2016.

## 6. Fair Value of Assets and Liabilities

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

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

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

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



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

The Allstate Corporation 19

---

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

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

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

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

Certain assets are not carried at fair value on a recurring basis, including investments such as mortgage loans, limited partnership interests, bank loans, agent loans and policy loans. Accordingly, such investments are only included in the fair value hierarchy disclosure when the investment is subject to remeasurement at fair value after initial recognition and the resulting remeasurement is reflected in the condensed consolidated financial statements.

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

Summary of significant valuation techniques for assets and liabilities measured at fair value on a recurring basis  
Level 1 measurements

• Fixed income securities: Comprise certain U.S. Treasury fixed income securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

•

Equity securities: Comprise actively traded, exchange-listed equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Short-term: Comprise U.S. Treasury bills valued based on unadjusted quoted prices for identical assets in active markets that the Company can access and actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access.

Separate account assets: Comprise actively traded mutual funds that have daily quoted net asset values for identical assets that the Company can access. Net asset values for the actively traded mutual funds in which the separate account assets are invested are obtained daily from the fund managers.

## Level 2 measurements

### Fixed income securities:

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

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

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

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

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

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

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

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

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

Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that are not active.

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

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

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

## Level 3 measurements

### Fixed income securities:

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

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

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

observable.

The Allstate Corporation 21

---

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

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

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

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

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

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of June 30, 2017.

| (\$ in millions)                                                         | Quoted prices<br>in active<br>markets for<br>identical assets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Counterparty<br>and cash<br>collateral<br>netting | Balance as<br>of June<br>30, 2017 |
|--------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|---------------------------------------------------|-----------------------------------|
| <b>Assets</b>                                                            |                                                                            |                                                           |                                                    |                                                   |                                   |
| Fixed income securities:                                                 |                                                                            |                                                           |                                                    |                                                   |                                   |
| U.S. government and agencies                                             | \$ 2,773                                                                   | \$ 653                                                    | \$ —                                               |                                                   | \$ 3,426                          |
| Municipal                                                                | —                                                                          | 7,741                                                     | 114                                                |                                                   | 7,855                             |
| Corporate - public                                                       | —                                                                          | 32,079                                                    | 60                                                 |                                                   | 32,139                            |
| Corporate - privately placed                                             | —                                                                          | 11,846                                                    | 266                                                |                                                   | 12,112                            |
| Foreign government                                                       | —                                                                          | 1,047                                                     | —                                                  |                                                   | 1,047                             |
| ABS - CDO                                                                | —                                                                          | 520                                                       | 91                                                 |                                                   | 611                               |
| ABS - consumer and other                                                 | —                                                                          | 512                                                       | 120                                                |                                                   | 632                               |
| RMBS                                                                     | —                                                                          | 641                                                       | —                                                  |                                                   | 641                               |
| CMBS                                                                     | —                                                                          | 146                                                       | 24                                                 |                                                   | 170                               |
| Redeemable preferred stock                                               | —                                                                          | 23                                                        | —                                                  |                                                   | 23                                |
| Total fixed income securities                                            | 2,773                                                                      | 55,208                                                    | 675                                                |                                                   | 58,656                            |
| Equity securities                                                        | 5,643                                                                      | 308                                                       | 166                                                |                                                   | 6,117                             |
| Short-term investments                                                   | 315                                                                        | 1,860                                                     | —                                                  |                                                   | 2,175                             |
| Other investments: Free-standing derivatives                             | —                                                                          | 126                                                       | 1                                                  | \$ (19 )                                          | 108                               |
| Separate account assets                                                  | 3,416                                                                      | —                                                         | —                                                  |                                                   | 3,416                             |
| Other assets                                                             | —                                                                          | —                                                         | —                                                  |                                                   | —                                 |
| Total recurring basis assets                                             | 12,147                                                                     | 57,502                                                    | 842                                                | (19 )                                             | 70,472                            |
| Non-recurring basis <sup>(1)</sup>                                       | —                                                                          | —                                                         | 16                                                 |                                                   | 16                                |
| Total assets at fair value                                               | \$ 12,147                                                                  | \$ 57,502                                                 | \$ 858                                             | \$ (19 )                                          | \$ 70,488                         |
| % of total assets at fair value                                          | 17.2                                                                       | % 81.6                                                    | % 1.2                                              | % —                                               | % 100                             |
| <b>Liabilities</b>                                                       |                                                                            |                                                           |                                                    |                                                   |                                   |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ —                                                                       | \$ —                                                      | \$ (285 )                                          |                                                   | \$(285 )                          |

Edgar Filing: ALLSTATE CORP - Form 10-Q

|                                              |       |   |       |   |         |       |       |        |     |   |
|----------------------------------------------|-------|---|-------|---|---------|-------|-------|--------|-----|---|
| Other liabilities: Free-standing derivatives | (1    | ) | (70   | ) | —       | \$ 21 | (50   | )      |     |   |
| Total liabilities at fair value              | \$ (1 | ) | \$(70 | ) | \$ (285 | )     | \$ 21 | \$(335 | )   |   |
| % of total liabilities at fair value         | 0.3   | % | 20.9  | % | 85.1    | %     | (6.3  | )%     | 100 | % |

(1) Includes \$15 million of limited partnership interests and \$1 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2016.

| (\$ in millions)                                                         | Quoted prices<br>in active<br>markets for<br>identical assets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Counterparty<br>and cash<br>collateral<br>netting | Balance as<br>of<br>December<br>31, 2016 |
|--------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|---------------------------------------------------|------------------------------------------|
| <b>Assets</b>                                                            |                                                                            |                                                           |                                                    |                                                   |                                          |
| Fixed income securities:                                                 |                                                                            |                                                           |                                                    |                                                   |                                          |
| U.S. government and agencies                                             | \$ 2,918                                                                   | \$ 719                                                    | \$ —                                               |                                                   | \$3,637                                  |
| Municipal                                                                | —                                                                          | 7,208                                                     | 125                                                |                                                   | 7,333                                    |
| Corporate - public                                                       | —                                                                          | 31,414                                                    | 78                                                 |                                                   | 31,492                                   |
| Corporate - privately placed                                             | —                                                                          | 11,846                                                    | 263                                                |                                                   | 12,109                                   |
| Foreign government                                                       | —                                                                          | 1,075                                                     | —                                                  |                                                   | 1,075                                    |
| ABS - CDO                                                                | —                                                                          | 650                                                       | 27                                                 |                                                   | 677                                      |
| ABS - consumer and other                                                 | —                                                                          | 452                                                       | 42                                                 |                                                   | 494                                      |
| RMBS                                                                     | —                                                                          | 727                                                       | 1                                                  |                                                   | 728                                      |
| CMBS                                                                     | —                                                                          | 248                                                       | 22                                                 |                                                   | 270                                      |
| Redeemable preferred stock                                               | —                                                                          | 24                                                        | —                                                  |                                                   | 24                                       |
| Total fixed income securities                                            | 2,918                                                                      | 54,363                                                    | 558                                                |                                                   | 57,839                                   |
| Equity securities                                                        | 5,247                                                                      | 256                                                       | 163                                                |                                                   | 5,666                                    |
| Short-term investments                                                   | 850                                                                        | 3,423                                                     | 15                                                 |                                                   | 4,288                                    |
| Other investments: Free-standing derivatives                             | —                                                                          | 119                                                       | 1                                                  | \$ (9 )                                           | 111                                      |
| Separate account assets                                                  | 3,393                                                                      | —                                                         | —                                                  |                                                   | 3,393                                    |
| Other assets                                                             | —                                                                          | —                                                         | 1                                                  |                                                   | 1                                        |
| Total recurring basis assets                                             | 12,408                                                                     | 58,161                                                    | 738                                                | (9 )                                              | 71,298                                   |
| Non-recurring basis <sup>(1)</sup>                                       | —                                                                          | —                                                         | 24                                                 |                                                   | 24                                       |
| Total assets at fair value                                               | \$ 12,408                                                                  | \$ 58,161                                                 | \$ 762                                             | \$ (9 )                                           | \$ 71,322                                |
| % of total assets at fair value                                          | 17.4                                                                       | % 81.5                                                    | % 1.1                                              | % —                                               | % 100                                    |
| <b>Liabilities</b>                                                       |                                                                            |                                                           |                                                    |                                                   |                                          |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ —                                                                       | \$ —                                                      | \$ (290 )                                          |                                                   | \$(290 )                                 |
| Other liabilities: Free-standing derivatives                             | (1 )                                                                       | (68 )                                                     | (3 )                                               | \$ 28                                             | (44 )                                    |
| Total liabilities at fair value                                          | \$ (1 )                                                                    | \$ (68 )                                                  | \$ (293 )                                          | \$ 28                                             | \$(334 )                                 |
| % of total liabilities at fair value                                     | 0.3                                                                        | % 20.4                                                    | % 87.7                                             | % (8.4 )                                          | % 100                                    |

<sup>(1)</sup> Includes \$24 million of limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments.

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

| (\$ in millions)                                                                                                                                                                                                                         | Fair<br>value | Valuation<br>technique     | Unobservable<br>input | Range      | Weighted<br>average |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------------------------|-----------------------|------------|---------------------|
| June 30, 2017                                                                                                                                                                                                                            |               |                            |                       |            |                     |
| Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options                                                                                                                                         | \$(250)       | Stochastic cash flow model | Projected option cost | 1.0 - 2.2% | 1.74%               |
| December 31, 2016                                                                                                                                                                                                                        |               |                            |                       |            |                     |
| Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options                                                                                                                                         | \$(247)       | Stochastic cash flow model | Projected option cost | 1.0 - 2.2% | 1.75%               |
| The embedded derivatives are equity-indexed and forward starting options in certain life and annuity products that provide customers with interest crediting rates based on the performance of the S&P 500. If the projected option cost |               |                            |                       |            |                     |



increased (decreased), it would result in a higher (lower) liability fair value.

As of June 30, 2017 and December 31, 2016, Level 3 fair value measurements of fixed income securities total \$675 million and \$558 million, respectively, and include \$367 million and \$307 million, respectively, of securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and \$68 million and \$80 million, respectively, of municipal fixed income securities that are not rated by third party credit rating agencies. The Company does not develop the unobservable inputs used in measuring fair value; therefore, these are not included in the table above. However, an increase

The Allstate Corporation 23

---

(decrease) in credit spreads for fixed income securities valued based on non-binding broker quotes would result in a lower (higher) fair value, and an increase (decrease) in the credit rating of municipal bonds that are not rated by third party credit rating agencies would result in a higher (lower) fair value.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three months ended June 30, 2017.

| (\$ in millions)                                                         | Total gains<br>(losses)<br>included in: |               |                    |                              |                                      |
|--------------------------------------------------------------------------|-----------------------------------------|---------------|--------------------|------------------------------|--------------------------------------|
|                                                                          | Balance<br>as of<br>March<br>31, 2017   | Net<br>income | OCI <sup>(1)</sup> | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3       |
| Assets                                                                   |                                         |               |                    |                              |                                      |
| Fixed income securities:                                                 |                                         |               |                    |                              |                                      |
| Municipal                                                                | \$ 124                                  | \$(2 )        | \$ 5               | \$ —                         | \$ —                                 |
| Corporate - public                                                       | 60                                      | —             | —                  | —                            | —                                    |
| Corporate - privately placed                                             | 263                                     | 6             | (7 )               | 30                           | —                                    |
| ABS - CDO                                                                | 147                                     | —             | —                  | 3                            | (122 )                               |
| ABS - consumer and other                                                 | 80                                      | —             | —                  | —                            | (5 )                                 |
| CMBS                                                                     | 25                                      | —             | —                  | —                            | —                                    |
| Total fixed income securities                                            | 699                                     | 4             | (2 )               | 33                           | (127 )                               |
| Equity securities                                                        | 170                                     | 3             | 3                  | —                            | —                                    |
| Short-term investments                                                   | 35                                      | —             | —                  | —                            | —                                    |
| Free-standing derivatives, net                                           | (1 )                                    | 2             | —                  | —                            | —                                    |
| Total recurring Level 3 assets                                           | \$ 903                                  | \$9           | \$ 1               | \$ 33                        | \$ (127 )                            |
| Liabilities                                                              |                                         |               |                    |                              |                                      |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ (286 )                               | \$—           | \$ —               | \$ —                         | \$ —                                 |
| Total recurring Level 3 liabilities                                      | \$ (286 )                               | \$—           | \$ —               | \$ —                         | \$ —                                 |
|                                                                          |                                         |               |                    |                              | Balance<br>as of<br>June 30,<br>2017 |
| Assets                                                                   |                                         |               |                    |                              |                                      |
| Fixed income securities:                                                 |                                         |               |                    |                              |                                      |
| Municipal                                                                | \$ 5                                    | \$(18)        | \$ —               | \$ —                         | \$ 114                               |
| Corporate - public                                                       | (1 )                                    | 1             | —                  | —                            | 60                                   |
| Corporate - privately placed                                             | 4                                       | (29 )         | —                  | (1 )                         | 266                                  |
| ABS - CDO                                                                | 65                                      | —             | —                  | (2 )                         | 91                                   |
| ABS - consumer and other                                                 | 48                                      | —             | —                  | (3 )                         | 120                                  |
| CMBS                                                                     | —                                       | —             | —                  | (1 )                         | 24                                   |
| Total fixed income securities                                            | 121                                     | (46 )         | —                  | (7 )                         | 675                                  |
| Equity securities                                                        | 2                                       | (12 )         | —                  | —                            | 166                                  |
| Short-term investments                                                   | 5                                       | (40 )         | —                  | —                            | —                                    |
| Free-standing derivatives, net                                           | —                                       | —             | —                  | —                            | 1                                    |
| Total recurring Level 3 assets                                           | \$ 128                                  | \$(98)        | \$ —               | \$ (7 )                      | \$ 842                               |
| Liabilities                                                              |                                         |               |                    |                              |                                      |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ —                                    | \$—           | \$ —               | \$ 1                         | \$ (285 )                            |

|                                     |      |      |      |      |           |
|-------------------------------------|------|------|------|------|-----------|
| Total recurring Level 3 liabilities | \$ — | \$ — | \$ — | \$ 1 | \$ (285 ) |
|-------------------------------------|------|------|------|------|-----------|

- 
- The effect to net income totals \$9 million and is reported in the Condensed Consolidated Statements of Operations
- (1) as follows: \$5 million in realized capital gains and losses, \$4 million in net investment income, \$(1) million in interest credited to contractholder funds and \$1 million in life and annuity contract benefits.
- (2) Comprises \$1 million of assets.

## Edgar Filing: ALLSTATE CORP - Form 10-Q

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the six months ended June 30, 2017.

| (\$ in millions)                                                         | Total gains<br>(losses)<br>included in:  |                              |         |                              |                                      |
|--------------------------------------------------------------------------|------------------------------------------|------------------------------|---------|------------------------------|--------------------------------------|
|                                                                          | Balance<br>as of<br>December<br>31, 2016 | Net<br>income <sup>(1)</sup> | OCI     | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3       |
| <b>Assets</b>                                                            |                                          |                              |         |                              |                                      |
| Fixed income securities:                                                 |                                          |                              |         |                              |                                      |
| Municipal                                                                | \$ 125                                   | \$(1 )                       | \$ 6    | \$ —                         | \$ (1 )                              |
| Corporate - public                                                       | 78                                       | —                            | —       | —                            | (16 )                                |
| Corporate - privately placed                                             | 263                                      | 6                            | (2 )    | 30                           | —                                    |
| ABS - CDO                                                                | 27                                       | —                            | 2       | 30                           | (122 )                               |
| ABS - consumer and other                                                 | 42                                       | —                            | —       | —                            | (7 )                                 |
| RMBS                                                                     | 1                                        | —                            | —       | —                            | —                                    |
| CMBS                                                                     | 22                                       | —                            | —       | —                            | —                                    |
| Total fixed income securities                                            | 558                                      | 5                            | 6       | 60                           | (146 )                               |
| Equity securities                                                        | 163                                      | 13                           | 3       | —                            | (3 )                                 |
| Short-term investments                                                   | 15                                       | —                            | —       | —                            | —                                    |
| Free-standing derivatives, net                                           | (2 )                                     | 3                            | —       | —                            | —                                    |
| Other assets                                                             | 1                                        | (1 )                         | —       | —                            | —                                    |
| Total recurring Level 3 assets                                           | \$ 735                                   | \$20                         | \$ 9    | \$ 60                        | \$ (149 )                            |
| <b>Liabilities</b>                                                       |                                          |                              |         |                              |                                      |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ (290 )                                | \$3                          | \$ —    | \$ —                         | \$ —                                 |
| Total recurring Level 3 liabilities                                      | \$ (290 )                                | \$3                          | \$ —    | \$ —                         | \$ —                                 |
|                                                                          |                                          |                              |         |                              | Balance<br>as of<br>June 30,<br>2017 |
|                                                                          | Purchases                                | Sales                        | Issues  | Settlements                  |                                      |
| <b>Assets</b>                                                            |                                          |                              |         |                              |                                      |
| Fixed income securities:                                                 |                                          |                              |         |                              |                                      |
| Municipal                                                                | \$ 5                                     | \$(20 )                      | \$ —    | \$ —                         | \$ 114                               |
| Corporate - public                                                       | (1 )                                     | 1                            | —       | (2 )                         | 60                                   |
| Corporate - privately placed                                             | 4                                        | (29 )                        | —       | (6 )                         | 266                                  |
| ABS - CDO                                                                | 160                                      | —                            | —       | (6 )                         | 91                                   |
| ABS - consumer and other                                                 | 89                                       | —                            | —       | (4 )                         | 120                                  |
| RMBS                                                                     | —                                        | —                            | —       | (1 )                         | —                                    |
| CMBS                                                                     | 3                                        | —                            | —       | (1 )                         | 24                                   |
| Total fixed income securities                                            | 260                                      | (48 )                        | —       | (20 )                        | 675                                  |
| Equity securities                                                        | 3                                        | (13 )                        | —       | —                            | 166                                  |
| Short-term investments                                                   | 25                                       | (40 )                        | —       | —                            | —                                    |
| Free-standing derivatives, net                                           | —                                        | —                            | —       | —                            | 1 (2)                                |
| Other assets                                                             | —                                        | —                            | —       | —                            | —                                    |
| Total recurring Level 3 assets                                           | \$ 288                                   | \$(101)                      | \$ —    | \$ (20 )                     | \$ 842                               |
| <b>Liabilities</b>                                                       |                                          |                              |         |                              |                                      |
|                                                                          | \$ —                                     | \$ —                         | \$ (1 ) | \$ 3                         | \$ (285 )                            |

Contractholder funds: Derivatives embedded in life and annuity contracts

|                                     |      |      |         |      |           |
|-------------------------------------|------|------|---------|------|-----------|
| Total recurring Level 3 liabilities | \$ — | \$ — | \$ (1 ) | \$ 3 | \$ (285 ) |
|-------------------------------------|------|------|---------|------|-----------|

---

The effect to net income totals \$23 million and is reported in the Condensed Consolidated Statements of

(1) Operations as follows: \$7 million in realized capital gains and losses, \$14 million in net investment income, \$(6) million in interest credited to contractholder funds and \$8 million in life and annuity contract benefits.

(2) Comprises \$1 million of assets.

The Allstate Corporation 25

---

## Edgar Filing: ALLSTATE CORP - Form 10-Q

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

(\$ in millions)

| (\$ in millions)                                                         | Balance<br>as of<br>March<br>31, 2016 | Total gains (losses)<br>included in: |        |                              |                                      |
|--------------------------------------------------------------------------|---------------------------------------|--------------------------------------|--------|------------------------------|--------------------------------------|
|                                                                          |                                       | Net<br>income <sup>(1)</sup>         | OCI    | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3       |
| Assets                                                                   |                                       |                                      |        |                              |                                      |
| Fixed income securities:                                                 |                                       |                                      |        |                              |                                      |
| U.S. government and agencies                                             | \$ 4                                  | \$ —                                 | \$ —   | \$ —                         | \$ (4 )                              |
| Municipal                                                                | 146                                   | —                                    | 3      | 6                            | —                                    |
| Corporate - public                                                       | 63                                    | —                                    | —      | —                            | —                                    |
| Corporate - privately placed                                             | 549                                   | 3                                    | 8      | 16                           | (69 )                                |
| ABS - CDO                                                                | 58                                    | —                                    | 3      | 6                            | (3 )                                 |
| ABS - consumer and other                                                 | 44                                    | —                                    | (1 )   | 3                            | —                                    |
| RMBS                                                                     | 1                                     | —                                    | —      | —                            | —                                    |
| CMBS                                                                     | 20                                    | —                                    | —      | —                            | —                                    |
| Total fixed income securities                                            | 885                                   | 3                                    | 13     | 31                           | (76 )                                |
| Equity securities                                                        | 125                                   | (8 )                                 | 1      | —                            | —                                    |
| Free-standing derivatives, net                                           | (8 )                                  | 1                                    | —      | —                            | —                                    |
| Other assets                                                             | 1                                     | —                                    | —      | —                            | —                                    |
| Total recurring Level 3 assets                                           | \$ 1,003                              | \$ (4 )                              | \$ 14  | \$ 31                        | \$ (76 )                             |
| Liabilities                                                              |                                       |                                      |        |                              |                                      |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ (313 )                             | \$ 7                                 | \$ —   | \$ —                         | \$ —                                 |
| Total recurring Level 3 liabilities                                      | \$ (313 )                             | \$ 7                                 | \$ —   | \$ —                         | \$ —                                 |
|                                                                          |                                       |                                      |        |                              | Balance<br>as of<br>June 30,<br>2016 |
|                                                                          | Purchases                             | Sales                                | Issues | Settlements                  |                                      |
| Assets                                                                   |                                       |                                      |        |                              |                                      |
| Fixed income securities:                                                 |                                       |                                      |        |                              |                                      |
| U.S. government and agencies                                             | \$ —                                  | \$ —                                 | \$ —   | \$ —                         | \$ —                                 |
| Municipal                                                                | —                                     | (6 )                                 | —      | —                            | 149                                  |
| Corporate - public                                                       | 7                                     | 4                                    | —      | —                            | 74                                   |
| Corporate - privately placed                                             | 80                                    | —                                    | —      | (2 )                         | 585                                  |
| ABS - CDO                                                                | —                                     | —                                    | —      | (31 )                        | 33                                   |
| ABS - consumer and other                                                 | —                                     | —                                    | —      | (1 )                         | 45                                   |
| RMBS                                                                     | —                                     | —                                    | —      | —                            | 1                                    |
| CMBS                                                                     | —                                     | —                                    | —      | —                            | 20                                   |
| Total fixed income securities                                            | 87                                    | (2 )                                 | —      | (34 )                        | 907                                  |
| Equity securities                                                        | —                                     | —                                    | —      | —                            | 118                                  |
| Free-standing derivatives, net                                           | —                                     | —                                    | —      | —                            | (7 ) <sup>(2)</sup>                  |
| Other assets                                                             | —                                     | —                                    | —      | —                            | 1                                    |
| Total recurring Level 3 assets                                           | \$ 87                                 | \$ (2 )                              | \$ —   | \$ (34 )                     | \$ 1,019                             |
| Liabilities                                                              |                                       |                                      |        |                              |                                      |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ —                                  | \$ —                                 | \$ —   | \$ 2                         | \$ (304 )                            |

|                                     |      |      |      |      |          |
|-------------------------------------|------|------|------|------|----------|
| Total recurring Level 3 liabilities | \$ — | \$ — | \$ — | \$ 2 | \$(304 ) |
|-------------------------------------|------|------|------|------|----------|

- 
- The effect to net income totals \$3 million and is reported in the Condensed Consolidated Statements of Operations
- (1) as follows: \$(9) million in realized capital gains and losses, \$5 million in net investment income, \$(7) million in interest credited to contractholder funds and \$14 million in life and annuity contract benefits.
- (2) Comprises \$1 million of assets and \$8 million of liabilities.

Edgar Filing: ALLSTATE CORP - Form 10-Q

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

| (\$ in millions)                                                         | Total gains (losses) included in: |                           |         |                        |                             |
|--------------------------------------------------------------------------|-----------------------------------|---------------------------|---------|------------------------|-----------------------------|
|                                                                          | Balance as of December 31, 2015   | Net income <sup>(1)</sup> | OCI     | Transfers into Level 3 | Transfers out of Level 3    |
| Assets                                                                   |                                   |                           |         |                        |                             |
| Fixed income securities:                                                 |                                   |                           |         |                        |                             |
| U.S. government and agencies                                             | \$ 5                              | \$ —                      | \$ —    | \$ —                   | \$(4 )                      |
| Municipal                                                                | 161                               | 10                        | (5 )    | 6                      | —                           |
| Corporate - public                                                       | 46                                | —                         | 1       | 25                     | (7 )                        |
| Corporate - privately placed                                             | 502                               | 4                         | 13      | 16                     | (83 )                       |
| ABS - CDO                                                                | 61                                | —                         | 2       | 10                     | (3 )                        |
| ABS - consumer and other                                                 | 50                                | —                         | (2 )    | 3                      | —                           |
| RMBS                                                                     | 1                                 | —                         | —       | —                      | —                           |
| CMBS                                                                     | 20                                | —                         | —       | —                      | —                           |
| Total fixed income securities                                            | 846                               | 14                        | 9       | 60                     | (97 )                       |
| Equity securities                                                        | 133                               | (32 )                     | 8       | —                      | —                           |
| Free-standing derivatives, net                                           | (7 )                              | —                         | —       | —                      | —                           |
| Other assets                                                             | 1                                 | —                         | —       | —                      | —                           |
| Total recurring Level 3 assets                                           | \$ 973                            | \$ (18 )                  | \$ 17   | \$ 60                  | \$(97 )                     |
| Liabilities                                                              |                                   |                           |         |                        |                             |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ (299 )                         | \$ (8 )                   | \$ —    | \$ —                   | \$—                         |
| Total recurring Level 3 liabilities                                      | \$ (299 )                         | \$ (8 )                   | \$ —    | \$ —                   | \$—                         |
|                                                                          | Purchases                         | Sales                     | Issues  | Settlements            | Balance as of June 30, 2016 |
| Assets                                                                   |                                   |                           |         |                        |                             |
| Fixed income securities:                                                 |                                   |                           |         |                        |                             |
| U.S. government and agencies                                             | \$ —                              | \$ —                      | \$ —    | \$ (1 )                | \$—                         |
| Municipal                                                                | —                                 | (22 )                     | —       | (1 )                   | 149                         |
| Corporate - public                                                       | 7                                 | 4                         | —       | (2 )                   | 74                          |
| Corporate - privately placed                                             | 143                               | —                         | —       | (10 )                  | 585                         |
| ABS - CDO                                                                | —                                 | (2 )                      | —       | (35 )                  | 33                          |
| ABS - consumer and other                                                 | —                                 | (5 )                      | —       | (1 )                   | 45                          |
| RMBS                                                                     | —                                 | —                         | —       | —                      | 1                           |
| CMBS                                                                     | 2                                 | —                         | —       | (2 )                   | 20                          |
| Total fixed income securities                                            | 152                               | (25 )                     | —       | (52 )                  | 907                         |
| Equity securities                                                        | 9                                 | —                         | —       | —                      | 118                         |
| Free-standing derivatives, net                                           | —                                 | —                         | —       | —                      | (7 )                        |
| Other assets                                                             | —                                 | —                         | —       | —                      | 1                           |
| Total recurring Level 3 assets                                           | \$ 161                            | \$ (25 )                  | \$ —    | \$ (52 )               | \$ 1,019                    |
| Liabilities                                                              |                                   |                           |         |                        |                             |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ —                              | \$ —                      | \$ (1 ) | \$ 4                   | \$(304 )                    |
| Total recurring Level 3 liabilities                                      | \$ —                              | \$ —                      | \$ (1 ) | \$ 4                   | \$(304 )                    |



---

The effect to net income totals \$(26) million and is reported in the Condensed Consolidated Statements of

- (1) Operations as follows: \$(25) million in realized capital gains and losses, \$7 million in net investment income, \$(6) million in interest credited to contractholder funds and \$(2) million in life and annuity contract benefits.
- (2) Comprises \$1 million of assets and \$8 million of liabilities.

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

The Allstate Corporation 27

---

transfer occurred. Therefore, for all transfers into Level 3, all realized and changes in unrealized gains and losses in the quarter of transfer are reflected in the Level 3 rollforward table.

There were no transfers between Level 1 and Level 2 during the three months and six months ended June 30, 2017 or 2016.

Transfers into Level 3 during the three months and six months ended June 30, 2017 and 2016 included situations where a fair value quote was not provided by the Company's independent third-party valuation service provider and as a result the price was stale or had been replaced with a broker quote where the inputs had not been corroborated to be market observable resulting in the security being classified as Level 3. Transfers out of Level 3 during the three months and six months ended June 30, 2017 and 2016 included situations where a broker quote was used in the prior period and a fair value quote became available from the Company's independent third-party valuation service provider in the current period. A quote utilizing the new pricing source was not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities were not significant.

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

| (\$ in millions)                                                         | Three months ended June 30, |         | Six months ended June 30, |          |
|--------------------------------------------------------------------------|-----------------------------|---------|---------------------------|----------|
|                                                                          | 2017                        | 2016    | 2017                      | 2016     |
| <b>Assets</b>                                                            |                             |         |                           |          |
| Fixed income securities:                                                 |                             |         |                           |          |
| Municipal                                                                | \$ (3 )                     | \$ 1    | \$ (3 )                   | \$ 1     |
| Corporate                                                                | —                           | 3       | —                         | 1        |
| Total fixed income securities                                            | (3 )                        | 4       | (3 )                      | 2        |
| Equity securities                                                        | 4                           | (8 )    | 14                        | (32 )    |
| Free-standing derivatives, net                                           | 2                           | 1       | 3                         | —        |
| Other assets                                                             | —                           | —       | (1 )                      | —        |
| Total recurring Level 3 assets                                           | \$ 3                        | \$ (3 ) | \$ 13                     | \$ (30 ) |
| <b>Liabilities</b>                                                       |                             |         |                           |          |
| Contractholder funds: Derivatives embedded in life and annuity contracts |                             |         |                           |          |
| Total recurring Level 3 liabilities                                      | \$ —                        | \$ 7    | \$ 3                      | \$ (8 )  |

The amounts in the table above represent the change in unrealized gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total \$3 million for the three months ended June 30, 2017 and are reported as follows: \$(1) million in realized capital gains and losses, \$4 million in net investment income, \$(1) million in interest credited to contractholder funds and \$1 million in life and annuity contract benefits. These gains and losses total \$4 million for the three months ended June 30, 2016 and are reported as follows: \$(9) million in realized capital gains and losses, \$6 million in net investment income, \$(7) million in interest credited to contractholder funds and \$14 million in life and annuity contract benefits. These gains and losses total \$16 million for the six months ended June 30, 2017 and are reported as follows: \$14 million in net investment income, \$(6) million in interest credited to contractholder funds and \$8 million in life and annuity contract benefits. These gains and losses total \$(38) million for the six months ended June 30, 2016 and are reported as follows: \$(38) million in realized capital gains and losses, \$8 million in net investment income, \$(6) million in interest credited to contractholder funds and \$(2) million in life and annuity contract benefits.

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

Financial assets

| (\$ in millions)                 | June 30, 2017  |            | December 31, 2016 |            |
|----------------------------------|----------------|------------|-------------------|------------|
|                                  | Carrying value | Fair value | Carrying value    | Fair value |
| Mortgage loans                   | \$4,336        | \$4,483    | \$4,486           | \$4,514    |
| Cost method limited partnerships | 1,269          | 1,511      | 1,282             | 1,493      |
| Bank loans                       | 1,754          | 1,759      | 1,669             | 1,677      |
| Agent loans                      | 499            | 495        | 467               | 467        |

28 [www.allstate.com](http://www.allstate.com)

---

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

#### Financial liabilities

| (\$ in millions)                             | June 30, 2017  |            | December 31, 2016 |            |
|----------------------------------------------|----------------|------------|-------------------|------------|
|                                              | Carrying value | Fair value | Carrying value    | Fair value |
| Contractholder funds on investment contracts | \$10,846       | \$11,441   | \$11,313          | \$12,009   |
| Long-term debt                               | 6,348          | 7,118      | 6,347             | 6,920      |
| Liability for collateral                     | 1,126          | 1,126      | 1,129             | 1,129      |

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

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

#### 7. Derivative Financial Instruments

The Company uses derivatives for risk reduction and to increase investment portfolio returns through asset replication. Risk reduction activity is focused on managing the risks with certain assets and liabilities arising from the potential adverse impacts from changes in risk-free interest rates, changes in equity market valuations, increases in credit spreads and foreign currency fluctuations. Asset replication refers to the "synthetic" creation of assets through the use of derivatives. The Company replicates fixed income securities using a combination of a credit default swap or a foreign currency forward contract and one or more highly rated fixed income securities, primarily investment grade host bonds, to synthetically replicate the economic characteristics of one or more cash market securities. The Company replicates equity securities using futures and options to increase equity exposure.

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

Allstate Financial utilizes several derivative strategies to manage risk. Asset-liability management is a risk management strategy that is principally employed by Allstate Financial to balance the respective interest-rate sensitivities of its assets and liabilities. Depending upon the attributes of the assets acquired and liabilities issued, derivative instruments such as interest rate swaps, caps, swaptions and futures are utilized to change the interest rate

characteristics of existing assets and liabilities to ensure the relationship is maintained within specified ranges and to reduce exposure to rising or falling interest rates. Credit default swaps are typically used to mitigate the credit risk within the Allstate Financial fixed income portfolio. Futures and options are used for hedging the equity exposure contained in Allstate Financial's equity indexed life and annuity product contracts that offer equity returns to contractholders. In addition, Allstate Financial uses equity index futures and options to offset valuation losses in the equity portfolio during periods of declining equity market values. Foreign currency swaps and forwards are primarily used by Allstate Financial to reduce the foreign currency risk associated with holding foreign currency denominated investments.

The Company also has derivatives embedded in non-derivative host contracts that are required to be separated from the host contracts and accounted for at fair value with changes in fair value of embedded derivatives reported in net income. The Company's primary embedded derivatives are equity options in life and annuity product contracts, which provide equity returns to contractholders.

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

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

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive or pay to terminate the derivative contracts at the reporting date. The carrying value amounts for OTC derivatives are further adjusted for the effects, if any, of enforceable master netting agreements and are presented on a net basis, by counterparty agreement, in the Condensed Consolidated Statements of Financial Position. For certain exchange traded and cleared derivatives, margin deposits are required as well as daily cash settlements of margin accounts. As of June 30, 2017, the Company pledged \$23 million in the form of margin deposits.

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

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

30 [www.allstate.com](http://www.allstate.com)

---

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statement of Financial Position as of June 30, 2017.

(\$ in millions, except number of contracts)

|                                                                                   | Balance sheet location               | Volume <sup>(1)</sup><br>Notional<br>amount | Number<br>of<br>contracts | Fair<br>value,<br>net | Gross<br>asset | Gross<br>liability |
|-----------------------------------------------------------------------------------|--------------------------------------|---------------------------------------------|---------------------------|-----------------------|----------------|--------------------|
| Asset derivatives                                                                 |                                      |                                             |                           |                       |                |                    |
| Derivatives not designated as accounting hedging instruments                      |                                      |                                             |                           |                       |                |                    |
| Interest rate contracts                                                           |                                      |                                             |                           |                       |                |                    |
| Interest rate cap agreements                                                      | Other investments                    | \$22                                        | n/a                       | \$—                   | \$—            | \$—                |
| Equity and index contracts                                                        |                                      |                                             |                           |                       |                |                    |
| Options                                                                           | Other investments                    | 585                                         | 6,798                     | 110                   | 113            | (3 )               |
| Financial futures contracts                                                       | Other assets                         | —                                           | 519                       | —                     | —              | —                  |
| Foreign currency contracts                                                        |                                      |                                             |                           |                       |                |                    |
| Foreign currency forwards                                                         | Other investments                    | 344                                         | n/a                       | (7 )                  | 2              | (9 )               |
| Credit default contracts                                                          |                                      |                                             |                           |                       |                |                    |
| Credit default swaps – buying protection                                          | Other investments                    | 49                                          | n/a                       | (2 )                  | —              | (2 )               |
| Credit default swaps – selling protection                                         | Other investments                    | 80                                          | n/a                       | 1                     | 1              | —                  |
| Other contracts                                                                   |                                      |                                             |                           |                       |                |                    |
| Other contracts                                                                   | Other assets                         | 3                                           | n/a                       | —                     | —              | —                  |
| Total asset derivatives                                                           |                                      | \$1,083                                     | 7,317                     | \$102                 | \$116          | \$(14 )            |
| Liability derivatives                                                             |                                      |                                             |                           |                       |                |                    |
| Derivatives designated as accounting hedging instruments                          |                                      |                                             |                           |                       |                |                    |
| Foreign currency swap agreements                                                  | Other liabilities & accrued expenses | \$49                                        | n/a                       | \$2                   | \$2            | \$—                |
| Derivatives not designated as accounting hedging instruments                      |                                      |                                             |                           |                       |                |                    |
| Interest rate contracts                                                           |                                      |                                             |                           |                       |                |                    |
| Interest rate cap agreements                                                      | Other liabilities & accrued expenses | 37                                          | n/a                       | 1                     | 1              | —                  |
| Equity and index contracts                                                        |                                      |                                             |                           |                       |                |                    |
| Options and futures                                                               | Other liabilities & accrued expenses | —                                           | 8,896                     | (42 )                 | —              | (42 )              |
| Foreign currency contracts                                                        |                                      |                                             |                           |                       |                |                    |
| Foreign currency forwards                                                         | Other liabilities & accrued expenses | 621                                         | n/a                       | (2 )                  | 8              | (10 )              |
| Embedded derivative financial instruments                                         |                                      |                                             |                           |                       |                |                    |
| Guaranteed accumulation benefits                                                  | Contractholder funds                 | 246                                         | n/a                       | (28 )                 | —              | (28 )              |
| Guaranteed withdrawal benefits                                                    | Contractholder funds                 | 282                                         | n/a                       | (7 )                  | —              | (7 )               |
| Equity-indexed and forward starting options in life and annuity product contracts | Contractholder funds                 | 1,753                                       | n/a                       | (250 )                | —              | (250 )             |
| Credit default contracts                                                          |                                      |                                             |                           |                       |                |                    |
| Credit default swaps – buying protection                                          | Other liabilities & accrued expenses | 173                                         | n/a                       | (5 )                  | —              | (5 )               |
| Credit default swaps – selling protection                                         | Other liabilities & accrued expenses | 130                                         | n/a                       | —                     | —              | —                  |
| Subtotal                                                                          |                                      | 3,242                                       | 8,896                     | (333 )                | 9              | (342 )             |
| Total liability derivatives                                                       |                                      | 3,291                                       | 8,896                     | (331 )                | \$11           | \$(342 )           |
| Total derivatives                                                                 |                                      | \$4,374                                     | 16,213                    | \$(229)               |                |                    |



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

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Consolidated Statement of Financial Position as of December 31, 2016.

(\$ in millions, except number of contracts)

| (\$ in millions, except number of contracts)                                      |                                      | Volume <sup>(1)</sup> |                     |                 |             |                 |
|-----------------------------------------------------------------------------------|--------------------------------------|-----------------------|---------------------|-----------------|-------------|-----------------|
|                                                                                   | Balance sheet location               | Notional amount       | Number of contracts | Fair value, net | Gross asset | Gross liability |
| Asset derivatives                                                                 |                                      |                       |                     |                 |             |                 |
| Derivatives designated as accounting hedging instruments                          |                                      |                       |                     |                 |             |                 |
| Foreign currency swap agreements                                                  | Other investments                    | \$49                  | n/a                 | \$5             | \$5         | \$—             |
| Derivatives not designated as accounting hedging instruments                      |                                      |                       |                     |                 |             |                 |
| Interest rate contracts                                                           |                                      |                       |                     |                 |             |                 |
| Interest rate cap agreements                                                      | Other investments                    | 65                    | n/a                 | 1               | 1           | —               |
| Equity and index contracts                                                        |                                      |                       |                     |                 |             |                 |
| Options                                                                           | Other investments                    | —                     | 3,972               | 88              | 88          | —               |
| Financial futures contracts                                                       | Other assets                         | —                     | 261                 | —               | —           | —               |
| Foreign currency contracts                                                        |                                      |                       |                     |                 |             |                 |
| Foreign currency forwards                                                         | Other investments                    | 759                   | n/a                 | —               | 24          | (24 )           |
| Credit default contracts                                                          |                                      |                       |                     |                 |             |                 |
| Credit default swaps – buying protection                                          | Other investments                    | 87                    | n/a                 | (4 )            | —           | (4 )            |
| Credit default swaps – selling protection                                         | Other investments                    | 140                   | n/a                 | 2               | 2           | —               |
| Other contracts                                                                   |                                      |                       |                     |                 |             |                 |
| Other contracts                                                                   | Other assets                         | 3                     | n/a                 | 1               | 1           | —               |
| Subtotal                                                                          |                                      | 1,054                 | 4,233               | 88              | 116         | (28 )           |
| Total asset derivatives                                                           |                                      | \$1,103               | 4,233               | \$93            | \$121       | \$(28 )         |
| Liability derivatives                                                             |                                      |                       |                     |                 |             |                 |
| Derivatives not designated as accounting hedging instruments                      |                                      |                       |                     |                 |             |                 |
| Equity and index contracts                                                        |                                      |                       |                     |                 |             |                 |
| Options and futures                                                               | Other liabilities & accrued expenses | \$—                   | 4,848               | \$(39 )         | \$—         | \$(39 )         |
| Embedded derivative financial instruments                                         |                                      |                       |                     |                 |             |                 |
| Guaranteed accumulation benefits                                                  | Contractholder funds                 | 391                   | n/a                 | (34 )           | —           | (34 )           |
| Guaranteed withdrawal benefits                                                    | Contractholder funds                 | 290                   | n/a                 | (9 )            | —           | (9 )            |
| Equity-indexed and forward starting options in life and annuity product contracts | Contractholder funds                 | 1,751                 | n/a                 | (247 )          | —           | (247 )          |
| Credit default contracts                                                          |                                      |                       |                     |                 |             |                 |
| Credit default swaps – buying protection                                          | Other liabilities & accrued expenses | 136                   | n/a                 | (2 )            | —           | (2 )            |
| Credit default swaps – selling protection                                         | Other liabilities & accrued expenses | 105                   | n/a                 | (3 )            | —           | (3 )            |
| Subtotal                                                                          |                                      | 2,673                 | 4,848               | (334 )          | —           | (334 )          |
| Total liability derivatives                                                       |                                      | 2,673                 | 4,848               | (334 )          | \$—         | \$(334 )        |
| Total derivatives                                                                 |                                      | \$3,776               | 9,081               | \$(241 )        |             |                 |

Volume for OTC and cleared derivative contracts is represented by their notional amounts. Volume for exchange

<sup>(1)</sup> traded derivatives is represented by the number of contracts, which is the basis on which they are traded. (n/a = not applicable)



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

(\$ in millions)

|                       |              | Offsets              |                                    |                             |                                          |            |
|-----------------------|--------------|----------------------|------------------------------------|-----------------------------|------------------------------------------|------------|
|                       | Gross amount | Counterparty netting | Cash collateral (received) pledged | Net amount on balance sheet | Securities collateral (received) pledged | Net amount |
| June 30, 2017         |              |                      |                                    |                             |                                          |            |
| Asset derivatives     | \$ 20        | \$(25 )              | \$ 6                               | \$ 1                        | \$ —                                     | \$ 1       |
| Liability derivatives | (29 )        | 25                   | (4 )                               | (8 )                        | 3                                        | (5 )       |

December 31, 2016

|                       |       |         |       |       |         |       |
|-----------------------|-------|---------|-------|-------|---------|-------|
| Asset derivatives     | \$ 31 | \$(28 ) | \$ 19 | \$ 22 | \$ (9 ) | \$ 13 |
| Liability derivatives | (33 ) | 28      | —     | (5 )  | 4       | (1 )  |

The following table provides a summary of the impacts of the Company's foreign currency contracts in cash flow hedging relationships. Amortization of net gains from accumulated other comprehensive income related to cash flow hedges is expected to be a gain of \$3 million during the next twelve months. There was no hedge ineffectiveness reported in realized gains and losses for the three months and six months ended June 30, 2017 or 2016.

|                                                                                          | Three months ended June 30, 2017 |      | Six months ended June 30, 2017 |       |
|------------------------------------------------------------------------------------------|----------------------------------|------|--------------------------------|-------|
| Gain (loss) recognized in OCI on derivatives during the period                           | \$ —                             | \$ 1 | \$(2)                          | \$(1) |
| (Loss) gain recognized in OCI on derivatives during the term of the hedging relationship | (1)                              | 2    | (1)                            | 2     |
| Gain reclassified from AOCI into income (net investment income)                          | 1                                | —    | 1                              | —     |
| Gain reclassified from AOCI into income (realized capital gains and losses)              | —                                | 3    | —                              | 3     |

The Allstate Corporation 33

The following tables present gains and losses from valuation and settlements reported on derivatives not designated as accounting hedging instruments in the Condensed Consolidated Statements of Operations. For the three months and six months ended June 30, 2017 and 2016, the Company had no derivatives used in fair value hedging relationships.

| (\$ in millions)                          | Realized capital gains and losses | Life and annuity contract benefits | Interest credited to contractholder funds | Operating costs and expenses | Total gain (loss) recognized in net income on derivatives |
|-------------------------------------------|-----------------------------------|------------------------------------|-------------------------------------------|------------------------------|-----------------------------------------------------------|
| Three months ended June 30, 2017          |                                   |                                    |                                           |                              |                                                           |
| Equity and index contracts                | \$ —                              | \$ —                               | \$ 9                                      | \$ 5                         | \$ 14                                                     |
| Embedded derivative financial instruments | —                                 | 1                                  | —                                         | —                            | 1                                                         |
| Foreign currency contracts                | (8 )                              | —                                  | —                                         | 4                            | (4 )                                                      |
| Total                                     | \$ (8 )                           | \$ 1                               | \$ 9                                      | \$ 9                         | \$ 11                                                     |
| Six months ended June 30, 2017            |                                   |                                    |                                           |                              |                                                           |
| Equity and index contracts                | \$ (7 )                           | \$ —                               | \$ 22                                     | \$ 12                        | \$ 27                                                     |
| Embedded derivative financial instruments | —                                 | 8                                  | (4 )                                      | —                            | 4                                                         |
| Foreign currency contracts                | (15 )                             | —                                  | —                                         | 5                            | (10 )                                                     |
| Credit default contracts                  | (1 )                              | —                                  | —                                         | —                            | (1 )                                                      |
| Total                                     | \$ (23 )                          | \$ 8                               | \$ 18                                     | \$ 17                        | \$ 20                                                     |
| Three months ended June 30, 2016          |                                   |                                    |                                           |                              |                                                           |
| Interest rate contracts                   | \$ (1 )                           | \$ —                               | \$ —                                      | \$ —                         | \$ (1 )                                                   |
| Equity and index contracts                | (5 )                              | —                                  | 2                                         | 4                            | 1                                                         |
| Embedded derivative financial instruments | —                                 | 14                                 | (5 )                                      | —                            | 9                                                         |
| Foreign currency contracts                | 6                                 | —                                  | —                                         | (16 )                        | (10 )                                                     |
| Credit default contracts                  | (1 )                              | —                                  | —                                         | —                            | (1 )                                                      |
| Total                                     | \$ (1 )                           | \$ 14                              | \$ (3 )                                   | \$ (12 )                     | \$ (2 )                                                   |
| Six months ended June 30, 2016            |                                   |                                    |                                           |                              |                                                           |
| Interest rate contracts                   | \$ (1 )                           | \$ —                               | \$ —                                      | \$ —                         | \$ (1 )                                                   |
| Equity and index contracts                | (5 )                              | —                                  | (5 )                                      | 4                            | (6 )                                                      |
| Embedded derivative financial instruments | —                                 | (2 )                               | (3 )                                      | —                            | (5 )                                                      |
| Foreign currency contracts                | 1                                 | —                                  | —                                         | (21 )                        | (20 )                                                     |
| Credit default contracts                  | (5 )                              | —                                  | —                                         | —                            | (5 )                                                      |
| Total                                     | \$ (10 )                          | \$ (2 )                            | \$ (8 )                                   | \$ (17 )                     | \$ (37 )                                                  |

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements (“MNAs”) and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions that permit either party to net payments due for transactions and collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of June 30, 2017, counterparties pledged \$7 million in cash to the Company, and the Company pledged \$12 million in cash and securities to counterparties which includes \$3 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and \$9 million of collateral posted under MNAs for contracts without credit-risk-contingent features. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives, including futures and certain option contracts, are traded on organized exchanges which require margin deposits and guarantee the execution of trades, thereby mitigating any potential credit risk.

Counterparty credit exposure represents the Company’s potential loss if all of the counterparties concurrently fail to perform under the contractual terms of the contracts and all collateral, if any, becomes worthless. This exposure is

measured by the fair value of OTC derivative contracts with a positive fair value at the reporting date reduced by the effect, if any, of legally enforceable master netting agreements.

34 [www.allstate.com](http://www.allstate.com)

---

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

| (\$ in millions) June 30, 2017 |                                                  |                                |                                            | December 31, 2016                                |                                |                                            |  |
|--------------------------------|--------------------------------------------------|--------------------------------|--------------------------------------------|--------------------------------------------------|--------------------------------|--------------------------------------------|--|
| Rating <sup>(1)</sup>          | Number of Notional counterparties <sup>(2)</sup> | Credit exposure <sup>(2)</sup> | Exposure, net of collateral <sup>(2)</sup> | Number of Notional counterparties <sup>(2)</sup> | Credit exposure <sup>(2)</sup> | Exposure, net of collateral <sup>(2)</sup> |  |
| AA-                            | 2 \$ 140                                         | \$ 1                           | \$ —                                       | 2 \$ 80                                          | \$ 2                           | \$ 2                                       |  |
| A+                             | 4 775                                            | 6                              | 1                                          | 5 698                                            | 20                             | 9                                          |  |
| A-                             | —                                                | —                              | —                                          | 1 110                                            | 1                              | 1                                          |  |
| Total                          | 6 \$ 915                                         | \$ 7                           | \$ 1                                       | 8 \$ 888                                         | \$ 23                          | \$ 12                                      |  |

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

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

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

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

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

| (\$ in millions)                                                                                                                     | June 30, December 31, |      |
|--------------------------------------------------------------------------------------------------------------------------------------|-----------------------|------|
|                                                                                                                                      | 2017                  | 2016 |
| Gross liability fair value of contracts containing credit-risk-contingent features                                                   | \$ 20                 | \$ 9 |
| Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs                                   | (12 )                 | (7 ) |
| Collateral posted under MNAs for contracts containing credit-risk-contingent features                                                | (3 )                  | —    |
| Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently | \$ 5                  | \$ 2 |
| Credit derivatives - selling protection                                                                                              |                       |      |

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

The Allstate Corporation 35

---



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

| (\$ in millions)        | Notional amount |      |       |              | Total | Fair value |
|-------------------------|-----------------|------|-------|--------------|-------|------------|
|                         | AA              | A    | BBB   | BB and lower |       |            |
| June 30, 2017           |                 |      |       |              |       |            |
| Single name             |                 |      |       |              |       |            |
| Corporate debt          | \$—             | \$—  | \$25  | \$ 5         | \$30  | \$—        |
| First-to-default Basket |                 |      |       |              |       |            |
| Municipal               | —               | —    | 100   | —            | 100   | —          |
| Index                   |                 |      |       |              |       |            |
| Corporate debt          | 1               | 17   | 49    | 13           | 80    | 1          |
| Total                   | \$1             | \$17 | \$174 | \$ 18        | \$210 | \$ 1       |

December 31, 2016

|                         |      |      |       |       |       |        |
|-------------------------|------|------|-------|-------|-------|--------|
| Single name             |      |      |       |       |       |        |
| Corporate debt          | \$20 | \$10 | \$35  | \$ —  | \$65  | \$ 1   |
| First-to-default Basket |      |      |       |       |       |        |
| Municipal               | —    | —    | 100   | —     | 100   | (3 )   |
| Index                   |      |      |       |       |       |        |
| Corporate debt          | 1    | 19   | 50    | 10    | 80    | 1      |
| Total                   | \$21 | \$29 | \$185 | \$ 10 | \$245 | \$(1 ) |

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

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

#### 8. Reserve for Property-Liability Insurance Claims and Claims Expense

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

of inflation are implicitly considered in the reserving process.

Because reserves are estimates of unpaid portions of losses that have occurred, including incurred but not reported (“IBNR”) losses, the establishment of appropriate reserves, including reserves for catastrophes and reserves and reinsurance recoverables for the Discontinued Lines and Coverages, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management’s best estimates. The highest degree of uncertainty is associated with reserves for losses incurred in the current reporting period as it contains the greatest proportion of losses that have not been reported or settled. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are

reported in property-liability insurance claims and claims expense in the Condensed Consolidated Statements of Operations in the period such changes are determined.

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

Activity in the reserve for property-liability insurance claims and claims expense is summarized as follows:

| (\$ in millions)                               | Six months ended |          |
|------------------------------------------------|------------------|----------|
|                                                | June 30,         |          |
|                                                | 2017             | 2016     |
| Balance as of January 1                        | \$25,250         | \$23,869 |
| Less reinsurance recoverables                  | 6,184            | 5,892    |
| Net balance as of January 1                    | 19,066           | 17,977   |
| SquareTrade acquisition as of January 3, 2017  | 17               | —        |
| Incurred claims and claims expense related to: |                  |          |
| Current year                                   | 11,291           | 11,564   |
| Prior years                                    | (186)            | 21       |
| Total incurred                                 | 11,105           | 11,585   |
| Claims and claims expense paid related to:     |                  |          |
| Current year                                   | 6,060            | 6,138    |
| Prior years                                    | 4,450            | 4,553    |
| Total paid                                     | 10,510           | 10,691   |
| Net balance as of June 30                      | 19,678           | 18,871   |
| Plus reinsurance recoverables                  | 6,206            | 6,033    |
| Balance as of June 30                          | \$25,884         | \$24,904 |

Incurred claims and claims expense represents the sum of paid losses and reserve changes in the period. This expense includes losses from catastrophes of \$1.75 billion and \$1.79 billion in the six months ended June 30, 2017 and 2016, respectively, net of reinsurance and other recoveries. Catastrophes are an inherent risk of the property-liability insurance business that have contributed to, and will continue to contribute to, material year-to-year fluctuations in the Company's results of operations and financial position.

During the six months ended June 30, 2017, incurred claims and claims expense related to prior years was primarily composed of net decreases in auto reserves of \$147 million primarily due to injury coverages claim severity development that was better than expected, net decreases in homeowners reserves of \$44 million due to favorable non-catastrophe reserve reestimates, and net increases in Discontinued Lines and Coverages of \$5 million. Incurred claims and claims expense includes favorable catastrophe loss reestimates of \$3 million, net of reinsurance and other recoveries.

#### 9. Reinsurance

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

| (\$ in millions)                               | Three months ended June 30, |       | Six months ended June 30, |       |
|------------------------------------------------|-----------------------------|-------|---------------------------|-------|
|                                                | 2017                        | 2016  | 2017                      | 2016  |
| Property-liability insurance premiums earned   | \$254                       | \$248 | \$500                     | \$497 |
| Life and annuity premiums and contract charges | 75                          | 78    | 150                       | 152   |

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

| (\$ in millions) | Three months ended June | Six months ended June |
|------------------|-------------------------|-----------------------|
|------------------|-------------------------|-----------------------|

Edgar Filing: ALLSTATE CORP - Form 10-Q

|                                                        |                |       |       |       |
|--------------------------------------------------------|----------------|-------|-------|-------|
|                                                        | ended June 30, |       |       |       |
|                                                        | 30,            |       |       |       |
|                                                        | 2017           | 2016  | 2017  | 2016  |
| Property-liability insurance claims and claims expense | \$124          | \$241 | \$255 | \$402 |
| Life and annuity contract benefits                     | 70             | 80    | 117   | 147   |
| Interest credited to contractholder funds              | 6              | 6     | 11    | 11    |

The Allstate Corporation 37

---

## 10. Company Restructuring

The Company undertakes various programs to reduce expenses. These programs generally involve a reduction in staffing levels, and in certain cases, office closures. Restructuring and related charges primarily include employee termination and relocation benefits, and post-exit rent expenses in connection with these programs, and non-cash charges resulting from pension benefit payments made to agents and certain legal expenses incurred in connection with the 1999 reorganization of Allstate's multiple agency programs to a single exclusive agency program. The expenses related to these activities are included in the Condensed Consolidated Statements of Operations as restructuring and related charges, and totaled \$53 million and \$11 million during the three months ended June 30, 2017 and 2016, respectively, and \$63 million and \$16 million during the six months ended June 30, 2017 and 2016, respectively. Restructuring expenses in 2017 primarily related to Allstate brand claims process changes and office closures due to increased efficiencies and improvements in technology, including the expansion of virtual estimating capabilities through QuickFoto Claim® and video chat technology, a voluntary termination program extended to certain employees, and exiting of certain operations and realigning certain departments for the Esurance and Encompass brand operations.

The following table presents changes in the restructuring liability during the six months ended June 30, 2017.

| (\$ in millions)                   | Employee costs | Exit costs | Total liability |
|------------------------------------|----------------|------------|-----------------|
| Balance as of December 31, 2016    | \$ —           | \$2        | \$ 2            |
| Expense incurred                   | 36             | 16         | 52              |
| Payments applied against liability | (2 )           | (4 )       | (6 )            |
| Balance as of June 30, 2017        | \$ 34          | \$14       | \$ 48           |

The payments applied against the liability for employee costs primarily reflect severance costs, and the payments for exit costs generally consist of post-exit rent expenses and contract termination penalties. As of June 30, 2017, the cumulative amount incurred to date for active programs totaled \$95 million for employee costs and \$77 million for exit costs.

## 11. Guarantees and Contingent Liabilities

### Shared markets and state facility assessments

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

### Guarantees

The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective June 30, 2017, the Company's maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be \$40 million as of June 30, 2017. The remaining term of each residual value guarantee is equal to the term of the underlying lease that ranges from less than one year to four years.

Historically, the Company has not made any material payments pursuant to these guarantees.

Related to the sale of LBL on April 1, 2014, ALIC agreed to indemnify Resolution Life Holdings, Inc. in connection with certain representations, warranties and covenants of ALIC, and certain liabilities specifically excluded from the transaction, subject to specific contractual limitations regarding ALIC's maximum obligation. Management does not believe these indemnifications will have a material effect on results of operations, cash flows or financial position of the Company.

Related to the disposal through reinsurance of substantially all of Allstate Financial's variable annuity business to Prudential in 2006, the Company and its consolidated subsidiaries, ALIC and ALNY, have agreed to indemnify Prudential for certain pre-closing contingent liabilities (including extra-contractual liabilities of ALIC and ALNY and liabilities specifically excluded from the transaction) that ALIC and ALNY have agreed to retain. In addition, the Company, ALIC and ALNY will each indemnify Prudential for certain post-closing liabilities that may arise from the acts of ALIC, ALNY and their agents, including certain liabilities arising from ALIC's and ALNY's provision of transition services. The reinsurance agreements contain no limitations or indemnifications with regard to insurance

risk transfer and transferred all of the future risks and responsibilities for performance on the underlying variable annuity contracts to Prudential, including those related to benefit guarantees. Management does not believe this agreement will have a material effect on results of operations, cash flows or financial position of the Company. In the normal course of business, the Company provides standard indemnifications to contractual counterparties in connection with numerous transactions, including acquisitions and divestitures. The types of indemnifications typically provided include indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and are entered into in the normal course of business based on

an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Consequently, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

The aggregate liability balance related to all guarantees was not material as of June 30, 2017.

#### Regulation and Compliance

The Company is subject to extensive laws, regulations, administrative directives, and regulatory actions. From time to time, regulatory authorities or legislative bodies seek to influence and restrict premium rates, require premium refunds to policyholders, require reinstatement of terminated policies, prescribe rules or guidelines on how affiliates compete in the marketplace, restrict the ability of insurers to cancel or non-renew policies, require insurers to continue to write new policies or limit their ability to write new policies, limit insurers' ability to change coverage terms or to impose underwriting standards, impose additional regulations regarding agent and broker compensation, regulate the nature of and amount of investments, impose fines and penalties for unintended errors or mistakes, and otherwise expand overall regulation of insurance products and the insurance industry. In addition, the Company is subject to laws and regulations administered and enforced by federal agencies and other organizations, including but not limited to the Securities and Exchange Commission, the Financial Industry Regulatory Authority, the Department of Labor, the U.S. Equal Employment Opportunity Commission, and the U.S. Department of Justice. The Company has established procedures and policies to facilitate compliance with laws and regulations, to foster prudent business operations, and to support financial reporting. The Company routinely reviews its practices to validate compliance with laws and regulations and with internal procedures and policies. As a result of these reviews, from time to time the Company may decide to modify some of its procedures and policies. Such modifications, and the reviews that led to them, may be accompanied by payments being made and costs being incurred. The ultimate changes and eventual effects of these actions on the Company's business, if any, are uncertain.

#### Legal and regulatory proceedings and inquiries

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

#### Background

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

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

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

loss, if any, to the Company.

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

**Accrual and disclosure policy**

The Company reviews its lawsuits, regulatory inquiries, and other legal proceedings on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. The Company establishes accruals for such matters at management's best estimate when the Company assesses that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company does not establish accruals for such matters when the Company does not

The Allstate Corporation 39

---



believe both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company's assessment of whether a loss is reasonably possible or probable is based on its assessment of the ultimate outcome of the matter following all appeals. The Company does not include potential recoveries in its estimates of reasonably possible or probable losses. Legal fees are expensed as incurred.

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

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

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

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

The Company currently estimates that the aggregate range of reasonably possible loss in excess of the amount accrued, if any, for the disclosed matters where such an estimate is possible is zero to \$425 million, pre-tax. This disclosure is not an indication of expected loss, if any. Under accounting guidance, an event is "reasonably possible" if "the chance of the future event or events occurring is more than remote but less than likely" and an event is "remote" if "the chance of the future event or events occurring is slight." This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimate will change from time to time, and actual results may vary significantly from the current estimate. The estimate does not include matters or losses for which an estimate is not possible. Therefore, this estimate represents an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum possible loss exposure. Information is provided below regarding the nature of all of the disclosed matters and, where specified, the amount, if any, of plaintiff claims associated with these loss contingencies. Due to the complexity and scope of the matters disclosed in the "Claims related proceedings" and "Other proceedings" subsections below and the many uncertainties that exist, the ultimate outcome of these matters cannot be predicted and in the Company's judgment, a loss, in excess of amounts accrued, if any, is not probable. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of amounts currently accrued, if any, and may be material to the Company's operating results or cash flows for a particular quarterly or annual period. However, based on information currently known to it, management believes that the ultimate outcome of all matters described below, as they are resolved over time, is not likely to have a material effect on the financial position of the Company.

#### Claims related proceedings

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

attorneys' fees and costs.

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

40 [www.allstate.com](http://www.allstate.com)

---

17, 2016, plaintiffs filed their notice of appeal. Plaintiff's opening brief was filed on November 22, 2016. Allstate's response was filed on May 16, 2017. Plaintiff's reply brief was filed on July 6, 2017. Oral argument is likely, but has not been scheduled by the appellate court.

The second case is Jack Jimenez, et al. v. Allstate Insurance Company. Jimenez was filed in the U.S. District Court for the Central District of California in September 2010. The plaintiffs allege that they worked off-the-clock; they also allege other California Labor Code violations resulting from purported unpaid overtime. In April 2012, the court certified a class that includes all adjusters in the state of California, except auto field adjusters, from September 29, 2006 to final judgment. Allstate appealed the court's decision to certify the class, first to the Ninth Circuit Court of Appeals and then to the U.S. Supreme Court. On June 15, 2015, the U.S. Supreme Court denied Allstate's petition for a writ of certiorari. The case was scheduled for trial on September 27, 2016. On May 4, 2016, the court vacated that trial date in part because the court had not approved a trial plan. No trial date has been scheduled because the parties continue to wait for the court's approval of a trial plan.

In addition to the California class actions, the case of Maria Victoria Perez and Kaela Brown, et al. v. Allstate Insurance Company was filed in the U.S. District Court for the Eastern District of New York. Plaintiffs allege that no-fault claim adjusters have been improperly classified as exempt employees under New York Labor Law and the Fair Labor Standards Act. The case was filed in April 2011, and the plaintiffs are seeking unpaid wages, liquidated damages, injunctive relief, compensatory and punitive damages, and attorneys' fees. On September 16, 2014, the court certified a class of no-fault adjusters under New York Labor Law and refused to decertify a Fair Labor Standards Act class of no-fault adjusters. There are 105 members of the Fair Labor Standards Act class and 137 members of the New York Labor Law class. The parties are currently engaged in discovery.

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

On January 26, 2017, the Florida Supreme Court issued its decision in Allstate Insurance Company v. Orthopedic Specialists, et al., holding that Allstate's language was clear and unambiguous and provided adequate notice of its intent to use the fee schedules. On February 7, 2017, Orthopedic Specialists filed a motion for rehearing, which the Florida Supreme Court denied on March 27, 2017. Thus, the Florida Supreme Court's decision is final.

In light of this ruling, the fee schedule issue is expected to be resolved favorably to Allstate in other pending cases. There were three other cases with petitions for leave to appeal to the Florida Supreme Court pending. In those cases, three District Courts of Appeal had previously ruled in favor of Allstate. The Florida Supreme Court issued "show cause" orders in each of those appeals directing the providers to file a response explaining why the Orthopedic Specialists decision is not controlling and why the Florida Supreme Court should not decline to exercise jurisdiction. In one appeal, the provider has acknowledged that Orthopedic Specialists governs and the court has declined jurisdiction in that appeal. In the other two appeals, the providers assert that their petitions to appeal should be granted because Orthopedic Specialists was wrongly decided, repeating the arguments previously asserted. Allstate's responses were filed on May 8, 2017. The parties await the Florida Supreme Court's decision as to whether it will exercise jurisdiction in those appeals.

This fee schedule issue has also been the subject of thousands of individual lawsuits filed against Allstate in Florida. The decision by the Florida Supreme Court has established Florida law on the sufficiency of Allstate's fee schedule policy language that is binding on all Florida courts. Allstate intends to seek final resolution in its favor of all fee schedule claims currently in litigation as well as those not in litigation. Allstate may seek restitution from some plaintiffs for attorneys' fees and costs.

#### Other proceedings

The Company is defending a consolidated proceeding relating to the reorganization of its agent sales force in 2000, when the Company discontinued employee agent programs, terminated the contracts of its employee agents, and offered those agents the opportunity to become Allstate Exclusive Agent independent contractors or to take severance benefits in exchange for a release of claims. The consolidated proceeding, captioned Gene Romero, et al. v. Allstate Insurance Company, et al., is pending in the United States District Court for the Eastern District of Pennsylvania.

This matter has a long and complex history, only relevant portions of which are summarized here. The case began in 2001 as two separate putative class actions filed by approximately 32 former employee agents. In one case, plaintiffs challenged the reorganization alleging claims of age discrimination under the Age Discrimination in Employment Act (“ADEA”), interference with benefits under ERISA, breach of contract, and breach of fiduciary duty. Plaintiffs also challenged the release of claims on various grounds including alleging that the release was retaliatory under the ADEA and ERISA. In the other case, plaintiffs challenged certain amendments to the Agents Pension Plan and sought to have service as Exclusive Agent independent contractors count toward eligibility for benefits. Plaintiffs sought various relief, including back pay, compensatory and punitive damages, liquidated damages, lost investment capital, loss of benefits as a result of their conversion to Exclusive Agent or retirement from

The Allstate Corporation 41

---

the Company, repeal of the challenged plan amendments with all attendant benefits revised and recalculated, and attorneys' fees. Allstate, among other defenses, asserted that the release bars all of the asserted claims.

In February, 2014, the court addressed motions for summary judgment filed by both the plaintiffs and the Company regarding the validity and enforceability of the release and determined that the question of whether the releases were knowingly and voluntarily signed raised disputed issues of fact to be resolved at trial. The court also held that the release, if valid, would bar all claims. In late 2014, the court denied plaintiffs' motion to certify a class for purposes of determining whether the releases were signed knowingly and voluntarily. The court also ordered that all statutes of limitations would resume running on March 2, 2015, after which approximately 460 additional individual plaintiffs filed separate similar lawsuits or sought to intervene.

A jury trial was held in June, 2015, to determine whether the releases of ten plaintiffs were knowingly and voluntarily signed. Additionally, plaintiffs asserted two equitable defenses to the release which were to be determined by the court and not the jury. The jury found that two plaintiffs signed their releases knowingly and voluntarily and eight plaintiffs did not. Subsequently, the court ruled in the Company's favor on the two equitable defenses to the release with respect to all ten plaintiffs. The result affecting these ten plaintiffs is final in the trial court.

On May 2, 2016, the court entered an order consolidating the original and intervening plaintiffs' claims, and ordering plaintiffs to file a consolidated amended complaint. A consolidated amended complaint was filed on behalf of 498 plaintiffs, most of whom had previously filed separate lawsuits or intervened in the earlier proceedings. The consolidated complaint alleged the claims asserted in the previously filed complaints. The Company asserted defenses, including the release. On July 6, 2016, the court denied the Company's motion to dismiss plaintiffs' state law breach of contract and fiduciary duty claims, but granted dismissal of plaintiffs' retaliation claims under the ADEA and ERISA challenging the release of claims.

The court separated the case into two phases to address "common issues" in plaintiffs' claims: (a) "Phase I" addressing claims by 118 plaintiffs alleging that certain plan amendments violated ERISA's anti-cutback provision by eliminating an accrued benefit and (b) "Phase II" addressing all plaintiffs' claims for alleged interference with employee benefits under ERISA and disparate impact under the ADEA.

Regarding Phase I, the court granted in part, and denied in part, the Company's summary judgment motion on plaintiffs' claims challenging certain Plan amendments. The court granted the motion with respect to one plaintiff whose claim was barred by the statute of limitations. The court also dismissed plaintiffs' claim that a 1993 Plan amendment resulted in an unlawful cutback of benefits and plaintiffs' claim for breach of fiduciary duty. A bench trial on the remaining Phase I claims was held in December, 2016.

On April 27, 2017, the court issued its Phase I opinion and ruled that (i) the Company's 1991 amendments to the Plan did not violate ERISA by improperly cutting back on plaintiffs' benefits, and (ii) with respect to only 118 plaintiffs, the Company's interpretation of the Plan's definition of "retire" violated ERISA's anti-cutback rule. The court required the parties to provide further information, in the form of an accounting, to determine whether any plaintiffs suffered a loss based on any such cutback. Plaintiffs submitted their Phase I accounting to the court, alleging that only two of the 118 plaintiffs asserting this cutback claim suffered a loss as a result of the court's order. The Company then submitted its objections to plaintiffs' accounting on May 26, 2017, arguing that no plaintiff suffered a compensable loss and that judgment should be entered in favor of the Company. We await a final ruling by the court.

Regarding Phase II, the court granted the Company's motion for summary judgment on both the ADEA disparate impact and ERISA interference with benefits claims and denied plaintiffs' cross-motion. This resolves these claims in the trial court as to all plaintiffs.

In June and July 2017, the Company and 41 plaintiffs reached agreements in principle to settle all claims of those plaintiffs on a confidential basis, subject to negotiating and executing appropriate written settlement agreements. In June, 2017, the court entered an order establishing Phases III and IV of the litigation. In Phase III, the remaining claims of the eight individual plaintiffs who reside in the Eastern District of Pennsylvania will be litigated, possibly culminating in two separate jury trials each addressing the claims of four plaintiffs. Those claims are ADEA disparate treatment (asserted by six of the eight plaintiffs), breach of contract, breach of fiduciary duty and challenges to the release. The trials are scheduled for January and March, 2018. In Phase IV, which runs concurrently with Phase III, the parties will engage in further written discovery relating to the claims of all other plaintiffs (those residing outside the Eastern District of Pennsylvania) until the court determines the proper venue for depositions, dispositive motions,

and trials of those claims. In March, 2018, the parties are to submit further briefing setting forth their positions on resolving the non-resident plaintiffs' remaining individual claims, including whether to transfer those claims to each plaintiff's home jurisdiction.

Regarding Phase III, the Company filed a motion for summary judgment as to the six Phase III plaintiffs asserting ADEA disparate treatment claims arguing that none of those plaintiffs filed timely age discrimination charges with the EEOC and thus those claims must be dismissed. The Company is also seeking summary judgment on all eight of the Phase III plaintiffs' remaining

state law claims (breach of contract and breach of fiduciary duty) asserting that plaintiffs ratified the release by failing to return the consideration the Company gave them in exchange for signing the release.

The final resolution of these matters is subject to various uncertainties and complexities including how trials, post-trial motions, possible appeals with respect to the validity of the release, and any rulings on the merits will be resolved.

#### Asbestos and environmental

Allstate's reserves for asbestos claims were \$867 million and \$912 million, net of reinsurance recoverables of \$419 million and \$444 million, as of June 30, 2017 and December 31, 2016, respectively. Reserves for environmental claims were \$166 million and \$179 million, net of reinsurance recoverables of \$36 million and \$40 million, as of June 30, 2017 and December 31, 2016, respectively.

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

## 12. Benefit Plans

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

| (\$ in millions)                   | Three months ended June 30, |       | Six months ended June 30, |        |
|------------------------------------|-----------------------------|-------|---------------------------|--------|
|                                    | 2017                        | 2016  | 2017                      | 2016   |
| <b>Pension benefits</b>            |                             |       |                           |        |
| Service cost                       | \$28                        | \$28  | \$57                      | \$56   |
| Interest cost                      | 66                          | 72    | 132                       | 143    |
| Expected return on plan assets     | (102)                       | (100) | (204)                     | (199)  |
| Amortization of:                   |                             |       |                           |        |
| Prior service credit               | (14)                        | (14)  | (28)                      | (28)   |
| Net actuarial loss                 | 47                          | 44    | 94                        | 87     |
| Settlement loss                    | 8                           | 8     | 16                        | 16     |
| Net periodic pension cost          | \$33                        | \$38  | \$67                      | \$75   |
| <b>Postretirement benefits</b>     |                             |       |                           |        |
| Service cost                       | \$2                         | \$3   | \$4                       | \$5    |
| Interest cost                      | 3                           | 5     | 7                         | 9      |
| Amortization of:                   |                             |       |                           |        |
| Prior service credit               | (6)                         | (6)   | (12)                      | (11)   |
| Net actuarial gain                 | (6)                         | (8)   | (12)                      | (16)   |
| Net periodic postretirement credit | \$(7)                       | \$(6) | \$(13)                    | \$(13) |

## 13. Supplemental Cash Flow Information

Non-cash investing activities include \$9 million and \$270 million related to mergers and exchanges completed with equity securities, and modifications of certain mortgage loans and other investments for the six months ended June 30, 2017 and 2016, respectively. Non-cash financing activities include \$42 million and \$39 million related to the issuance of Allstate common shares for vested equity awards for the six months ended June 30, 2017 and 2016, respectively. Non-cash financing activities also included \$34 million related to debt acquired in conjunction with the purchase of an investment for the six months ended June 30, 2016.

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

| (\$ in millions)                                | Six months ended June 30, |         |
|-------------------------------------------------|---------------------------|---------|
|                                                 | 2017                      | 2016    |
| Net change in proceeds managed                  |                           |         |
| Net change in fixed income securities           | \$10                      | \$—     |
| Net change in short-term investments            | (7)                       | (56)    |
| Operating cash flow provided (used)             | \$3                       | \$(56)  |
| <b>Net change in liabilities</b>                |                           |         |
| Liabilities for collateral, beginning of period | \$(1,129)                 | \$(840) |
| Liabilities for collateral, end of period       | (1,126)                   | (896)   |
| Operating cash flow (used) provided             | \$(3)                     | \$56    |



#### 14. Other Comprehensive Income

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

(\$ in millions)

| (\$ in millions)                                                                                  | Three months ended June 30, |         |           |         |         |           |
|---------------------------------------------------------------------------------------------------|-----------------------------|---------|-----------|---------|---------|-----------|
|                                                                                                   | 2017                        |         |           | 2016    |         |           |
|                                                                                                   | Pre-tax                     | Tax     | After-tax | Pre-tax | Tax     | After-tax |
| Unrealized net holding gains and losses arising during the period, net of related offsets         | \$479                       | \$(167) | \$ 312    | \$663   | \$(232) | \$ 431    |
| Less: reclassification adjustment of realized capital gains and losses                            | 64                          | (22)    | ) 42      | 11      | (4)     | ) 7       |
| Unrealized net capital gains and losses                                                           | 415                         | (145)   | ) 270     | 652     | (228)   | ) 424     |
| Unrealized foreign currency translation adjustments                                               | 17                          | (6)     | ) 11      | 7       | (2)     | ) 5       |
| Unrecognized pension and other postretirement benefit cost arising during the period              | (3)                         | ) 2     | (1)       | ) 1     | —       | 1         |
| Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses | (29)                        | ) 10    | (19)      | ) (24)  | ) 9     | (15)      |
| Unrecognized pension and other postretirement benefit cost                                        | 26                          | (8)     | ) 18      | 25      | (9)     | ) 16      |
| Other comprehensive income                                                                        | \$458                       | \$(159) | \$ 299    | \$684   | \$(239) | \$ 445    |

|                                                                                                   | Six months ended June 30, |         |           |         |         |           |
|---------------------------------------------------------------------------------------------------|---------------------------|---------|-----------|---------|---------|-----------|
|                                                                                                   | 2017                      |         | 2016      |         |         |           |
|                                                                                                   | Pre-tax                   | Tax     | After-tax | Pre-tax | Tax     | After-tax |
| Unrealized net holding gains and losses arising during the period, net of related offsets         | \$901                     | \$(315) | \$ 586    | \$1,381 | \$(483) | \$ 898    |
| Less: reclassification adjustment of realized capital gains and losses                            | 174                       | (61)    | ) 113     | (163)   | ) 57    | (106)     |
| Unrealized net capital gains and losses                                                           | 727                       | (254)   | ) 473     | 1,544   | (540)   | ) 1,004   |
| Unrealized foreign currency translation adjustments                                               | 12                        | (4)     | ) 8       | 29      | (10)    | ) 19      |
| Unrecognized pension and other postretirement benefit cost arising during the period              | (3)                       | ) 2     | (1)       | ) (7)   | ) 3     | (4)       |
| Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses | (58)                      | ) 20    | (38)      | ) (48)  | ) 17    | (31)      |
| Unrecognized pension and other postretirement benefit cost                                        | 55                        | (18)    | ) 37      | 41      | (14)    | ) 27      |
| Other comprehensive income                                                                        | \$794                     | \$(276) | \$ 518    | \$1,614 | \$(564) | \$ 1,050  |

The Allstate Corporation 45

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries (the “Company”) as of June 30, 2017, and the related condensed consolidated statements of operations, comprehensive income for the three-month and six-month periods ended June 30, 2017 and 2016, and of shareholders’ equity and cash flows for the six-month periods ended June 30, 2017 and 2016. These interim financial statements are the responsibility of the Company’s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of The Allstate Corporation and subsidiaries as of December 31, 2016, and the related consolidated statements of operations, comprehensive income, shareholders’ equity, and cash flows for the year then ended (not presented herein); and in our report dated February 17, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2016 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois

August 1, 2017

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three-Month and Six-Month Periods Ended June 30, 2017 and 2016

### Overview

Allstate is focused on the following priorities:

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

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as “we,” “our,” “us,” the “Company” or “Allstate”). It should be read in conjunction with the condensed consolidated financial statements and notes thereto found under Part I. Item 1. contained herein, and with the discussion, analysis, consolidated financial statements and notes thereto in Part I. Item 1. and Part II. Item 7. and Item 8. of The Allstate Corporation Annual Report on Form 10-K for 2016. 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 Protection segment also includes SquareTrade and Arity.

With the objective of aligning our key product and service offerings, including the acquisition of SquareTrade and the strategic focus and expansion of Arity and other emerging businesses, management continuously evaluates its oversight structure and resource allocation processes. As a result, we are planning to adopt a new segment reporting structure in fourth quarter 2017 that would provide enhanced transparency and allow for an evaluation of our businesses grouped by attributes including traditional property and casualty protection, services businesses, life insurance, voluntary benefits products, and the annuity business. The chief operating decision maker will receive financial results organized by the new segments in connection with reporting changes and the evaluation of our 2018 operating plan.

Goodwill is required to be evaluated upon the change to our new reporting structure, including the allocation to any new goodwill reporting units using a relative fair value approach. We expect to allocate the \$1.09 billion of goodwill recorded in conjunction with the acquisition of SquareTrade to our services businesses segment along with an immaterial amount of goodwill from the Allstate Protection segment related to other business areas that will be transferred into this segment. Allstate Financial has \$396 million of goodwill that would be reallocated between the new life insurance, voluntary benefits, and annuities segments. While substantially all of the Allstate Financial goodwill relates to the acquisition of Allstate Benefits, we would be required to allocate a portion of the goodwill to the new life insurance and annuities segments. Goodwill will be tested for impairment in conjunction with the segment changes during the fourth quarter and will continue to be tested for impairment at least annually thereafter. We currently evaluate reserve adequacy on an aggregate basis for traditional life insurance products and immediate annuities with life contingencies. We also evaluate these policies on an aggregate basis for circumstances where projected profits would be recognized in early years followed by projected losses in later years. As of December 31, 2016, both traditional life insurance and immediate annuities with life contingencies had projected profit; however, the aggregate sufficiency substantially relates to traditional life insurance.

We record an adjustment to the reserve for life-contingent contract benefits, if applicable, that represents the amount by which the reserve balance would increase if the net unrealized gains in the applicable product investment portfolios were realized and reinvested at current lower interest rates, resulting in a premium deficiency. The offset to this liability is recorded as a reduction of the unrealized net capital gains included in accumulated other comprehensive income. We currently evaluate the need for this reserve adjustment on an aggregate basis for life insurance products and immediate annuities with life contingencies; however, the aggregate sufficiency substantially relates to traditional

life insurance. This liability was zero as of June 30, 2017 and December 31, 2016.

In conjunction with changes to our segments during fourth quarter 2017, we will evaluate reserve adequacy and the need for a reserve adjustment separately for traditional life insurance and immediate annuities with life contingencies.

The Allstate Corporation 47

---

## Highlights

Consolidated net income applicable to common shareholders was \$550 million in the second quarter of 2017 compared to \$242 million in the second quarter of 2016, and \$1.22 billion in the first six months of 2017 compared to \$459 million in the first six months of 2016. Net income applicable to common shareholders per diluted common share was \$1.49 in the second quarter of 2017 compared to \$0.64 in the second quarter of 2016, and \$3.29 in the first six months of 2017 compared to \$1.21 in the first six months of 2016.

Property-Liability net income applicable to common shareholders was \$484 million in the second quarter of 2017 compared to \$198 million in the second quarter of 2016, and \$1.14 billion in the first six months of 2017 compared to \$420 million in the first six months of 2016.

The Property-Liability combined ratio was 97.2 in the second quarter of 2017 compared to 100.8 in the second quarter of 2016, and 95.4 in the first six months of 2017 compared to 99.6 in the first six months of 2016.

Allstate Financial net income applicable to common shareholders was \$146 million in the second quarter of 2017 compared to \$116 million in the second quarter of 2016, and \$254 million in the first six months of 2017 compared to \$184 million in the first six months of 2016.

Total revenues were \$9.59 billion in the second quarter of 2017 compared to \$9.16 billion in the second quarter of 2016, and \$19.02 billion in the first six months of 2017 compared to \$18.04 billion in the first six months of 2016.

Property-Liability premiums earned totaled \$8.02 billion in the second quarter of 2017, an increase of 2.6% from \$7.81 billion in the second quarter of 2016, and \$15.98 billion in the first six months of 2017, an increase of 2.8% from \$15.54 billion in the first six months of 2016.

Investments totaled \$81.31 billion as of June 30, 2017, decreasing from \$81.80 billion as of December 31, 2016. Net investment income was \$897 million in the second quarter of 2017, an increase of 17.7% from \$762 million in the second quarter of 2016, and \$1.65 billion in the first six months of 2017, an increase of 10.2% from \$1.49 billion in the first six months of 2016.

Net realized capital gains were \$81 million in the second quarter of 2017 compared to \$24 million in the second quarter of 2016, and net realized capital gains were \$215 million in the first six months of 2017 compared to net realized capital losses of \$125 million in the first six months of 2016.

Book value per diluted common share (ratio of common shareholders' equity to total common shares outstanding and dilutive potential common shares outstanding) was \$53.83 as of June 30, 2017, an increase of 7.6% from \$50.05 as of June 30, 2016, and an increase of 6.0% from \$50.77 as of December 31, 2016.

For the twelve months ended June 30, 2017, return on the average of beginning and ending period common shareholders' equity of 13.1% increased by 5.1 points from 8.0% for the twelve months ended June 30, 2016.

As of June 30, 2017, shareholders' equity was \$21.50 billion. This total included \$2.11 billion in deployable assets at the parent holding company level comprising cash and investments that are generally saleable within one quarter.

On January 3, 2017, we acquired SquareTrade Holding Company, Inc. ("SquareTrade"), a consumer product protection plan provider that distributes through many of America's major retailers and some of Europe's mobile operators, for \$1.4 billion in cash. SquareTrade provides protection plans primarily covering consumer appliances and electronics, such as TVs, smartphones and computers. This acquisition broadens Allstate's unique product offerings to better meet consumers' needs.

## Consolidated Net Income

| (\$ in millions)                                              | Three months ended June 30, |          | Six months ended June 30, |           |
|---------------------------------------------------------------|-----------------------------|----------|---------------------------|-----------|
|                                                               | 2017                        | 2016     | 2017                      | 2016      |
| Revenues                                                      |                             |          |                           |           |
| Property-liability insurance premiums                         | \$8,018                     | \$7,814  | \$15,977                  | \$15,537  |
| Life and annuity premiums and contract charges                | 591                         | 564      | 1,184                     | 1,130     |
| Net investment income                                         | 897                         | 762      | 1,645                     | 1,493     |
| Realized capital gains and losses:                            |                             |          |                           |           |
| Total other-than-temporary impairment (“OTTI”) losses         | (47 )                       | (77 )    | (109 )                    | (168 )    |
| OTTI losses reclassified to (from) other comprehensive income | (3 )                        | (2 )     | —                         | 8         |
| Net OTTI losses recognized in earnings                        | (50 )                       | (79 )    | (109 )                    | (160 )    |
| Sales and other realized capital gains and losses             | 131                         | 103      | 324                       | 35        |
| Total realized capital gains and losses                       | 81                          | 24       | 215                       | (125 )    |
| Total revenues                                                | 9,587                       | 9,164    | 19,021                    | 18,035    |
| Costs and expenses                                            |                             |          |                           |           |
| Property-liability insurance claims and claims expense        | (5,689 )                    | (5,901 ) | (11,105 )                 | (11,585 ) |
| Life and annuity contract benefits                            | (486 )                      | (454 )   | (960 )                    | (909 )    |
| Interest credited to contractholder funds                     | (175 )                      | (185 )   | (348 )                    | (375 )    |
| Amortization of deferred policy acquisition costs             | (1,176 )                    | (1,126 ) | (2,345 )                  | (2,255 )  |
| Operating costs and expenses                                  | (1,086 )                    | (1,040 ) | (2,183 )                  | (2,022 )  |
| Restructuring and related charges                             | (53 )                       | (11 )    | (63 )                     | (16 )     |
| Interest expense                                              | (83 )                       | (72 )    | (168 )                    | (145 )    |
| Total costs and expenses                                      | (8,748 )                    | (8,789 ) | (17,172 )                 | (17,307 ) |
| Gain on disposition of operations <sup>(1)</sup>              | 12                          | 1        | 14                        | 3         |
| Income tax expense <sup>(2)</sup>                             | (272 )                      | (105 )   | (589 )                    | (214 )    |
| Net income                                                    | 579                         | 271      | 1,274                     | 517       |
| Preferred stock dividends                                     | (29 )                       | (29 )    | (58 )                     | (58 )     |
| Net income applicable to common shareholders                  | \$550                       | \$242    | \$1,216                   | \$459     |
| Property-Liability                                            | \$484                       | \$198    | \$1,136                   | \$420     |
| Allstate Financial                                            | 146                         | 116      | 254                       | 184       |
| Corporate and Other                                           | (80 )                       | (72 )    | (174 )                    | (145 )    |
| Net income applicable to common shareholders                  | \$550                       | \$242    | \$1,216                   | \$459     |

<sup>(1)</sup> Primarily represents the conclusion of a contractual arrangement related to the sale of Sterling Collision Centers, Inc. in 2014.

Income tax expense includes a tax benefit of \$10 million and \$33 million in the second quarter and first six months ended June 30, 2017, respectively, related to the adoption of the new accounting standard on January 1, 2017 for share-based payments.

## Property-Liability

### 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. Allstate Protection also includes services businesses Allstate Roadside Services, Allstate Dealer Services and Arity, which are included in Allstate brand, and SquareTrade. 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. We are evaluating a plan to adopt a new segment reporting structure in the fourth quarter of 2017. Please see the Overview section at the beginning of Item 2 of this Form 10-Q for further information.

Underwriting income is calculated as premiums earned, less claims and claims expense (“losses”), amortization of deferred policy acquisition costs (“DAC”), operating costs and expenses and restructuring and related charges, as determined using accounting principles generally accepted in the United States of America (“GAAP”). We use this measure in our evaluation of results of operations to analyze the profitability of the Property-Liability insurance operations separately from investment results. Underwriting income is reconciled to net income applicable to common shareholders below.

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

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

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

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

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

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

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

• Effect of amortization of purchased intangible assets on combined ratio - the percentage of amortization of purchased intangible assets to premiums earned. Amortization of purchased intangible assets is reported in operating costs and expenses on the Condensed Consolidated Statements of Operations.

• 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.

50 [www.allstate.com](http://www.allstate.com)

---



## Property-Liability

### Property-Liability Highlights

Net income applicable to common shareholders was \$484 million in the second quarter of 2017 compared to \$198 million in the second quarter of 2016, and \$1.14 billion in the first six months of 2017 compared to \$420 million in the first six months of 2016.

Premiums written totaled \$8.29 billion in the second quarter of 2017, an increase of 3.0% from \$8.05 billion in the second quarter of 2016, and \$16.01 billion in the first six months of 2017, an increase of 2.9% from \$15.57 billion in the first six months of 2016. Premiums written related to SquareTrade were \$85 million and \$166 million in the second quarter and first six months of 2017, respectively. Excluding SquareTrade, premiums written totaled \$8.20 billion and \$15.85 billion, respectively.

Premiums earned totaled \$8.02 billion in the second quarter of 2017, an increase of 2.6% from \$7.81 billion in the second quarter of 2016, and \$15.98 billion in the first six months of 2017, an increase of 2.8% from \$15.54 billion in the first six months of 2016. Premiums earned related to SquareTrade included \$70 million and \$129 million in the second quarter and first six months of 2017, respectively. Excluding SquareTrade, premiums earned totaled \$7.95 billion and \$15.85 billion, respectively.

The loss ratio was 71.0 in the second quarter of 2017 compared to 75.5 in the second quarter of 2016, and 69.5 in the first six months of 2017 compared to 74.6 in the first six months of 2016.

Catastrophe losses were \$993 million in the second quarter of 2017 compared to \$961 million in the second quarter of 2016, and \$1.77 billion in the first six months of 2017 compared to \$1.79 billion in the first six months of 2016. The effect of catastrophes on the combined ratio was 12.4 in the second quarter of 2017 compared to 12.3 in the second quarter of 2016, and 11.1 in the first six months of 2017 compared to 11.5 in the first six months of 2016.

Prior year reserve reestimates totaled \$89 million favorable in the second quarter of 2017 compared to \$3 million favorable in the second quarter of 2016, and \$186 million favorable in the first six months of 2017 compared to \$21 million unfavorable in the first six months of 2016.

Underwriting income was \$227 million in the second quarter of 2017 compared to an underwriting loss of \$66 million in the second quarter of 2016, and underwriting income was \$734 million in the first six months of 2017 compared to \$59 million in the first six months of 2016.

Investments were \$43.08 billion as of June 30, 2017, an increase of 0.8% from \$42.72 billion as of December 31, 2016. Net investment income was \$391 million in the second quarter of 2017, an increase of 23.7% from \$316 million in the second quarter of 2016, and \$702 million in the first six months of 2017, an increase of 13.6% from \$618 million in the first six months of 2016.

Net realized capital gains were \$85 million in the second quarter of 2017 compared to \$26 million in the second quarter of 2016, and net realized capital gains were \$220 million in the first six months of 2017 compared to net realized capital loss of \$73 million in the first six months of 2016.

## Property-Liability

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

| (\$ in millions, except ratios)                                                                          | Three months ended June 30, |          | Six months ended June 30, |           |
|----------------------------------------------------------------------------------------------------------|-----------------------------|----------|---------------------------|-----------|
|                                                                                                          | 2017                        | 2016     | 2017                      | 2016      |
| Premiums written                                                                                         | \$8,289                     | \$8,051  | \$16,012                  | \$15,566  |
| Revenues                                                                                                 |                             |          |                           |           |
| Premiums earned                                                                                          | \$8,018                     | \$7,814  | \$15,977                  | \$15,537  |
| Net investment income                                                                                    | 391                         | 316      | 702                       | 618       |
| Realized capital gains and losses                                                                        | 85                          | 26       | 220                       | (73 )     |
| Total revenues                                                                                           | 8,494                       | 8,156    | 16,899                    | 16,082    |
| Costs and expenses                                                                                       |                             |          |                           |           |
| Claims and claims expense                                                                                | (5,689 )                    | (5,901 ) | (11,105 )                 | (11,585 ) |
| Amortization of DAC                                                                                      | (1,103 )                    | (1,057 ) | (2,193 )                  | (2,113 )  |
| Operating costs and expenses                                                                             | (947 )                      | (912 )   | (1,883 )                  | (1,765 )  |
| Restructuring and related charges                                                                        | (52 )                       | (10 )    | (62 )                     | (15 )     |
| Total costs and expenses                                                                                 | (7,791 )                    | (7,880 ) | (15,243 )                 | (15,478 ) |
| Gain on disposition of operations <sup>(1)</sup>                                                         | 10                          | —        | 10                        | —         |
| Income tax expense <sup>(2)</sup>                                                                        | (229 )                      | (78 )    | (530 )                    | (184 )    |
| Net income applicable to common shareholders                                                             | \$484                       | \$198    | \$1,136                   | \$420     |
| Underwriting income                                                                                      | \$227                       | \$(66 )  | \$734                     | \$59      |
| Net investment income                                                                                    | 391                         | 316      | 702                       | 618       |
| Income tax expense on operations                                                                         | (196 )                      | (70 )    | (451 )                    | (211 )    |
| Realized capital gains and losses, after-tax                                                             | 56                          | 18       | 145                       | (46 )     |
| Gain on disposition of operations, after-tax                                                             | 6                           | —        | 6                         | —         |
| Net income applicable to common shareholders                                                             | \$484                       | \$198    | \$1,136                   | \$420     |
| Catastrophe losses                                                                                       | \$993                       | \$961    | \$1,774                   | \$1,788   |
| GAAP operating ratios                                                                                    |                             |          |                           |           |
| Claims and claims expense ratio                                                                          | 71.0                        | 75.5     | 69.5                      | 74.6      |
| Expense ratio                                                                                            | 26.2                        | 25.3     | 25.9                      | 25.0      |
| Combined ratio                                                                                           | 97.2                        | 100.8    | 95.4                      | 99.6      |
| Effect of catastrophe losses on combined ratio                                                           | 12.4                        | 12.3     | 11.1                      | 11.5      |
| Effect of prior year reserve reestimates on combined ratio                                               | (1.1 )                      | —        | (1.2 )                    | 0.1       |
| Effect of catastrophe losses included in prior year reserve reestimates on combined ratio <sup>(3)</sup> | (0.1 )                      | 0.2      | (0.1 )                    | —         |
| Effect of amortization of purchased intangible assets on combined ratio <sup>(4)</sup>                   | 0.3                         | 0.1      | 0.3                       | 0.1       |
| Effect of restructuring and related charges on combined ratio                                            | 0.6                         | 0.1      | 0.4                       | 0.1       |
| Effect of Discontinued Lines and Coverages on combined ratio                                             | 0.1                         | —        | —                         | —         |

<sup>(1)</sup> Represents the conclusion of a contractual arrangement related to the sale of Sterling Collision Centers, Inc. in 2014.

<sup>(2)</sup> Income tax expense includes a tax benefit of \$10 million and \$33 million in the second quarter and first six months ended June 30, 2017, respectively, related to the adoption of the new accounting standard on January 1, 2017 for

share-based payments.

Prior year reserve reestimates included in catastrophe losses totaled \$7 million and \$3 million favorable in the three (3) and six months ended June 30, 2017, respectively, compared to \$13 million and \$10 million unfavorable in the three and six months ended June 30, 2016, respectively.

Amortization of purchased intangible assets totaled \$24 million and \$49 million for the three and six months ended (4) June 30, 2017, respectively, of which \$23 million and \$46 million related to the acquisition of SquareTrade for the three and six months ended June 30, 2017, respectively.

## Property-Liability

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

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

| (\$ in millions)                    | Three months<br>ended June 30, |         | Six months ended<br>June 30, |          |
|-------------------------------------|--------------------------------|---------|------------------------------|----------|
|                                     | 2017                           | 2016    | 2017                         | 2016     |
| Premiums written                    |                                |         |                              |          |
| Allstate Protection                 | \$8,289                        | \$8,051 | \$16,012                     | \$15,566 |
| Discontinued Lines and Coverages    | —                              | —       | —                            | —        |
| Property-Liability premiums written | 8,289                          | 8,051   | 16,012                       | 15,566   |
| Increase in unearned premiums       | (301 )                         | (264 )  | (67 )                        | (98 )    |
| Other                               | 30                             | 27      | 32                           | 69       |
| Property-Liability premiums earned  | \$8,018                        | \$7,814 | \$15,977                     | \$15,537 |
| Premiums earned                     |                                |         |                              |          |
| Allstate Protection                 | \$8,018                        | \$7,814 | \$15,977                     | \$15,537 |
| Discontinued Lines and Coverages    | —                              | —       | —                            | —        |
| Property-Liability                  | \$8,018                        | \$7,814 | \$15,977                     | \$15,537 |

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

# Allstate Protection Segment

Underwriting results are shown in the following table.

| (\$ in millions)                  | Three months ended June 30, |          | Six months ended June 30, |           |
|-----------------------------------|-----------------------------|----------|---------------------------|-----------|
|                                   | 2017                        | 2016     | 2017                      | 2016      |
| Premiums written                  | \$8,289                     | \$8,051  | \$16,012                  | \$15,566  |
| Premiums earned                   | \$8,018                     | \$7,814  | \$15,977                  | \$15,537  |
| Claims and claims expense         | (5,686 )                    | (5,899 ) | (11,100 )                 | (11,582 ) |
| Amortization of DAC               | (1,103 )                    | (1,057 ) | (2,193 )                  | (2,113 )  |
| Other costs and expenses          | (945 )                      | (912 )   | (1,881 )                  | (1,764 )  |
| Restructuring and related charges | (52 )                       | (10 )    | (62 )                     | (15 )     |
| Underwriting income (loss)        | \$232                       | \$(64 )  | \$741                     | \$63      |
| Catastrophe losses                | \$993                       | \$961    | \$1,774                   | \$1,788   |

## Underwriting income (loss) by line of business

|                                     |       |         |       |         |
|-------------------------------------|-------|---------|-------|---------|
| Auto                                | \$185 | \$(86 ) | \$634 | \$(68 ) |
| Homeowners                          | 24    | 26      | 96    | 133     |
| Other personal lines <sup>(1)</sup> | 44    | 37      | 69    | 54      |
| Commercial lines                    | (2 )  | (43 )   | (6 )  | (71 )   |
| Other business lines <sup>(2)</sup> | 3     | 4       | 6     | 18      |
| SquareTrade                         | (22 ) | —       | (57 ) | —       |
| Answer Financial                    | —     | (2 )    | (1 )  | (3 )    |
| Underwriting income (loss)          | \$232 | \$(64 ) | \$741 | \$63    |

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

<sup>(2)</sup> Other business lines primarily include Allstate Roadside Services, Allstate Dealer Services, Arity and Ivantage.

## Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

The following table summarizes the changes in underwriting results from the prior year by the components of the increase (decrease) in underwriting income (loss) by line of business. The 2017 columns present changes in the second quarter and the first six months of 2017, respectively, compared to the same periods of 2016. The 2016 columns present changes in the second quarter and first six months of 2016, respectively, compared to the the same periods of 2015.

| (\$ in millions)                                                      | Three months ended June 30, |           |            |        |                      |       |                  |          |             |      | Allstate Protection        |          |
|-----------------------------------------------------------------------|-----------------------------|-----------|------------|--------|----------------------|-------|------------------|----------|-------------|------|----------------------------|----------|
|                                                                       | Auto                        |           | Homeowners |        | Other personal lines |       | Commercial lines |          | SquareTrade |      | (1)(2)                     |          |
|                                                                       | 2017                        | 2016      | 2017       | 2016   | 2017                 | 2016  | 2017             | 2016     | 2017        | 2016 | 2017                       | 2016     |
| Underwriting income (loss) - prior period                             | \$ (86 )                    | \$ (111 ) | \$ 26      | \$ 91  | \$ 37                | \$ 24 | \$ (43 )         | \$ (17 ) | \$ —        | \$ — | \$ (64 )                   | \$ (8 )  |
| Changes in underwriting income (loss) from:                           |                             |           |            |        |                      |       |                  |          |             |      |                            |          |
| Increase (decrease) premiums earned                                   | 131                         | 220       | —          | 40     | 12                   | 1     | (9 )             | (1 )     | 70          | —    | 204                        | 265      |
| (Increase) decrease incurred claims and claims expense ("losses"):    |                             |           |            |        |                      |       |                  |          |             |      |                            |          |
| Incurred losses, excluding catastrophe losses and reserve reestimates | 198                         | (207 )    | (20 )      | 16     | 3                    | 13    | 16               | (9 )     | (29 )       | —    | 178                        | (186 )   |
| Catastrophe losses, excluding reserve reestimates                     | (21 )                       | (52 )     | (42 )      | (89 )  | 3                    | (16 ) | 8                | (2 )     | —           | —    | (52 )                      | (159 )   |
| Non-catastrophe reserve reestimates                                   | 27                          | 47        | 20         | (7 )   | (3 )                 | 16    | 23               | (21 )    | —           | —    | 67                         | 36       |
| Catastrophe reserve reestimates                                       | (2 )                        | —         | 19         | (8 )   | 1                    | 1     | 2                | 2        | —           | —    | 20                         | (5 )     |
| Losses subtotal                                                       | 202                         | (212 )    | (23 )      | (88 )  | 4                    | 14    | 49               | (30 )    | (29 )       | —    | 213                        | (314 )   |
| (Increase) decrease expenses                                          | (62 )                       | 17        | 21         | (17 )  | (9 )                 | (2 )  | 1                | 5        | (63 )       | —    | (121 )                     | (7 )     |
| Underwriting income (loss) - current period                           | \$ 185                      | \$ (86 )  | \$ 24      | \$ 26  | \$ 44                | \$ 37 | \$ (2 )          | \$ (43 ) | \$ (22 )    | \$ — | \$ (232 )                  | \$ (64 ) |
|                                                                       | Six months ended June 30,   |           |            |        |                      |       |                  |          |             |      |                            |          |
|                                                                       | Auto                        |           | Homeowners |        | Other personal lines |       | Commercial lines |          | SquareTrade |      | Allstate Protection (1)(2) |          |
|                                                                       | 2017                        | 2016      | 2017       | 2016   | 2017                 | 2016  | 2017             | 2016     | 2017        | 2016 | 2017                       | 2016     |
| Underwriting income (loss) - prior period                             | \$ (68 )                    | \$ (35 )  | \$ 133     | \$ 457 | \$ 54                | \$ 61 | \$ (71 )         | \$ (28 ) | \$ —        | \$ — | \$ (63 )                   | \$ 461   |
| Changes in underwriting income (loss) from:                           |                             |           |            |        |                      |       |                  |          |             |      |                            |          |
| Increase (decrease) premiums earned                                   | 299                         | 461       | 5          | 89     | 22                   | 2     | (13 )            | 3        | 129         | —    | 440                        | 562      |
| (Increase) decrease incurred claims and claims expense ("losses"):    |                             |           |            |        |                      |       |                  |          |             |      |                            |          |
| Incurred losses, excluding catastrophe losses and reserve             | 347                         | (441 )    | (52 )      | 66     | 2                    | 25    | 21               | (18 )    | (65 )       | —    | 272                        | (359 )   |

reestimates

|                                                   |        |         |       |        |       |       |        |        |         |    |        |          |
|---------------------------------------------------|--------|---------|-------|--------|-------|-------|--------|--------|---------|----|--------|----------|
| Catastrophe losses, excluding reserve reestimates | 42     | (180 )  | (63 ) | (457 ) | 14    | (49 ) | 8      | (4 )   | —       | —  | 1      | (690 )   |
| Non-catastrophe reserve reestimates               | 113    | 66      | 43    | 1      | 1     | 12    | 39     | (29 )  | —       | —  | 196    | 51       |
| Catastrophe reserve reestimates                   | 3      | —       | 13    | (8 )   | (7 )  | 1     | 4      | —      | —       | —  | 13     | (7 )     |
| Losses subtotal                                   | 505    | (555 )  | (59 ) | (398 ) | 10    | (11 ) | 72     | (51 )  | (65 )   | —  | 482    | (1,005 ) |
| (Increase) decrease expenses                      | (102 ) | 61      | 17    | (15 )  | (17 ) | 2     | 6      | 5      | (121 )  | —  | (244 ) | 45       |
| Underwriting income (loss) - current period       | \$634  | \$(68 ) | \$96  | \$133  | \$69  | \$54  | \$(6 ) | \$(71) | \$(57 ) | \$ | —\$741 | \$63     |

Includes other business lines underwriting income of \$3 million and \$4 million in the second quarter of 2017 and 2016, respectively, and \$6 million and \$18 million in the first six months of 2017 and 2016, respectively. Includes (1) Answer Financial underwriting loss of zero and \$2 million in the second quarter of 2017 and 2016, respectively, and \$1 million and \$3 million in the first six months of 2017 and 2016, respectively.

(2) Arity had affiliate revenues and expenses of \$20 million and \$27 million in the second quarter of 2017 and \$40 million and \$46 million the first six months of 2017, which have been eliminated in consolidation.

Underwriting income totaled \$232 million in the second quarter of 2017, an improvement from an underwriting loss of \$64 million in the second quarter of 2016 and \$741 million in the first six months of 2017 compared to \$63 million in the first six

The Allstate Corporation 55

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

months of 2016, primarily due to increased premiums earned, lower claim frequency and higher favorable prior year reserve reestimates.

Investment results are not included in the underwriting income analysis above. We do not allocate Property-Liability investment income, realized capital gains and losses, or assets to the Allstate Protection and Discontinued Lines and Coverages segments. Management reviews assets at the Property-Liability level for decision-making purposes. For a more detailed discussion on investment results, see the Property-Liability Investment Results section of the MD&A and Reporting Segments Footnote (Note 4) of the consolidated financial statements.

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

| (\$ in millions)          | Three months ended June 30, |         | Six months ended June 30, |          |
|---------------------------|-----------------------------|---------|---------------------------|----------|
|                           | 2017                        | 2016    | 2017                      | 2016     |
| Premiums written          |                             |         |                           |          |
| Auto                      | \$5,459                     | \$5,305 | \$10,905                  | \$10,628 |
| Homeowners                | 1,979                       | 1,971   | 3,489                     | 3,478    |
| Other personal lines      | 468                         | 457     | 858                       | 833      |
| Subtotal – Personal lines | 7,906                       | 7,733   | 15,252                    | 14,939   |
| Commercial lines          | 124                         | 135     | 247                       | 261      |
| Other business lines      | 174                         | 183     | 347                       | 366      |
| SquareTrade               | 85                          | —       | 166                       | —        |
| Total                     | \$8,289                     | \$8,051 | \$16,012                  | \$15,566 |
| Premiums earned           |                             |         |                           |          |
| Auto                      | \$5,437                     | \$5,306 | \$10,825                  | \$10,526 |
| Homeowners                | 1,815                       | 1,815   | 3,630                     | 3,625    |
| Other personal lines      | 436                         | 424     | 867                       | 845      |
| Subtotal – Personal lines | 7,688                       | 7,545   | 15,322                    | 14,996   |
| Commercial lines          | 118                         | 127     | 243                       | 256      |
| Other business lines      | 142                         | 142     | 283                       | 285      |
| SquareTrade               | 70                          | —       | 129                       | —        |
| Total                     | \$8,018                     | \$7,814 | \$15,977                  | \$15,537 |

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

|                             | Loss ratio <sup>(1)</sup> |       | Expense ratio <sup>(1)</sup> |      | Combined ratio <sup>(1)</sup> |       |
|-----------------------------|---------------------------|-------|------------------------------|------|-------------------------------|-------|
|                             | 2017                      | 2016  | 2017                         | 2016 | 2017                          | 2016  |
| Three months ended June 30, |                           |       |                              |      |                               |       |
| Auto                        | 71.2                      | 76.7  | 25.4                         | 24.9 | 96.6                          | 101.6 |
| Homeowners                  | 75.9                      | 74.7  | 22.8                         | 23.9 | 98.7                          | 98.6  |
| Other Personal lines        | 61.7                      | 64.4  | 28.2                         | 26.9 | 89.9                          | 91.3  |
| Commercial lines            | 72.9                      | 106.3 | 28.8                         | 27.6 | 101.7                         | 133.9 |
| Other business lines        | 38.0                      | 45.1  | 59.9                         | 52.1 | 97.9                          | 97.2  |
| SquareTrade                 | 41.4                      | —     | 90.0                         | —    | 131.4                         | —     |
| Total                       | 70.9                      | 75.5  | 26.2                         | 25.3 | 97.1                          | 100.8 |

|                           |      |      |      |      |       |       |
|---------------------------|------|------|------|------|-------|-------|
| Six months ended June 30, |      |      |      |      |       |       |
| Auto                      | 69.2 | 76.0 | 24.9 | 24.6 | 94.1  | 100.6 |
| Homeowners                | 74.2 | 72.6 | 23.2 | 23.7 | 97.4  | 96.3  |
| Other Personal lines      | 64.1 | 67.0 | 27.9 | 26.6 | 92.0  | 93.6  |
| Commercial lines          | 74.9 | 99.2 | 27.6 | 28.5 | 102.5 | 127.7 |
| Other business lines      | 37.5 | 43.9 | 60.4 | 49.8 | 97.9  | 93.7  |
| SquareTrade               | 50.4 | —    | 93.8 | —    | 144.2 | —     |
| Total                     | 69.5 | 74.6 | 25.9 | 25.0 | 95.4  | 99.6  |



---

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

56 [www.allstate.com](http://www.allstate.com)

---

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

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

|                             | Loss ratio |       | Effect of catastrophe losses |      | Effect of prior year reserve reestimates |       | Effect of catastrophe losses included in prior year reserve reestimates |       |
|-----------------------------|------------|-------|------------------------------|------|------------------------------------------|-------|-------------------------------------------------------------------------|-------|
|                             | 2017       | 2016  | 2017                         | 2016 | 2017                                     | 2016  | 2017                                                                    | 2016  |
| Three months ended June 30, |            |       |                              |      |                                          |       |                                                                         |       |
| Auto                        | 71.2       | 76.7  | 4.2                          | 3.9  | (1.1)                                    | (0.7) | —                                                                       | (0.1) |
| Homeowners                  | 75.9       | 74.7  | 38.6                         | 37.4 | (1.1)                                    | 1.0   | (0.2)                                                                   | 0.8   |
| Other Personal lines        | 61.7       | 64.4  | 13.8                         | 15.1 | (2.1)                                    | (2.6) | (0.2)                                                                   | —     |
| Commercial lines            | 72.9       | 106.3 | 1.7                          | 9.5  | (1.7)                                    | 18.1  | (0.9)                                                                   | 0.8   |
| Other business lines        | 38.0       | 45.1  | —                            | —    | —                                        | —     | —                                                                       | —     |
| SquareTrade                 | 41.4       | —     | —                            | —    | —                                        | —     | —                                                                       | —     |
| Total                       | 70.9       | 75.5  | 12.4                         | 12.3 | (1.2)                                    | —     | (0.1)                                                                   | 0.2   |

|                           |      |      |      |      |       |       |       |       |
|---------------------------|------|------|------|------|-------|-------|-------|-------|
| Six months ended June 30, |      |      |      |      |       |       |       |       |
| Auto                      | 69.2 | 76.0 | 2.8  | 3.3  | (1.4) | (0.3) | (0.1) | —     |
| Homeowners                | 74.2 | 72.6 | 37.0 | 35.6 | (1.2) | 0.3   | —     | 0.3   |
| Other Personal lines      | 64.1 | 67.0 | 13.9 | 15.1 | —     | (0.7) | 0.7   | (0.1) |
| Commercial lines          | 74.9 | 99.2 | 3.7  | 8.2  | —     | 16.8  | —     | 1.6   |
| Other business lines      | 37.5 | 43.9 | —    | —    | —     | —     | —     | —     |
| SquareTrade               | 50.4 | —    | —    | —    | —     | —     | —     | —     |
| Total                     | 69.5 | 74.6 | 11.1 | 11.5 | (1.2) | 0.1   | (0.1) | —     |

The Allstate Corporation 57

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

Catastrophe losses were \$993 million and \$1.77 billion in the second quarter and first six months of 2017, respectively, compared to \$961 million and \$1.79 billion in the second quarter and first six months of 2016, respectively. The first six months of 2017 and 2016 have been impacted by higher than normal historical year-to-date catastrophe losses compared to the past five years.

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

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

| (\$ in millions)                  | Three months ended June 30, 2017 |        |                           |       |                       |        |                                    |
|-----------------------------------|----------------------------------|--------|---------------------------|-------|-----------------------|--------|------------------------------------|
|                                   | Number of events                 |        | Claims and claims expense |       | Combined ratio impact |        | Average catastrophe loss per event |
| Size of catastrophe loss          |                                  |        |                           |       |                       |        |                                    |
| Greater than \$250 million        | —                                | —      | %                         | \$—   | —                     | %      | \$ —                               |
| \$101 million to \$250 million    | 1                                | 2.4    |                           | 209   | 21.1                  | 2.6    | 209                                |
| \$50 million to \$100 million     | 2                                | 4.8    |                           | 144   | 14.5                  | 1.8    | 72                                 |
| Less than \$50 million            | 39                               | 92.8   |                           | 619   | 62.3                  | 7.7    | 16                                 |
| Total                             | 42                               | 100.0% |                           | 972   | 97.9                  | 12.1   | 23                                 |
| Prior year reserve reestimates    |                                  |        |                           | (7 )  | (0.7 )                | (0.1 ) |                                    |
| Prior quarter reserve reestimates |                                  |        |                           | 28    | 2.8                   | 0.4    |                                    |
| Total catastrophe losses          |                                  |        |                           | \$993 | 100.0 %               | 12.4   |                                    |

|                                | Six months ended June 30, 2017 |       |   |                           |       |      |                       |      |                                    |   |
|--------------------------------|--------------------------------|-------|---|---------------------------|-------|------|-----------------------|------|------------------------------------|---|
|                                | Number of events               |       |   | Claims and claims expense |       |      | Combined ratio impact |      | Average catastrophe loss per event |   |
| Size of catastrophe loss       |                                |       |   |                           |       |      |                       |      |                                    |   |
| Greater than \$250 million     | —                              | —     | % | \$—                       | —     | %    | —                     |      | \$                                 | — |
| \$101 million to \$250 million | 3                              | 4.3   |   | 568                       | 32.0  |      | 3.6                   |      | 189                                |   |
| \$50 million to \$100 million  | 4                              | 5.7   |   | 289                       | 16.3  |      | 1.8                   |      | 72                                 |   |
| Less than \$50 million         | 63                             | 90.0  |   | 920                       | 51.9  |      | 5.8                   |      | 15                                 |   |
| Total                          | 70                             | 100.0 | % | 1,777                     | 100.2 |      | 11.2                  |      | 25                                 |   |
| Prior year reserve reestimates |                                |       |   | (3                        | )     | (0.2 | )                     | (0.1 | )                                  |   |
| Total catastrophe losses       |                                |       |   | \$1,774                   | 100.0 | %    | 11.1                  |      |                                    |   |

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

| (\$ in millions)           |  | Three months ended June 30, |     |                       |     | Six months ended June 30, |       |                       |       |
|----------------------------|--|-----------------------------|-----|-----------------------|-----|---------------------------|-------|-----------------------|-------|
|                            |  | Number of 2017 events       |     | Number of 2016 events |     | Number of 2017 events     |       | Number of 2016 events |       |
| Hurricanes/Tropical storms |  | —                           | \$— | —                     | \$— | —                         | \$—   | —                     | \$—   |
| Tornadoes                  |  | 1                           | 43  | —                     | —   | 3                         | 98    | —                     | —     |
| Wind/Hail                  |  | 41                          | 929 | 21                    | 985 | 64                        | 1,657 | 36                    | 1,699 |

Edgar Filing: ALLSTATE CORP - Form 10-Q

|                                   |    |       |    |       |    |         |    |         |
|-----------------------------------|----|-------|----|-------|----|---------|----|---------|
| Wildfires                         | —  | —     | 2  | 21    | 1  | 1       | 2  | 21      |
| Other events                      | —  | —     | —  | —     | 2  | 21      | 2  | 58      |
| Prior year reserve reestimates    | (7 | )     |    | 13    |    | (3      | )  | 10      |
| Prior quarter reserve reestimates | 28 |       |    | (58   | )  | —       |    | —       |
| Total catastrophe losses          | 42 | \$993 | 23 | \$961 | 70 | \$1,774 | 40 | \$1,788 |

Catastrophe reinsurance Our catastrophe reinsurance program supports our goal to have no more 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. Our program provides reinsurance protection for catastrophes resulting from multiple perils, including hurricanes, windstorms, hail, tornadoes, earthquakes, fires following earthquakes, riots, freeze, 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 personal lines business, and to reduce variability of earnings while providing protection to our customers. For a complete summary of the 2017 reinsurance placement, please read this in conjunction with the discussion and analysis in Part I. Item 2. of The Allstate Corporation Form 10-Q for the quarterly period ended March 31, 2017.

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

During the second quarter of 2017, we completed the Florida component of the program that is designed to address the distinct needs of our separately capitalized companies in that state. Our 2017 Florida program provides \$658 million of reinsurance limits per occurrence subject to a \$20 million retention. The Florida program includes reinsurance agreements placed with the traditional market, the Florida Hurricane Catastrophe Fund (“FHCF”), and the Insurance Linked Securities (“ILS”) market as follows:

The traditional market placement comprises \$269 million of reinsurance limits for losses to personal lines property in Florida arising out of multiple perils. The 2017 Excess contract, which forms a part of the traditional market placement, with \$231 million of limits, subject to a \$20 million retention, provides coverage for perils not covered by the FHCF contracts which only cover hurricanes.

The FHCF contracts provide 90% of \$188 million of reinsurance limits or approximately \$169 million of limits for qualifying losses to personal lines property in Florida caused by storms the National Hurricane Center declares to be hurricanes.

The ILS placement provides \$200 million of reinsurance limits for qualifying losses to personal lines property in Florida caused by a Named Storm Event, a Severe Thunderstorm Event, an Earthquake Event, a Wildfire Event, a Volcanic Eruption Event, or a Meteorite Impact Event.

In addition to the Florida program, we placed a Gap Fill contract and an Aggregate Excess Catastrophe contract in the second quarter of 2017, as follows:

The Gap Fill contract forms part of our Nationwide per Occurrence Catastrophe Program that is more fully disclosed in The Allstate Corporation Form 10-Q for the quarterly period ended March 31, 2017, and provides \$25 million of reinsurance limits for losses to personal lines property and automobile business arising out of multiple perils subject to a \$2.75 billion retention.

The Aggregate Excess Catastrophe Florida and Southeast States Automobile contract provides \$200 million of reinsurance limits for losses to personal lines automobile business (physical damage only) arising out of multiple perils and provided such losses arise out of a catastrophe and result in covered qualifying losses in the State of Florida. Once losses are incurred in the State of Florida, coverage is also provided for losses to personal lines automobile business (physical damage only) arising out of that same catastrophe and occurring in Alabama, Georgia, Louisiana, Mississippi, North Carolina, and/or South Carolina. The \$200 million of reinsurance limits is subject to a \$300 million aggregate retention for losses arising out of one or all qualifying catastrophes commencing during the contract’s one year term.

The cost of our property catastrophe reinsurance programs during each of the first and second quarters of 2017 was \$93 million and the total cost of our catastrophe reinsurance programs for 2016 was \$393 million or an average quarterly cost of \$98 million.

Expense ratio increased 0.9 points in both the second quarter and first six months of 2017 compared to the same periods of 2016. The expense ratios by line of business are shown in the following table.

|                                    | Three<br>months<br>ended<br>June 30,<br>2017 |      | Six<br>months<br>ended<br>June 30,<br>2016 |      |
|------------------------------------|----------------------------------------------|------|--------------------------------------------|------|
| Auto                               | 25.4                                         | 24.9 | 24.9                                       | 24.6 |
| Homeowners                         | 22.8                                         | 23.9 | 23.2                                       | 23.7 |
| Other personal lines               | 28.2                                         | 26.9 | 27.9                                       | 26.6 |
| Commercial lines                   | 28.8                                         | 27.6 | 27.6                                       | 28.5 |
| Other business lines               | 59.9                                         | 52.1 | 60.4                                       | 49.8 |
| SquareTrade <sup>(1)</sup>         | 90.0                                         | —    | 93.8                                       | 93.8 |
| Total expense ratio <sup>(1)</sup> | 26.2                                         | 25.3 | 25.9                                       | 25.0 |

(1) Includes \$23 million and \$46 million in the second quarter and first six months of 2017, respectively, of amortization of purchased intangible assets related to the acquisition of SquareTrade that was completed on January 3, 2017, an impact of 32.8 points and 35.7 points to the SquareTrade expense ratio in the second quarter and first six months of 2017, respectively, and an impact of 0.3 points to the total expense ratio in both the second quarter and first six months of 2017.

The Allstate Corporation 59

---

## Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

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

|                                             | Three<br>months<br>ended<br>June 30,<br>2017 | Three<br>months<br>ended<br>June 30,<br>2016 | Six<br>months<br>ended<br>June 30,<br>2017 | Six<br>months<br>ended<br>June 30,<br>2016 |
|---------------------------------------------|----------------------------------------------|----------------------------------------------|--------------------------------------------|--------------------------------------------|
| Amortization of DAC                         | 13.8                                         | 13.5                                         | 13.7                                       | 13.6                                       |
| Advertising expense                         | 2.2                                          | 2.7                                          | 2.3                                        | 2.3                                        |
| Amortization of purchased intangible assets | 0.3                                          | 0.1                                          | 0.3                                        | 0.1                                        |
| Other costs and expenses                    | 9.3                                          | 8.9                                          | 9.2                                        | 8.9                                        |
| Restructuring and related charges           | 0.6                                          | 0.1                                          | 0.4                                        | 0.1                                        |
| Total expense ratio                         | 26.2                                         | 25.3                                         | 25.9                                       | 25.0                                       |

Reserve reestimates The tables below show reserves, net of reinsurance, representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2017 and 2016 and the effect of reestimates in each year.

(\$ in millions) January 1 reserves

|                      | 2017     | 2016     |
|----------------------|----------|----------|
| Auto                 | \$13,530 | \$12,459 |
| Homeowners           | 1,990    | 1,937    |
| Other personal lines | 1,456    | 1,490    |
| Commercial lines     | 621      | 554      |
| Other business lines | 24       | 21       |

Total Allstate Protection \$17,621 \$16,461

|                                          | Three months ended June 30,       |        |                                         |        | Six months ended June 30,         |        |                                         |        |
|------------------------------------------|-----------------------------------|--------|-----------------------------------------|--------|-----------------------------------|--------|-----------------------------------------|--------|
|                                          | Reserve reestimate <sup>(1)</sup> |        | Effect on combined ratio <sup>(2)</sup> |        | Reserve reestimate <sup>(1)</sup> |        | Effect on combined ratio <sup>(2)</sup> |        |
|                                          | 2017                              | 2016   | 2017                                    | 2016   | 2017                              | 2016   | 2017                                    | 2016   |
| Auto                                     | \$(61)                            | \$(36) | (0.8 )                                  | (0.5 ) | \$(147)                           | \$(31) | (0.9 )                                  | (0.2 ) |
| Homeowners                               | (20 )                             | 19     | (0.3 )                                  | 0.3    | (44 )                             | 12     | (0.3 )                                  | 0.1    |
| Other personal lines                     | (9 )                              | (11 )  | (0.1 )                                  | (0.1 ) | —                                 | (6 )   | —                                       | (0.1 ) |
| Commercial lines                         | (2 )                              | 23     | —                                       | 0.3    | —                                 | 43     | —                                       | 0.3    |
| Total Allstate Protection <sup>(3)</sup> | \$(92)                            | \$(5 ) | (1.2 )                                  | —      | \$(191)                           | \$18   | (1.2 )                                  | 0.1    |
| Allstate brand                           | \$(83)                            | \$(2 ) | (1.1 )                                  | —      | \$(188)                           | \$11   | (1.2 )                                  | 0.1    |
| Esurance brand                           | (1 )                              | (4 )   | —                                       | —      | (1 )                              | (8 )   | —                                       | (0.1 ) |
| Encompass brand                          | (8 )                              | 1      | (0.1 )                                  | —      | (2 )                              | 15     | —                                       | 0.1    |
| Total Allstate Protection                | \$(92)                            | \$(5 ) | (1.2 )                                  | —      | \$(191)                           | \$18   | (1.2 )                                  | 0.1    |

<sup>(1)</sup> Favorable reserve reestimates are shown in parentheses.

<sup>(2)</sup> Ratios are calculated using Property-Liability premiums earned.

Prior year reserve reestimates included in catastrophe losses totaled \$7 million and \$3 million favorable in the three and six months ended June 30, 2017, respectively, compared to \$13 million and \$10 million unfavorable in the three and six months ended June 30, 2016, respectively.

Favorable reserve reestimates in the second quarter and first six months of 2017 primarily relate to severity development for auto injury coverages and homeowners that was better than expected. Severity development for auto injury coverages was due in part to claims process improvements.





## Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

The following table presents premiums written, policies in force (“PIF”) and underwriting income (loss) by line of business for Allstate brand, Esurance brand, Encompass brand and Allstate Protection for the six months ended June 30, 2017. Detailed analysis of underwriting results, premiums written and earned, and the combined ratios, including loss and expense ratios are discussed in the brand sections below.

| (\$ in millions)     | Allstate brand |                  |  | Esurance brand |                  |  | Encompass brand |                  |  | Allstate Protection |                  |  |
|----------------------|----------------|------------------|--|----------------|------------------|--|-----------------|------------------|--|---------------------|------------------|--|
| Premiums written     | Amount         | Percent to total |  | Amount         | Percent to total |  | Amount          | Percent to total |  | Amount              | Percent to total |  |
| Auto                 | \$9,807        | 67.8 %           |  | \$825          | 95.4 %           |  | \$273           | 52.4 %           |  | \$10,905            | 68.1 %           |  |
| Homeowners           | 3,250          | 22.5             |  | 36             | 4.1              |  | 203             | 39.0             |  | 3,489               | 21.8             |  |
| Other personal lines | 809            | 5.6              |  | 4              | 0.5              |  | 45              | 8.6              |  | 858                 | 5.4              |  |
| Commercial lines     | 247            | 1.7              |  | —              | —                |  | —               | —                |  | 247                 | 1.5              |  |
| Other business lines | 347            | 2.4              |  | —              | —                |  | —               | —                |  | 347                 | 2.2              |  |
| SquareTrade          | —              | —                |  | —              | —                |  | —               | —                |  | 166                 | 1.0              |  |
| Total                | \$14,460       | 100.0 %          |  | \$865          | 100.0 %          |  | \$521           | 100.0 %          |  | \$16,012            | 100.0 %          |  |

Percent to total Allstate Protection 90.3 % 5.4 % 3.3 %

## PIF (thousands)

|                      |        |         |  |       |         |  |     |         |  |        |         |  |
|----------------------|--------|---------|--|-------|---------|--|-----|---------|--|--------|---------|--|
| Auto                 | 19,548 | 55.9 %  |  | 1,388 | 92.3 %  |  | 571 | 61.1 %  |  | 21,507 | 31.3 %  |  |
| Homeowners           | 6,075  | 17.4    |  | 69    | 4.6     |  | 273 | 29.2    |  | 6,417  | 9.4     |  |
| Other personal lines | 4,199  | 12.0    |  | 47    | 3.1     |  | 91  | 9.7     |  | 4,337  | 6.3     |  |
| Commercial lines     | 262    | 0.8     |  | —     | —       |  | —   | —       |  | 262    | 0.4     |  |
| Other business lines | 4,863  | 13.9    |  | —     | —       |  | —   | —       |  | 4,863  | 7.1     |  |
| SquareTrade          | —      | —       |  | —     | —       |  | —   | —       |  | 31,258 | 45.5    |  |
| Total                | 34,947 | 100.0 % |  | 1,504 | 100.0 % |  | 935 | 100.0 % |  | 68,644 | 100.0 % |  |

Percent to total Allstate Protection 50.9 % 2.2 % 1.4 %

## Underwriting income (loss)

|                      |       |         |  |         |         |  |         |         |  |       |         |  |
|----------------------|-------|---------|--|---------|---------|--|---------|---------|--|-------|---------|--|
| Auto                 | \$660 | 75.0 %  |  | \$(17 ) | 47.2 %  |  | \$(9 )  | 20.0 %  |  | \$634 | 85.6 %  |  |
| Homeowners           | 154   | 17.5    |  | (20 )   | 55.6    |  | (38 )   | 84.4    |  | 96    | 12.9    |  |
| Other personal lines | 66    | 7.5     |  | 1       | (2.8 )  |  | 2       | (4.4 )  |  | 69    | 9.3     |  |
| Commercial lines     | (6 )  | (0.7 )  |  | —       | —       |  | —       | —       |  | (6 )  | (0.8 )  |  |
| Other business lines | 6     | 0.7     |  | —       | —       |  | —       | —       |  | 6     | 0.8     |  |
| SquareTrade          | —     | —       |  | —       | —       |  | —       | —       |  | (57 ) | (7.7 )  |  |
| Answer Financial     | —     | —       |  | —       | —       |  | —       | —       |  | (1 )  | (0.1 )  |  |
| Total                | \$880 | 100.0 % |  | \$(36 ) | 100.0 % |  | \$(45 ) | 100.0 % |  | \$741 | 100.0 % |  |

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

PIF: Policy counts are based on items rather than customers. A multi-car customer would generate multiple item (policy) counts, even if all cars were insured under one policy.

New issued applications: Item counts of automobiles or homeowners insurance applications for insurance policies that were issued during the period, regardless of whether the customer was previously insured by another Allstate Protection brand. Allstate brand includes automobiles added by existing customers when they exceed the number allowed (currently 10) on a policy.

Average premium-gross written (“average premium”): Gross premiums written divided by issued item count. Gross premiums written include the impacts from discounts, surcharges and ceded reinsurance premiums and exclude the

impacts from mid-term premium adjustments and premium refund accruals. Average premiums represent the appropriate policy term for each line. Allstate and Esurance brands policy terms are 6 months for auto and 12 months for homeowners. Encompass brand policy terms are 12 months for auto and homeowners.

• Renewal ratio: Renewal policies issued during the period, based on contract effective dates, divided by the total policies issued 6 months prior for auto (12 months prior for Encompass brand) or 12 months prior for homeowners.

The Allstate Corporation 61

---

## Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

## Allstate brand

Underwriting results are shown in the following table.

| (\$ in millions)                  | Three months ended June 30, |          | Six months ended June 30, |           |
|-----------------------------------|-----------------------------|----------|---------------------------|-----------|
|                                   | 2017                        | 2016     | 2017                      | 2016      |
| Premiums written                  | \$7,511                     | \$7,344  | \$14,460                  | \$14,144  |
| Premiums earned                   | \$7,245                     | \$7,095  | \$14,443                  | \$14,105  |
| Claims and claims expense         | (5,112 )                    | (5,349 ) | (9,943 )                  | (10,499 ) |
| Amortization of DAC               | (1,032 )                    | (990 )   | (2,052 )                  | (1,979 )  |
| Other costs and expenses          | (763 )                      | (757 )   | (1,514 )                  | (1,452 )  |
| Restructuring and related charges | (46 )                       | (9 )     | (54 )                     | (14 )     |
| Underwriting income (loss)        | \$292                       | \$(10 )  | \$880                     | \$161     |
| Catastrophe losses                | \$917                       | \$913    | \$1,623                   | \$1,696   |

## Underwriting income (loss) by line of business

|                                     |       |         |       |         |
|-------------------------------------|-------|---------|-------|---------|
| Auto                                | \$206 | \$(57 ) | \$660 | \$(12 ) |
| Homeowners                          | 47    | 51      | 154   | 162     |
| Other personal lines <sup>(1)</sup> | 38    | 35      | 66    | 64      |
| Commercial lines                    | (2 )  | (43 )   | (6 )  | (71 )   |
| Other business lines <sup>(2)</sup> | 3     | 4       | 6     | 18      |
| Underwriting income (loss)          | \$292 | \$(10 ) | \$880 | \$161   |

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

<sup>(2)</sup> Other business lines primarily include Allstate Roadside Services, Allstate Dealer Services, Arity and Ivantage.

The following table summarizes the changes in underwriting results from the prior year by the components of the increase (decrease) in underwriting income. The 2017 columns present changes in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. The 2016 columns present changes in the second quarter and first six months of 2016, respectively, compared to the same periods of 2015.

| (\$ in millions)                                                      | Three months ended June 30, |         | Six months ended June 30, |          |
|-----------------------------------------------------------------------|-----------------------------|---------|---------------------------|----------|
|                                                                       | 2017                        | 2016    | 2017                      | 2016     |
| Underwriting income (loss) - prior period                             | \$(10 )                     | \$86    | \$161                     | \$612    |
| Changes in underwriting income from:                                  |                             |         |                           |          |
| Increase (decrease) premiums earned                                   | 150                         | 266     | 338                       | 556      |
| (Increase) decrease incurred claims and claims expense ("losses"):    |                             |         |                           |          |
| Incurred losses, excluding catastrophe losses and reserve reestimates | 179                         | (194 )  | 297                       | (387 )   |
| Catastrophe losses, excluding reserve reestimates                     | (23 )                       | (175 )  | 60                        | (686 )   |
| Non-catastrophe reserve reestimates                                   | 62                          | 36      | 186                       | 68       |
| Catastrophe reserve reestimates                                       | 19                          | (8 )    | 13                        | (6 )     |
| Losses subtotal                                                       | 237                         | (341 )  | 556                       | (1,011 ) |
| (Increase) decrease expenses                                          | (85 )                       | (21 )   | (175 )                    | 4        |
| Underwriting income (loss) - current period                           | \$292                       | \$(10 ) | \$880                     | \$161    |

Underwriting income totaled \$292 million in the second quarter of 2017, an improvement from an underwriting loss of \$10 million in the second quarter of 2016 and \$880 million in the first six months of 2017, an increase from \$161 million in the first six months of 2016. Both period increases were primarily due to increased premiums earned, lower claim frequency and higher favorable prior year reserve reestimates, partially offset by higher restructuring and agents compensation costs.

For auto insurance, we are taking a balanced approach to profitable growth and margin improvement by continuing to execute our auto profit improvement plan in markets with returns below target levels while implementing growth plans in areas with

62 [www.allstate.com](http://www.allstate.com)

---

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

acceptable returns. As auto margins have improved, we have expanded the number of states in which we are implementing growth plans. While we continue to file rate increases to keep pace with loss trends, the overall magnitude of rates taken has moderated as profitability trends have improved. We expect the magnitude of rate increases to continue to moderate if improving loss trends persist.

As we execute on this plan, our trusted advisor strategy for Allstate exclusive agencies remains critical. This includes enhancements to our approach to initiating relationships, building personalized solutions and cultivating trust based relationships. We are also focused on broadening our distribution footprint, both in terms of agency owners and licensed sales professionals, to expand sales and service capacity and making other sales and marketing investments to increase new business volume.

We are leveraging data and analytic capabilities to generate business value. This includes the strategic deployment of new agencies, improved operational efficiency to create a better customer experience, enhanced target marketing as well as enhanced sophistication of product and pricing capabilities.

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

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

| (\$ in millions)          | Three months ended June 30, |         | Six months ended June 30, |          |
|---------------------------|-----------------------------|---------|---------------------------|----------|
|                           | 2017                        | 2016    | 2017                      | 2016     |
| Premiums written          |                             |         |                           |          |
| Auto                      | \$4,925                     | \$4,767 | \$9,807                   | \$9,513  |
| Homeowners                | 1,847                       | 1,831   | 3,250                     | 3,223    |
| Other personal lines      | 441                         | 428     | 809                       | 781      |
| Subtotal – Personal lines | 7,213                       | 7,026   | 13,866                    | 13,517   |
| Commercial lines          | 124                         | 135     | 247                       | 261      |
| Other business lines      | 174                         | 183     | 347                       | 366      |
| Total                     | \$7,511                     | \$7,344 | \$14,460                  | \$14,144 |
| Premiums earned           |                             |         |                           |          |
| Auto                      | \$4,883                     | \$4,745 | \$9,722                   | \$9,412  |
| Homeowners                | 1,691                       | 1,684   | 3,379                     | 3,362    |
| Other personal lines      | 411                         | 397     | 816                       | 790      |
| Subtotal – Personal lines | 6,985                       | 6,826   | 13,917                    | 13,564   |
| Commercial lines          | 118                         | 127     | 243                       | 256      |
| Other business lines      | 142                         | 142     | 283                       | 285      |
| Total                     | \$7,245                     | \$7,095 | \$14,443                  | \$14,105 |

The Allstate Corporation 63

## Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

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

|                                                     | Three months ended June 30, |        | Six months ended June 30, |                    |
|-----------------------------------------------------|-----------------------------|--------|---------------------------|--------------------|
|                                                     | 2017                        | 2016   | 2017                      | 2016               |
| PIF (thousands)                                     | 19,548                      | 20,061 | 19,548                    | 20,061             |
| New issued applications (thousands)                 | 639                         | 582    | 1,249                     | 1,166              |
| Average premium                                     | \$544                       | \$ 516 | \$541                     | \$ 511             |
| Renewal ratio (%)                                   | 87.4                        | 88.0   | 87.4                      | 88.0               |
| Approved rate changes <sup>(1)</sup> :              |                             |        |                           |                    |
| # of locations <sup>(2)</sup>                       | 23                          | 35     | 37                        | 46                 |
| Total brand (%) <sup>(3)</sup>                      | 0.7                         | 3.2    | 2.4                       | <sup>(6)</sup> 4.9 |
| Location specific (%) <sup>(4)</sup> <sup>(5)</sup> | 3.2                         | 6.2    | 4.9                       | <sup>(6)</sup> 6.6 |

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

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

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

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

Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled \$137 million and \$475 million in the three and six months ended June 30, 2017, respectively,

<sup>(5)</sup> compared to \$581 million and \$901 million in the three and six months ended June 30, 2016, respectively.

Approximately 42% of the Allstate brand rate increases approved in the first half of 2017 are expected to be earned in 2017, with the remainder expected to be earned in 2018 and 2019.

<sup>(6)</sup> Includes a rate increase in California in first quarter 2017. Excluding California, Allstate brand auto total brand and location specific rate changes were 1.8% and 4.4% for the six months ended June 30, 2017, respectively.

Auto insurance premiums written totaled \$4.93 billion in the second quarter of 2017, a 3.3% increase from \$4.77 billion in the second quarter of 2016, and \$9.81 billion in the first six months of 2017, a 3.1% increase from \$9.51 billion in the first six months of 2016. Factors impacting premiums written were the following:

2.6% or 513 thousand decrease in PIF as of June 30, 2017 compared to June 30, 2016. PIF slightly decreased by 0.1% or 17 thousand as of June 30, 2017 compared to March 31, 2017. Auto PIF increased in 10 states, including 2 of our largest 10 states, as of June 30, 2017 compared to June 30, 2016.

9.8% and 7.1% increase in new issued applications in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. 33 states, including 6 of our 10 largest states, experienced increases in new issued applications in the second quarter of 2017 compared to the same period of 2016. 36 states, including 6 of our 10 largest states, experienced increases in new issued applications in the first six months of 2017 compared to the same period of 2016.

5.4% and 5.9% increase in average premium in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016, primarily due to rate increases. Rate changes approved for auto do not assume customer choices such as non-renewal or changes in policy terms which might reduce future premiums.

Approximately 36.3% of the change in rates approved for auto in the second quarter of 2017 are driven by the increases approved in 4 of our 10 largest states.

•

0.6 point decrease in the renewal ratio in both the second quarter and first six months of 2017 compared to the same periods of 2016. 2 of our largest 10 states experienced increases in the renewal ratio in both the second quarter and first six months of 2017 compared to the same periods of 2016. The renewal ratio in second quarter 2017 was comparable to first quarter 2017.

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

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

|                                        | Three months<br>ended June 30, |         | Six months<br>ended June 30, |         |                |
|----------------------------------------|--------------------------------|---------|------------------------------|---------|----------------|
|                                        | 2017                           | 2016    | 2017                         | 2016    |                |
| PIF (thousands)                        | 6,075                          | 6,158   | 6,075                        | 6,158   |                |
| New issued applications (thousands)    | 195                            | 193     | 358                          | 357     |                |
| Average premium                        | \$1,192                        | \$1,171 | \$1,190                      | \$1,173 |                |
| Renewal ratio (%)                      | 87.0                           | 87.8    | 87.0                         | 88.0    |                |
| Approved rate changes <sup>(1)</sup> : |                                |         |                              |         |                |
| # of locations <sup>(2)</sup>          | 3                              | 11      | 17                           | 25      |                |
| Total brand (%)                        | 0.1                            | 0.8     | 1.1                          | 0.4     | <sup>(4)</sup> |
| Location specific (%) <sup>(3)</sup>   | 2.0                            | 4.9     | 3.9                          | 1.1     | <sup>(4)</sup> |

<sup>(1)</sup> Includes rate changes approved based on our net cost of reinsurance.

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

Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for homeowners totaled \$5 million and \$75 million in the three and six months ended June 30, 2017, respectively, compared to \$55 million and \$27 million in the three and six months ended June 30, 2016, respectively.

Includes the impact of a rate decrease in California in first quarter 2016. Excluding California, Allstate brand

<sup>(4)</sup> homeowners total brand and location specific rate changes were 1.4% and 4.3% for the six months ended June 30, 2016, respectively.

Homeowners insurance premiums written totaled \$1.85 billion in the second quarter of 2017, a 0.9% increase from \$1.83 billion in the second quarter of 2016, and \$3.25 billion in the first six months of 2017, a 0.8% increase from \$3.22 billion in the first six months of 2016. Factors impacting premiums written were the following:

1.3% or 83 thousand decrease in PIF as of June 30, 2017 compared to June 30, 2016. PIF slightly decreased by 0.2% or 15 thousand as of June 30, 2017 compared to March 31, 2017. Allstate brand homeowners PIF increased in 17 states, including 3 of our largest 10 states, as of June 30, 2017 compared to June 30, 2016.

1.0% and 0.3% increase in new issued applications in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. Of our largest 10 states, 6 experienced increases in new issued applications in both the second quarter and first six months of 2017 compared to the same periods of 2016.

1.8% and 1.4% increase in average premium in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016, primarily due to rate changes and increasing insured home valuations due to inflationary costs.

0.8 point and 1.0 point decrease in the renewal ratio in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. Of our largest 10 states, 1 experienced an increase in the renewal ratio in both the second quarter and first six months of 2017 compared to the same periods of 2016. The renewal ratio in second quarter 2017 decreased by 0.1 points compared to first quarter 2017.

\$12 million decrease in the cost of our catastrophe reinsurance program to \$75 million in the second quarter of 2017 from \$87 million in the second quarter of 2016, and \$22 million decrease to \$154 million in the first six months of 2017 from \$176 million in the first six months of 2016. 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 homeowners new business offering currently available in 41 states, totaled \$621 million in the second quarter of 2017 compared to \$506 million in the second quarter of 2016, and \$1.07 billion in the first six months of 2017 compared to \$863 million in the first six months of 2016.

Other personal lines Allstate brand other personal lines premiums written totaled \$441 million in the second quarter of 2017, a 3.0% increase from \$428 million in the second quarter of 2016, and \$809 million in the first six months of 2017, a 3.6% increase from \$781 million in the first six months of 2016. The increases in both periods were primarily



due to involuntary auto and personal umbrella insurance premiums.

Commercial lines premiums written totaled \$124 million in the second quarter of 2017, an 8.1% decrease from \$135 million in the second quarter of 2016, and \$247 million in the first six months of 2017, a 5.4% decrease from \$261 million in the first six months of 2016. The decreases in both periods were driven by decreased new business and lower renewals due to profit improvement actions, partially offset by increased average premiums.

Other business lines premiums written totaled \$174 million in the second quarter of 2017, a 4.9% decrease from \$183 million in the second quarter of 2016, and \$347 million in the six months of 2017, a 5.2% decrease from \$366 million in the first six

Edgar Filing: ALLSTATE CORP - Form 10-Q

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

months of 2016. The decreases in both periods were primarily driven by lower wholesale rescue volume primarily due to lower partner renewals and retail memberships in force at Allstate Roadside Services. Allstate Roadside Services continues to implement profit improvement actions, which have impacted premium, but are reducing loss costs. Combined ratios by line of business are analyzed in the following table.

|                             | Loss ratio <sup>(1)</sup> |       | Expense ratio <sup>(1)</sup> |      | Combined ratio <sup>(1)</sup> |       |
|-----------------------------|---------------------------|-------|------------------------------|------|-------------------------------|-------|
|                             | 2017                      | 2016  | 2017                         | 2016 | 2017                          | 2016  |
| Three months ended June 30, |                           |       |                              |      |                               |       |
| Auto                        | 70.5                      | 76.6  | 25.3                         | 24.6 | 95.8                          | 101.2 |
| Homeowners                  | 75.3                      | 74.8  | 21.9                         | 22.2 | 97.2                          | 97.0  |
| Other personal lines        | 62.8                      | 64.5  | 28.0                         | 26.7 | 90.8                          | 91.2  |
| Commercial lines            | 72.9                      | 106.3 | 28.8                         | 27.6 | 101.7                         | 133.9 |
| Other business lines        | 38.0                      | 45.1  | 59.9                         | 52.1 | 97.9                          | 97.2  |
| Total                       | 70.6                      | 75.4  | 25.4                         | 24.7 | 96.0                          | 100.1 |

|                           |      |      |      |      |       |       |
|---------------------------|------|------|------|------|-------|-------|
| Six months ended June 30, |      |      |      |      |       |       |
| Auto                      | 68.5 | 76.0 | 24.7 | 24.1 | 93.2  | 100.1 |
| Homeowners                | 73.0 | 72.9 | 22.4 | 22.3 | 95.4  | 95.2  |
| Other Personal lines      | 64.1 | 65.4 | 27.8 | 26.5 | 91.9  | 91.9  |
| Commercial lines          | 74.9 | 99.2 | 27.6 | 28.5 | 102.5 | 127.7 |
| Other business lines      | 37.5 | 43.9 | 60.4 | 49.8 | 97.9  | 93.7  |
| Total                     | 68.8 | 74.5 | 25.1 | 24.4 | 93.9  | 98.9  |

<sup>(1)</sup> Ratios are calculated using the premiums earned for the respective line of business. Loss ratios by line of business are analyzed in the following table.

|                             | Loss ratio |       | Effect of catastrophe losses |      | Effect of prior year reserve reestimates |       | Effect of catastrophe losses included in prior year reserve reestimates |       |
|-----------------------------|------------|-------|------------------------------|------|------------------------------------------|-------|-------------------------------------------------------------------------|-------|
|                             | 2017       | 2016  | 2017                         | 2016 | 2017                                     | 2016  | 2017                                                                    | 2016  |
| Three months ended June 30, |            |       |                              |      |                                          |       |                                                                         |       |
| Auto                        | 70.5       | 76.6  | 4.2                          | 4.1  | (1.2)                                    | (0.8) | —                                                                       | (0.1) |
| Homeowners                  | 75.3       | 74.8  | 38.4                         | 38.3 | (1.0)                                    | 1.1   | —                                                                       | 1.0   |
| Other personal lines        | 62.8       | 64.5  | 13.9                         | 15.6 | (0.7)                                    | (1.7) | (0.5)                                                                   | —     |
| Commercial lines            | 72.9       | 106.3 | 1.7                          | 9.5  | (1.7)                                    | 18.1  | (0.9)                                                                   | 0.8   |
| Other business lines        | 38.0       | 45.1  | —                            | —    | —                                        | —     | —                                                                       | —     |
| Total                       | 70.6       | 75.4  | 12.7                         | 12.9 | (1.1)                                    | —     | —                                                                       | 0.3   |

|                           |      |      |      |      |       |       |       |     |
|---------------------------|------|------|------|------|-------|-------|-------|-----|
| Six months ended June 30, |      |      |      |      |       |       |       |     |
| Auto                      | 68.5 | 76.0 | 2.8  | 3.5  | (1.5) | (0.3) | (0.1) | —   |
| Homeowners                | 73.0 | 72.9 | 36.2 | 36.2 | (1.3) | 0.3   | —     | 0.3 |
| Other Personal lines      | 64.1 | 65.4 | 14.2 | 15.8 | 0.4   | (1.6) | 0.6   | —   |
| Commercial lines          | 74.9 | 99.2 | 3.7  | 8.2  | —     | 16.8  | —     | 1.6 |
| Other business lines      | 37.5 | 43.9 | —    | —    | —     | —     | —     | —   |
| Total                     | 68.8 | 74.5 | 11.2 | 12.1 | (1.3) | 0.1   | —     | 0.1 |

Auto loss ratio decreased 6.1 points in the second quarter of 2017 compared to the second quarter of 2016, due to increased premiums earned, lower claim frequency and higher favorable prior year reserve reestimates. Auto loss ratio decreased 7.5 points in the first six months of 2017 compared to the first six months of 2016, due to increased premiums earned, lower claim frequency, higher favorable prior year reserve reestimates and lower catastrophe losses. The auto loss ratio for the first six months of 2017 has benefited from lower weather related accidents and lower claim frequency during first quarter 2017 and continued improved claim frequency in second quarter 2017.

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

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

Paid claim frequency is calculated as annualized notice counts closed with payment in the period divided by the average of policies in force with the applicable coverage during the period. Gross claim frequency is calculated as annualized notice counts received in the period divided by the average of policies in force with the applicable coverage during the period. Gross claim frequency includes all actual notice counts, regardless of their current status (open or closed) or their ultimate disposition (closed with a payment or closed without payment). Frequency statistics exclude counts associated with catastrophe events. The percent change in paid or gross claim frequency is calculated as the amount of increase or decrease in the paid or gross claim frequency in the current period compared to the same period in the prior year; divided by the prior year paid or gross claim frequency.

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

Paid claim severity is calculated by dividing the sum of paid losses and loss expenses by claims closed with a payment during the period. The percent change in paid claim severity is calculated as the amount of increase or decrease in paid claim severity in the current period compared to the same period in the prior year; divided by the prior year paid claims severity.

Claims is operating in a continuous improvement environment, actively focusing on effective loss cost management, process efficiency and leveraging emerging technologies to enhance the customer experience. The aim is to ensure a fast, fair and easy claims experience. We have been simplifying and streamlining the claim handling process using leading technology, self-servicing capabilities and electronic payments. We will continue to expand our capabilities. We have opened two Digital Operating Centers to handle auto claims countrywide utilizing our virtual estimation capabilities, which includes estimating damage through photos with the use of QuickFoto Claim® and Virtual Assist<sup>SM</sup> (video chat technology used to review supplemental damage with auto body shops). We are assessing wind and hail property claims through the use of drones, piloted airplanes and satellite imagery. Additionally, we launched Quick Card Pay in late 2016, which is an immediate payment via deposit to debit cards. We are continuing to aggressively seek new technology and process solutions to provide strong loss cost accuracy, efficient processes and customer experiences that are simple, fast and produce high degrees of satisfaction. While these claims organizational and process changes are occurring, frequency and severity statistics may be impacted as changes in claim opening and closing practices, if any, can impact comparisons to prior periods.

Property damage paid claim frequency decreased 3.4% and 3.3% in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. 42 states experienced a year over year decrease in property damage paid claim frequency in second quarter 2017 when compared to second quarter 2016. Property damage paid claim severities increased 1.6% and 3.2% in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. The second quarter 2017 property damage paid claim severity trend is being impacted by claims process changes involving QuickFoto Claim and Virtual Assist (video chat technology), which impacts the timing of claim payments.

Bodily injury gross claim frequency decreased 4.7% and 5.4% in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. Bodily injury paid claim frequency decreased 23.7% and 22.1% while bodily injury paid claim severity increased 28.3% and 26.6% in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. These changes are related and reflect payment mix and claim closure patterns that were impacted by changes in bodily injury claim processes in the second half of 2016 related to enhanced documentation of injuries and related medical treatments. Paid claim severity was impacted by a reduced number of claims opened and a change in the mix of paid claims toward a higher proportion of larger severity payments and increases in medical inflationary trends that were offset by improvements in loss cost management.

Homeowners loss ratio increased 0.5 points and 0.1 points in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016, primarily due to higher catastrophe losses and increased claim frequency, partially offset by increased premiums earned and favorable prior year reserve reestimates. Paid claim frequency excluding catastrophe losses increased 7.1% and 4.7% in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. Paid claim severity excluding catastrophe losses decreased 0.2% and increased 1.9% in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. Homeowner paid claim severity was impacted by both the mix of perils and the magnitude of specific losses paid during the quarter.

Other personal lines loss ratio decreased 1.7 points and 1.3 points in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016, primarily due to increased premiums earned and lower catastrophe losses.

The Allstate Corporation 67

---

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

Commercial lines loss ratio decreased 33.4 points and 24.3 points in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016, primarily due to favorable reserve reestimates compared to unfavorable reserve reestimates in prior year, lower catastrophe losses and lower claim frequency.

Catastrophe losses were \$917 million and \$1.62 billion in the second quarter and first six months of 2017, respectively, compared to \$913 million and \$1.70 billion in the second quarter and first six months of 2016, respectively.

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

|                                     | Three months ended June 30, 2017 |      | Six months ended June 30, 2016 |      |
|-------------------------------------|----------------------------------|------|--------------------------------|------|
|                                     | 2017                             | 2016 | 2017                           | 2016 |
| Auto                                | 25.3                             | 24.6 | 24.7                           | 24.1 |
| Homeowners                          | 21.9                             | 22.2 | 22.4                           | 22.3 |
| Other personal lines                | 28.0                             | 26.7 | 27.8                           | 26.5 |
| Commercial lines                    | 28.8                             | 27.6 | 27.6                           | 28.5 |
| Other business lines <sup>(1)</sup> | 59.9                             | 52.1 | 60.4                           | 49.8 |
| Total expense ratio                 | 25.4                             | 24.7 | 25.1                           | 24.4 |

Increases in the second quarter and first six months of 2017 compared to the same periods of 2016 are primarily <sup>(1)</sup> due to Allstate Roadside Services increase in strategic investments in the Good Hands Rescue Network and Allstate Dealer Services increase in employee-related and technology costs.

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

|                                   | Three months ended June 30, 2017 |      | Six months ended June 30, 2016 |      |
|-----------------------------------|----------------------------------|------|--------------------------------|------|
|                                   | 2017                             | 2016 | 2017                           | 2016 |
| Amortization of DAC               | 14.3                             | 14.0 | 14.2                           | 14.0 |
| Advertising expense               | 1.8                              | 2.2  | 1.9                            | 1.9  |
| Other costs and expenses          | 8.7                              | 8.4  | 8.6                            | 8.4  |
| Restructuring and related charges | 0.6                              | 0.1  | 0.4                            | 0.1  |
| Total expense ratio               | 25.4                             | 24.7 | 25.1                           | 24.4 |

Expense ratio increased 0.7 points in both the second quarter and first six months of 2017 compared to the same periods of 2016. During the second quarter of 2017, as a result of increased efficiencies and improvements in technology, including the expansion of virtual estimating capabilities through QuickFoto Claim and Virtual Assist (video chat technology), Allstate brand reorganized certain claims functions and recognized restructuring and related charges. Changes relate to advances in the claims handling process to further enhance the claims customer experience and reduce cycle times, which also reduced expenses involved in the claim processes. The increases in the expense ratio due to restructuring were 0.5 points in the second quarter of 2017 compared to the second quarter of 2016, and 0.3 points in the first six months of 2017 compared to the first six months of 2016. Amortization of DAC primarily includes agent remuneration and premium taxes. Allstate agency total incurred base commissions, variable compensation and bonuses in the second quarter and first six months of 2017 were higher than the same periods of 2016.

## Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

## Esurance brand

Underwriting results are shown in the following table.

| (\$ in millions)                  | Three months |         | Six months |         |
|-----------------------------------|--------------|---------|------------|---------|
|                                   | ended June   |         | ended June |         |
|                                   | 30,          | 30,     | 30,        | 30,     |
|                                   | 2017         | 2016    | 2017       | 2016    |
| Premiums written                  | \$408        | \$392   | \$865      | \$844   |
| Premiums earned                   | \$429        | \$415   | \$848      | \$819   |
| Claims and claims expense         | (346 )       | (319 )  | (660 )     | (613 )  |
| Amortization of DAC               | (10 )        | (10 )   | (20 )      | (20 )   |
| Other costs and expenses          | (98 )        | (123 )  | (201 )     | (248 )  |
| Restructuring and related charges | (1 )         | —       | (3 )       | —       |
| Underwriting loss                 | \$(26 )      | \$(37 ) | \$(36 )    | \$(62 ) |
| Catastrophe losses                | \$24         | \$14    | \$32       | \$17    |

## Underwriting income (loss) by line of business

|                      |         |         |         |         |
|----------------------|---------|---------|---------|---------|
| Auto                 | \$(13 ) | \$(12 ) | \$(17 ) | \$(30 ) |
| Homeowners           | (13 )   | (25 )   | (20 )   | (32 )   |
| Other personal lines | —       | —       | 1       | —       |
| Underwriting loss    | \$(26 ) | \$(37 ) | \$(36 ) | \$(62 ) |

The following table summarizes the changes in underwriting results from the prior year by the components of the increase (decrease) in underwriting income (loss). The 2017 columns present changes in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. The 2016 columns present changes in the second quarter and first six months of 2016, respectively, compared to the same periods of 2015.

| (\$ in millions)                                                      | Three months |         | Six months |          |
|-----------------------------------------------------------------------|--------------|---------|------------|----------|
|                                                                       | ended June   |         | ended June |          |
|                                                                       | 30,          | 30,     | 30,        | 30,      |
|                                                                       | 2017         | 2016    | 2017       | 2016     |
| Underwriting income (loss) - prior period                             | \$(37 )      | \$(41 ) | \$(62 )    | \$(110 ) |
| Changes in underwriting income (loss) from:                           |              |         |            |          |
| Increase (decrease) premiums earned                                   | 14           | 13      | 29         | 30       |
| (Increase) decrease incurred claims and claims expense ("losses"):    |              |         |            |          |
| Incurred losses, excluding catastrophe losses and reserve reestimates | (13 )        | (10 )   | (24 )      | (2 )     |
| Catastrophe losses, excluding reserve reestimates                     | (11 )        | (6 )    | (16 )      | (9 )     |
| Non-catastrophe reserve reestimates                                   | (4 )         | 1       | (8 )       | 1        |
| Catastrophe reserve reestimates                                       | 1            | —       | 1          | —        |
| Losses subtotal                                                       | (27 )        | (15 )   | (47 )      | (10 )    |
| (Increase) decrease expenses                                          | 24           | 6       | 44         | 28       |
| Underwriting income (loss) - current period                           | \$(26 )      | \$(37 ) | \$(36 )    | \$(62 )  |

Underwriting loss totaled \$26 million in the second quarter of 2017, an improvement from \$37 million in the second quarter of 2016 and \$36 million in the first six months of 2017, compared to \$62 million in the first six months of 2016. The improvements in both periods were primarily due to increased premiums earned and decreased homeowners marketing and amortization of purchased intangible assets, partially offset by higher catastrophe losses and lower favorable reserve reestimates.

We are focused on improving our results through profit improvement actions that include rate increases, underwriting guideline adjustments, and decreased homeowners marketing while enhancing processes and operations to improve the customer experience.





## Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

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

| (\$ in millions)     | Three months ended June 30, |       | Six months ended June 30, |       |
|----------------------|-----------------------------|-------|---------------------------|-------|
|                      | 2017                        | 2016  | 2017                      | 2016  |
| Premiums written     |                             |       |                           |       |
| Auto                 | \$386                       | \$376 | \$825                     | \$815 |
| Homeowners           | 20                          | 14    | 36                        | 25    |
| Other personal lines | 2                           | 2     | 4                         | 4     |
| Total                | \$408                       | \$392 | \$865                     | \$844 |
| Premiums earned      |                             |       |                           |       |
| Auto                 | \$411                       | \$403 | \$814                     | \$797 |
| Homeowners           | 16                          | 10    | 30                        | 18    |
| Other personal lines | 2                           | 2     | 4                         | 4     |
| Total                | \$429                       | \$415 | \$848                     | \$819 |

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

|                                                     | Three months ended June 30, |       | Six months ended June 30, |       |
|-----------------------------------------------------|-----------------------------|-------|---------------------------|-------|
|                                                     | 2017                        | 2016  | 2017                      | 2016  |
| PIF (thousands)                                     | 1,388                       | 1,409 | 1,388                     | 1,409 |
| New issued applications (thousands)                 | 120                         | 141   | 263                       | 309   |
| Average premium                                     | \$564                       | \$538 | \$568                     | \$543 |
| Renewal ratio (%)                                   | 81.9                        | 80.0  | 81.1                      | 79.8  |
| Approved rate changes <sup>(1)</sup> :              |                             |       |                           |       |
| # of locations <sup>(2)</sup>                       | 12                          | 15    | 19                        | 21    |
| Total brand (%) <sup>(3)</sup>                      | 1.7                         | 1.3   | 2.4                       | 1.6   |
| Location specific (%) <sup>(4)</sup> <sup>(5)</sup> | 5.6                         | 5.6   | 5.5                       | 4.6   |

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

(1) pursued. Rate changes do not include rating plan enhancements, including the introduction of discounts and surcharges that result in no change in the overall rate level in a location. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a location.

(2) Esurance brand operates in 43 states and 2 Canadian provinces.

(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.

Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for

(5) auto totaled \$28 million and \$39 million in the three and six months ended June 30, 2017, respectively, compared to \$21 million and \$25 million in the three and six months ended June 30, 2016, respectively.

Esurance brand auto premiums written totaled \$386 million in the second quarter of 2017, a 2.7% increase from \$376 million in the second quarter of 2016, \$825 million in the first six months of 2017, a 1.2% increase from \$815 million in the first six months of 2016. Factors impacting premiums written were the following:

- 1.5% or 21 thousand decrease in PIF as of June 30, 2017 compared to June 30, 2016.

- 14.9% decrease in new issued applications in both the second quarter and first six months of 2017 compared to the same periods of 2016, primarily due to the impact of rate increases and marketing spending reductions.

-

4.8% and 4.6% increase in average premium in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016.

1.9 point and 1.3 point increase in the renewal ratio in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016.

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

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

|                                        | Three months ended June 30, |       | Six months ended June 30, |       |
|----------------------------------------|-----------------------------|-------|---------------------------|-------|
|                                        | 2017                        | 2016  | 2017                      | 2016  |
| PIF (thousands)                        | 69                          | 44    | 69                        | 44    |
| New issued applications (thousands)    | 9                           | 11    | 17                        | 18    |
| Average premium                        | \$910                       | \$855 | \$915                     | \$870 |
| Renewal ratio (%) <sup>(1)</sup>       | 86.1                        | 83.9  | 85.1                      | 83.0  |
| Approved rate changes <sup>(2)</sup> : |                             |       |                           |       |
| # of locations <sup>(3)</sup>          | —                           | N/A   | —                         | N/A   |
| Total brand (%)                        | —                           | N/A   | —                         | N/A   |
| Location specific (%)                  | —                           | N/A   | —                         | N/A   |

Esurance's renewal ratios exclude the impact of risk related cancellations. 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.

<sup>(2)</sup> Includes rate changes approved based on our net cost of reinsurance.

<sup>(3)</sup> Esurance brand operates in 31 states and 2 Canadian provinces.

N/A reflects not applicable.

Homeowners insurance premiums written totaled \$20 million in the second quarter of 2017 compared to \$14 million in the second quarter of 2016, and \$36 million in the first six months of 2017 compared to \$25 million in the first six months of 2016. Factors impacting premiums written were the following:

• 25 thousand increase in PIF as of June 30, 2017 compared to June 30, 2016.

• 18.2% and 5.6% decrease in new issued applications in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016.

• 6.4% and 5.2% increase in average premium in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016, primarily due to rate changes. As of June 30, 2017, Esurance is writing homeowners insurance in 31 states with lower hurricane risk, contributing to lower average premium.

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

|                             | Loss ratio <sup>(1)</sup> |       | Expense ratio <sup>(1)</sup> |       | Combined ratio <sup>(1)</sup> |       |
|-----------------------------|---------------------------|-------|------------------------------|-------|-------------------------------|-------|
|                             | 2017                      | 2016  | 2017                         | 2016  | 2017                          | 2016  |
| Three months ended June 30, |                           |       |                              |       |                               |       |
| Auto                        | 78.9                      | 76.4  | 24.3                         | 26.6  | 103.2                         | 103.0 |
| Homeowners                  | 131.3                     | 100.0 | 50.0                         | 250.0 | 181.3                         | 350.0 |
| Total                       | 80.7                      | 76.9  | 25.4                         | 32.0  | 106.1                         | 108.9 |
| Six months ended June 30,   |                           |       |                              |       |                               |       |
| Auto                        | 76.7                      | 74.9  | 25.4                         | 28.9  | 102.1                         | 103.8 |
| Homeowners                  | 113.4                     | 77.8  | 53.3                         | 200.0 | 166.7                         | 277.8 |
| Total                       | 77.8                      | 74.9  | 26.4                         | 32.7  | 104.2                         | 107.6 |

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

Edgar Filing: ALLSTATE CORP - Form 10-Q

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

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

|                             | Loss ratio |       | Effect of catastrophe losses |      | Effect of prior year reserve reestimates |       | Effect of catastrophe losses included in prior year reserve reestimates |      |
|-----------------------------|------------|-------|------------------------------|------|------------------------------------------|-------|-------------------------------------------------------------------------|------|
|                             | 2017       | 2016  | 2017                         | 2016 | 2017                                     | 2016  | 2017                                                                    | 2016 |
| Three months ended June 30, |            |       |                              |      |                                          |       |                                                                         |      |
| Auto                        | 78.9       | 76.4  | 3.6                          | 2.2  | 0.3                                      | (1.0) | —                                                                       | —    |
| Homeowners                  | 131.3      | 100.0 | 56.3                         | 50.0 | (6.3)                                    | —     | (6.3)                                                                   | ) —  |
| Total                       | 80.7       | 76.9  | 5.6                          | 3.4  | (0.2)                                    | (1.0) | (0.2)                                                                   | ) —  |

Six months ended June 30,

|            |       |      |      |      |       |       |       |     |
|------------|-------|------|------|------|-------|-------|-------|-----|
| Auto       | 76.7  | 74.9 | 2.4  | 1.4  | 0.1   | (1.0) | —     | —   |
| Homeowners | 113.4 | 77.8 | 43.4 | 33.4 | (3.3) | —     | (3.3) | ) — |
| Total      | 77.8  | 74.9 | 3.7  | 2.1  | (0.1) | (1.0) | (0.1) | ) — |

Auto loss ratio increased 2.5 points and 1.8 points in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016, primarily due to higher catastrophe losses and unfavorable prior year reserve reestimates compared to favorable prior year reserve reestimates in 2016.

Catastrophe losses were \$24 million and \$32 million in the second quarter and first six months of 2017, respectively, compared to \$14 million and \$17 million in the second quarter and first six months of 2016, respectively. As Esurance increases its homeowners business, we are exposed to more catastrophe losses.

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

|                      | Three months ended June 30, 2017 |       | Six months ended June 30, 2016 |       |
|----------------------|----------------------------------|-------|--------------------------------|-------|
|                      | 2017                             | 2016  | 2017                           | 2016  |
| Auto                 | 24.3                             | 26.6  | 25.4                           | 28.9  |
| Homeowners           | 50.0                             | 250.0 | 53.3                           | 200.0 |
| Other personal lines | 50.0                             | 50.0  | 25.0                           | 50.0  |
| Total expense ratio  | 25.4                             | 32.0  | 26.4                           | 32.7  |

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

|                                             | Three months ended June 30, 2017 |      | Six months ended June 30, 2016 |      |
|---------------------------------------------|----------------------------------|------|--------------------------------|------|
|                                             | 2017                             | 2016 | 2017                           | 2016 |
| Amortization of DAC                         | 2.4                              | 2.4  | 2.3                            | 2.4  |
| Advertising expense                         | 8.6                              | 12.2 | 8.6                            | 12.0 |
| Amortization of purchased intangible assets | —                                | 1.7  | 0.1                            | 1.6  |
| Other costs and expenses                    | 14.2                             | 15.7 | 15.0                           | 16.7 |
| Restructuring and related charges           | 0.2                              | —    | 0.4                            | —    |
| Total expense ratio                         | 25.4                             | 32.0 | 26.4                           | 32.7 |

Expense ratio decreased 6.6 points and 6.3 points in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. Esurance uses a direct distribution model, therefore its primary acquisition-related costs are advertising as opposed to commissions. Esurance advertising expense ratio decreased 3.6 points and 3.4 points in the second quarter and first six months of 2017, respectively, compared to the same periods of

2016 primarily due to reductions in homeowners marketing spending.

Other costs and expenses, including salaries of telephone sales personnel and other underwriting costs related to customer acquisition, were lower in the second quarter and first six months of 2017 compared to the same periods of 2016. Expense ratio includes amortization of purchased intangible assets from the original acquisition in 2011. Starting in 2017, the portion of the remaining purchased intangible asset related to the Esurance brand name was classified as an infinite-lived intangible and is no longer being amortized, but instead tested for impairment on an annual basis. During the first half of 2017, Esurance reorganized, realigned and regionalized certain departments to improve business performance and the customer experience. The costs associated with this change have been recorded as restructuring and related expenses.

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

Encompass brand

Underwriting results are shown in the following table.

| (\$ in millions)                  | Three months<br>ended June<br>30,<br>2017 |         | Six months<br>ended June<br>30,<br>2016 |         |
|-----------------------------------|-------------------------------------------|---------|-----------------------------------------|---------|
| Premiums written                  | \$285                                     | \$315   | \$521                                   | \$578   |
| Premiums earned                   | \$274                                     | \$304   | \$557                                   | \$613   |
| Claims and claims expense         | (199 )                                    | (231 )  | (432 )                                  | (470 )  |
| Amortization of DAC               | (51 )                                     | (57 )   | (103 )                                  | (114 )  |
| Other costs and expenses          | (31 )                                     | (30 )   | (62 )                                   | (61 )   |
| Restructuring and related charges | (5 )                                      | (1 )    | (5 )                                    | (1 )    |
| Underwriting loss                 | \$(12 )                                   | \$(15 ) | \$(45 )                                 | \$(33 ) |
| Catastrophe losses                | \$52                                      | \$34    | \$119                                   | \$75    |

Underwriting income (loss) by line of business

|                      |         |         |         |         |
|----------------------|---------|---------|---------|---------|
| Auto                 | \$(8 )  | \$(17 ) | \$(9 )  | \$(26 ) |
| Homeowners           | (10 )   | —       | (38 )   | 3       |
| Other personal lines | 6       | 2       | 2       | (10 )   |
| Underwriting loss    | \$(12 ) | \$(15 ) | \$(45 ) | \$(33 ) |

The following table summarizes the changes in underwriting results from the prior year by the components of the increase (decrease) in underwriting income (loss). The 2017 columns present changes in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. The 2016 columns present changes in the second quarter and first six months of 2016, respectively, compared to the same periods of 2015.

| (\$ in millions)                                                      | Three<br>months<br>ended June<br>30,<br>2017 |        | Six months<br>ended June<br>30,<br>2016 |        |
|-----------------------------------------------------------------------|----------------------------------------------|--------|-----------------------------------------|--------|
| Underwriting income (loss) - prior period                             | \$(15)                                       | \$(50) | \$(33)                                  | \$(36) |
| Changes in underwriting loss from:                                    |                                              |        |                                         |        |
| Increase (decrease) premiums earned                                   | (30 )                                        | (14 )  | (56 )                                   | (24 )  |
| (Increase) decrease incurred claims and claims expense ("losses"):    |                                              |        |                                         |        |
| Incurred losses, excluding catastrophe losses and reserve reestimates | 41                                           | 18     | 64                                      | 30     |
| Catastrophe losses, excluding reserve reestimates                     | (18 )                                        | 22     | (43 )                                   | 5      |
| Non-catastrophe reserve reestimates                                   | 9                                            | (1 )   | 18                                      | (18 )  |
| Catastrophe reserve reestimates                                       | —                                            | 3      | (1 )                                    | (1 )   |
| Losses subtotal                                                       | 32                                           | 42     | 38                                      | 16     |
| (Increase) decrease expenses                                          | 1                                            | 7      | 6                                       | 11     |
| Underwriting income (loss) - current period                           | \$(12)                                       | \$(15) | \$(45)                                  | \$(33) |

Underwriting loss totaled \$12 million in the second quarter of 2017 compared to \$15 million in the second quarter of 2016, primarily due to the improvement in auto underwriting losses resulting from decreased loss costs and favorable prior year reserve reestimates. Underwriting loss totaled \$45 million in the first six months of 2017, a 36.4% increase from a \$33 million loss in the first six months of 2016, primarily due to homeowners underwriting losses resulting from decreased premiums earned and higher catastrophe losses.

Our underwriting results were impacted by profit improvement actions that are being implemented in states with inadequate returns, while targeted growth plans are being focused on states with adequate returns. These actions are tailored based on geography and include higher rates, enhanced pricing and underwriting sophistication, adopting best

in class underwriting and claim processes, enhanced product analytics, and a focus on geographic presence and product distribution. We have implemented actions to improve profitability in states with inadequate returns, including announcing exiting operations in Massachusetts in second quarter 2017. These actions have led to a reduction of PIF, new issued applications, and the renewal ratio compared to prior year for both auto and homeowners.

The Allstate Corporation 73

---

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

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

| (\$ in millions)     | Three months ended June 30, |       | Six months ended June 30, |       |
|----------------------|-----------------------------|-------|---------------------------|-------|
|                      | 2017                        | 2016  | 2017                      | 2016  |
| Premiums written     |                             |       |                           |       |
| Auto                 | \$148                       | \$162 | \$273                     | \$300 |
| Homeowners           | 112                         | 126   | 203                       | 230   |
| Other personal lines | 25                          | 27    | 45                        | 48    |
| Total                | \$285                       | \$315 | \$521                     | \$578 |
| Premiums earned      |                             |       |                           |       |
| Auto                 | \$143                       | \$158 | \$289                     | \$317 |
| Homeowners           | 108                         | 121   | 221                       | 245   |
| Other personal lines | 23                          | 25    | 47                        | 51    |
| Total                | \$274                       | \$304 | \$557                     | \$613 |

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

|                                          | Three months ended June 30, |       | Six months ended June 30, |       |
|------------------------------------------|-----------------------------|-------|---------------------------|-------|
|                                          | 2017                        | 2016  | 2017                      | 2016  |
| PIF (thousands)                          | 571                         | 676   | 571                       | 676   |
| New issued applications (thousands)      | 13                          | 15    | 25                        | 30    |
| Average premium                          | \$1,065                     | \$988 | \$1,062                   | \$985 |
| Renewal ratio (%)                        | 74.2                        | 75.5  | 73.7                      | 75.8  |
| Approved rate changes <sup>(1)</sup> :   |                             |       |                           |       |
| # of locations <sup>(2)</sup>            | 11                          | 10    | 15                        | 13    |
| Total brand (%) <sup>(3)</sup>           | 2.3                         | 4.1   | 3.7                       | 5.7   |
| Location specific (%) <sup>(4) (5)</sup> | 7.5                         | 9.5   | 7.8                       | 10.5  |

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

- (1) pursued. Rate changes do not include rating plan enhancements, including the introduction of discounts and surcharges that result in no change in the overall rate level in a location. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a location.
- (2) Starting in second quarter 2017, Encompass brand operates in 39 states and the District of Columbia, due to exiting business in North Carolina, which was announced in the first half of 2016.
- (3) Represents the impact in the states and the District of Columbia where rate changes were approved during the period as a percentage of total brand prior year-end premiums written.
- (4) Represents the impact in the states and the District of Columbia where rate changes were approved during the period as a percentage of its respective total prior year-end premiums written in those same locations.

Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled \$14 million and \$22 million in the three and six months ended June 30, 2017, respectively, compared to \$26 million and \$37 million in the three and six months ended June 30, 2016, respectively. Approximately 30% of the Encompass brand rate increases approved in the first half of 2017 are expected to be earned in 2017, with the remainder expected to be earned in 2018 and 2019.

Auto insurance premiums written totaled \$148 million in the second quarter of 2017, an 8.6% decrease from \$162 million in the second quarter of 2016, and \$273 million in the first six months of 2017, a 9.0% decrease from \$300 million in the first six months of 2016. Factors impacting premiums written were the following:

45.5% or 105 thousand decrease in PIF as of June 30, 2017 compared to June 30, 2016.



13.3% and 16.7% decrease in new issued applications in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016.

7.8% increase in average premium in both the second quarter and first six months of 2017 compared to the same periods of 2016.

1.3 point and 2.1 point decrease in the renewal ratio in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. 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.

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

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

|                                        | Three months<br>ended June 30, |         | Six months<br>ended June 30, |         |
|----------------------------------------|--------------------------------|---------|------------------------------|---------|
|                                        | 2017                           | 2016    | 2017                         | 2016    |
| PIF (thousands)                        | 273                            | 318     | 273                          | 318     |
| New issued applications (thousands)    | 8                              | 9       | 15                           | 18      |
| Average premium                        | \$1,667                        | \$1,629 | \$1,664                      | \$1,624 |
| Renewal ratio (%)                      | 78.7                           | 79.9    | 78.5                         | 80.6    |
| Approved rate changes <sup>(1)</sup> : |                                |         |                              |         |
| # of locations <sup>(2)</sup>          | 9                              | 6       | 12                           | 11      |
| Total brand (%)                        | 2.8                            | 1.7     | 3.0                          | 3.1     |
| Location specific (%) <sup>(3)</sup>   | 8.9                            | 8.1     | 8.0                          | 9.4     |

<sup>(1)</sup> Includes rate changes approved based on our net cost of reinsurance.

<sup>(2)</sup> Starting in second quarter 2017, Encompass brand operates in 39 states and the District of Columbia, due to exiting business in North Carolina, which was announced in the first half of 2016.

Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for homeowners totaled \$13 million and \$14 million in the three and six months ended June 30, 2017, respectively, compared to \$9 million and \$16 million in the three and six months ended June 30, 2016, respectively.

Homeowners insurance premiums written totaled \$112 million in the second quarter of 2017, an 11.1% decrease from \$126 million in the second quarter of 2016, and \$203 million in the first six months of 2017, an 11.7% decrease from \$230 million in the first six months of 2016. Factors impacting premiums written were the following:

• 4.2% or 45 thousand decrease in PIF as of June 30, 2017 compared to June 30, 2016.

• 11.1% and 16.7% decrease in new issued applications in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016.

• 2.3% and 2.5% increase in average premium in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016, primarily due to rate changes.

• 1.2 point and 2.1 point decrease in the renewal ratio in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. Encompass sells a high percentage of package policies that include both auto and homeowners; therefore, declines in one product can contribute to declines in the other.

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

|                             | Loss<br>ratio <sup>(1)</sup> |      | Expense<br>ratio <sup>(1)</sup> |      | Combined<br>ratio <sup>(1)</sup> |       |
|-----------------------------|------------------------------|------|---------------------------------|------|----------------------------------|-------|
|                             | 2017                         | 2016 | 2017                            | 2016 | 2017                             | 2016  |
| Three months ended June 30, |                              |      |                                 |      |                                  |       |
| Auto                        | 73.4                         | 82.3 | 32.2                            | 28.5 | 105.6                            | 110.8 |
| Homeowners                  | 77.8                         | 70.2 | 31.5                            | 29.8 | 109.3                            | 100.0 |
| Other personal lines        | 43.5                         | 64.0 | 30.4                            | 28.0 | 73.9                             | 92.0  |
| Total                       | 72.6                         | 76.0 | 31.8                            | 28.9 | 104.4                            | 104.9 |
| Six months ended June 30,   |                              |      |                                 |      |                                  |       |
| Auto                        | 72.3                         | 79.8 | 30.8                            | 28.4 | 103.1                            | 108.2 |
| Homeowners                  | 86.9                         | 69.4 | 30.3                            | 29.4 | 117.2                            | 98.8  |
| Other personal lines        | 65.9                         | 92.2 | 29.8                            | 27.4 | 95.7                             | 119.6 |
| Total                       | 77.6                         | 76.7 | 30.5                            | 28.7 | 108.1                            | 105.4 |

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

The Allstate Corporation 75

---

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

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

|                             | Loss ratio |      | Effect of catastrophe losses |      | Effect of prior year reserve reestimates |        | Effect of catastrophe losses included in prior year reserve reestimates |        |
|-----------------------------|------------|------|------------------------------|------|------------------------------------------|--------|-------------------------------------------------------------------------|--------|
|                             | 2017       | 2016 | 2017                         | 2016 | 2017                                     | 2016   | 2017                                                                    | 2016   |
| Three months ended June 30, |            |      |                              |      |                                          |        |                                                                         |        |
| Auto                        | 73.4       | 82.3 | 4.9                          | 1.9  | (0.7 )                                   | 3.2    | (0.7 )                                                                  | (0.6 ) |
| Homeowners                  | 77.8       | 70.2 | 38.9                         | 24.0 | (1.9 )                                   | —      | (1.9 )                                                                  | (0.8 ) |
| Other personal lines        | 43.5       | 64.0 | 13.0                         | 8.0  | (21.7 )                                  | (16.0) | 4.4                                                                     | —      |
| Total                       | 72.6       | 76.0 | 19.0                         | 11.2 | (2.9 )                                   | 0.3    | (0.7 )                                                                  | (0.6 ) |

Six months ended June 30,

|                      |      |      |      |      |        |      |        |        |
|----------------------|------|------|------|------|--------|------|--------|--------|
| Auto                 | 72.3 | 79.8 | 3.8  | 1.6  | (0.3 ) | 2.2  | (0.3 ) | (0.3 ) |
| Homeowners           | 86.9 | 69.4 | 46.6 | 27.4 | 0.5    | 0.4  | —      | 0.4    |
| Other personal lines | 65.9 | 92.2 | 10.6 | 5.9  | (4.3 ) | 13.7 | 2.1    | (2.0 ) |
| Total                | 77.6 | 76.7 | 21.4 | 12.3 | (0.4 ) | 2.4  | —      | (0.2 ) |

Auto loss ratio decreased 8.9 points and 7.5 points in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016, primarily due to lower frequency and severity, and favorable prior year reserve reestimates, partially offset by higher catastrophe losses.

Homeowners loss ratio increased 7.6 points and 17.5 points in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016, primarily due to higher catastrophe losses and decreased premiums earned, partially offset by favorable prior year reserve reestimates in the second quarter of 2017.

Catastrophe losses were \$52 million and \$119 million in the second quarter and first six months of 2017, respectively, compared to \$34 million and \$75 million in the second quarter and first six months of 2016, respectively.

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

|                      | Three months ended June 30, 2017 |      | Six months ended June 30, 2017 |      |
|----------------------|----------------------------------|------|--------------------------------|------|
|                      | 2017                             | 2016 | 2017                           | 2016 |
| Auto                 | 32.2                             | 28.5 | 30.8                           | 28.4 |
| Homeowners           | 31.5                             | 29.8 | 30.3                           | 29.4 |
| Other personal lines | 30.4                             | 28.0 | 29.8                           | 27.4 |
| Total expense ratio  | 31.8                             | 28.9 | 30.5                           | 28.7 |

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

|                                   | Three months ended June 30, 2017 |      | Six months ended June 30, 2017 |      |
|-----------------------------------|----------------------------------|------|--------------------------------|------|
|                                   | 2017                             | 2016 | 2017                           | 2016 |
| Amortization of DAC               | 18.6                             | 18.8 | 18.5                           | 18.6 |
| Advertising expense               | —                                | 0.3  | —                              | 0.2  |
| Other costs and expenses          | 11.4                             | 9.5  | 11.1                           | 9.7  |
| Restructuring and related charges | 1.8                              | 0.3  | 0.9                            | 0.2  |
| Total expense ratio               | 31.8                             | 28.9 | 30.5                           | 28.7 |

Expense ratio increased 2.9 points and 1.8 points in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016. During the second quarter of 2017, Encompass exited certain operations and right-sized certain departments consistent with business volume. The costs associated with these changes have been recorded as restructuring and related charges.

Allstate Protection Allstate brand Esurance brand Encompass brand SquareTrade

## SquareTrade

Underwriting results are shown in the following table.

| (\$ in millions)                            | Three months ended June 30, 2017 | Six months ended June 30, 2017 |
|---------------------------------------------|----------------------------------|--------------------------------|
| Premiums written                            | \$ 85                            | \$ 166                         |
| Premiums earned                             | \$ 70                            | \$ 129                         |
| Claims and claims expense                   | (29 )                            | (65 )                          |
| Amortization of DAC                         | (10 )                            | (18 )                          |
| Other costs and expenses                    | (30 )                            | (57 )                          |
| Amortization of purchased intangible assets | (23 )                            | (46 )                          |
| Underwriting loss                           | \$ (22 )                         | \$ (57 )                       |

SquareTrade was acquired on January 3, 2017 and is focused on providing protection plans covering a wide range of consumer electronic products through retail distribution and mobile operator channels. Under these protection plans, SquareTrade agrees to repair, replace or indemnify the customer for the cost to repair or replace consumer goods from mechanical or electrical failure due to normal wear and tear after expiration of the term of the original manufacturer's warranty and in certain cases, accidental damage from handling. Premium revenue and claims and claims expense are recognized over the term of the protection plans. SquareTrade purchases contractual liability insurance from third party insurance companies to support the settlement of claims in the event SquareTrade is unable to fulfill its contractual obligations under the protection plans. The arrangement results in SquareTrade recognizing the costs for settling claims and the insurer recognizing claims costs only in the event SquareTrade is unable to fulfill its contractual obligation or if claims costs are in excess of pre-determined thresholds. SquareTrade is generally required to deposit amounts expected to cover losses into a trust held for paying claims.

Effective May 1, 2017, Allstate Insurance Company ("AIC") executed a 100% quota share reinsurance agreement with SquareTrade's largest third party insurer to assume the risk on in-force and newly written protection plans. This agreement reduces the premiums SquareTrade pays to its largest insurer and AIC has accepted the underwriting risk of that insurer on in-force and new protection plans. The insurer has not experienced any losses on the contractual liability insurance contract to date. Based on the loss performance through June 30, 2017, AIC does not anticipate recognizing losses under its reinsurance agreement on existing in-force business. In conjunction with this agreement, claims and claims expense benefited by a \$6 million, pre-tax, favorable adjustment for loss experience and Allstate assumed custody for the approximate \$200 million in funds held in trust and earmarked for potential future claim payments. Investment income on these funds will be earned by SquareTrade. SquareTrade's results include the effects of the AIC reinsurance agreement.

Underwriting loss totaled \$22 million and \$57 million in the second quarter and first six months of 2017, respectively, primarily due to \$23 million and \$46 million, respectively, of amortization of purchased intangible assets. In conjunction with the acquisition, we recognized \$555 million of intangible assets for which we anticipate recognizing amortization expense of approximately \$90 million in 2017. Intangible assets are being amortized on an accelerated basis, excluding the SquareTrade brand name which was classified as an infinite-lived intangible and will be tested for impairment on an annual basis, with approximately 75% of the balance expected to be amortized by 2021.

Premiums written increased 4.9% or \$4 million to \$85 million in the second quarter of 2017 from \$81 million in the first quarter of 2017, primarily due to continued growth through our US retail channel. PIF increased by 1.4 million to 31.3 million as of June 30, 2017 compared to 29.9 million as of March 31, 2017.

Claims and claims expense totaled \$29 million and \$65 million in the second quarter and first six months of 2017, respectively, and decreased compared to the first quarter of 2017, despite higher premiums earned, due to the \$6 million favorable adjustment for loss experience.

Other costs and expenses primarily include employee-related costs and professional service fees.

The Allstate Corporation 77

---

## Discontinued

## Discontinued Lines and Coverages Segment

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

Summarized underwriting results are presented in the following table.

|                              | Three months ended |       | Six months ended |       |
|------------------------------|--------------------|-------|------------------|-------|
| (\$ in millions)             | June 30, 2017      |       | June 30, 2016    |       |
| Premiums earned              | \$—                | \$—   | \$—              | \$—   |
| Claims and claims expense    | (3 )               | (2 )  | (5 )             | (3 )  |
| Operating costs and expenses | (2 )               | —     | (2 )             | (1 )  |
| Underwriting loss            | \$(5)              | \$(2) | \$(7)            | \$(4) |

Reserve reestimates are shown in the table below.

|                          | Three months ended |      | Six months ended |      |
|--------------------------|--------------------|------|------------------|------|
| (\$ in millions)         | June 30, 2017      |      | June 30, 2016    |      |
| Asbestos claims          | \$—                | \$—  | \$—              | \$—  |
| Environmental claims     | —                  | —    | —                | —    |
| Other discontinued lines | 3                  | 2    | 5                | 3    |
| Total                    | \$ 3               | \$ 2 | \$ 5             | \$ 3 |

The table below summarizes reserves for asbestos, environmental and other discontinued lines claims before and after the effects of reinsurance.

| (\$ in millions)         | June 30, December 31, |          |
|--------------------------|-----------------------|----------|
|                          | 2017                  | 2016     |
| Asbestos claims          |                       |          |
| Gross reserves           | \$1,286               | \$ 1,356 |
| Reinsurance              | (419 )                | (444 )   |
| Net reserves             | 867                   | 912      |
| Environmental claims     |                       |          |
| Gross reserves           | 202                   | 219      |
| Reinsurance              | (36 )                 | (40 )    |
| Net reserves             | 166                   | 179      |
| Other discontinued lines |                       |          |
| Gross reserves           | 377                   | 378      |
| Reinsurance              | (27 )                 | (25 )    |
| Net reserves             | 350                   | 353      |
| Total                    |                       |          |
| Gross reserves           | 1,865                 | 1,953    |
| Reinsurance              | (482 )                | (509 )   |
| Net reserves             | \$1,383               | \$ 1,444 |

Approximately 48% and 57% of the total net asbestos and environmental reserves as June 30, 2017 and December 31, 2016, respectively, were for incurred but not reported estimated losses. The decrease of \$127 million in incurred but



not reported reserves as of June 30, 2017 from December 31, 2016 relates to settlement agreements reached with several insureds on large claims, primarily related to asbestos losses, resulting in a reclassification between incurred but not reported and case reserves. The decrease in the net reserves as of June 30, 2017 related to on-going payments to insureds.

## Property-Liability Investments

## Property-Liability Investment Results

Net investment income The following table presents net investment income.

| (\$ in millions)                  | Three months ended June 30, |       | Six months ended June 30, |       |
|-----------------------------------|-----------------------------|-------|---------------------------|-------|
|                                   | 2017                        | 2016  | 2017                      | 2016  |
| Fixed income securities           | \$233                       | \$221 | \$459                     | \$444 |
| Equity securities                 | 33                          | 30    | 62                        | 50    |
| Mortgage loans                    | 2                           | 3     | 5                         | 6     |
| Limited partnership interests     | 118                         | 60    | 173                       | 118   |
| Short-term investments            | 4                           | 1     | 8                         | 3     |
| Other                             | 27                          | 23    | 49                        | 43    |
| Investment income, before expense | 417                         | 338   | 756                       | 664   |
| Investment expense                | (26 )                       | (22 ) | (54 )                     | (46 ) |
| Net investment income             | \$391                       | \$316 | \$702                     | \$618 |

Net investment income increased 23.7% or \$75 million to \$391 million in the second quarter of 2017 from \$316 million in the second quarter of 2016, primarily due to higher limited partnership income and increased invested assets. Net investment income increased 13.6% or \$84 million to \$702 million in the first six months of 2017 from \$618 million in the first six months of 2016, primarily due to higher limited partnership income, increased invested assets and higher equity income. Limited partnership income in both periods included private equity value appreciation and distributions related to the sales of underlying investments.

The average pre-tax investment yields were 3.9% and 3.6% in the second quarter and first six months of 2017, compared to 3.5% and 3.4% in the second quarter and first six months of 2016. Quarterly pre-tax yield is calculated as annualized quarterly investment income, before investment expense divided by the average of the current and prior quarter investment balances. Year-to-date pre-tax yield is calculated as annualized year-to-date investment income, before investment expense divided by the average of investment balances at the beginning of the year and the end of each quarter during the year. For the purposes of the pre-tax yield calculation, income for directly held real estate, timber and other consolidated investments is net of investee level expenses (depreciation and asset level operating expenses reported in investment expense). For investments carried at fair value, investment balances exclude unrealized capital gains and losses.

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

| (\$ in millions)                                                  | Three months ended June 30, |        | Six months ended June 30, |        |
|-------------------------------------------------------------------|-----------------------------|--------|---------------------------|--------|
|                                                                   | 2017                        | 2016   | 2017                      | 2016   |
| Impairment write-downs                                            | \$(16)                      | \$(42) | \$(38 )                   | \$(77) |
| Change in intent write-downs                                      | (21 )                       | (12 )  | (34 )                     | (31 )  |
| Net other-than-temporary impairment losses recognized in earnings | (37 )                       | (54 )  | (72 )                     | (108 ) |
| Sales and other                                                   | 126                         | 82     | 306                       | 41     |
| Valuation and settlements of derivative instruments               | (4 )                        | (2 )   | (14 )                     | (6 )   |
| Realized capital gains and losses, pre-tax                        | 85                          | 26     | 220                       | (73 )  |
| Income tax (expense) benefit                                      | (29 )                       | (8 )   | (75 )                     | 27     |
| Realized capital gains and losses, after-tax                      | \$56                        | \$18   | \$145                     | \$(46) |

Realized capital gains in the second quarter and the first six months of 2017, primarily relate to net gains on sales, partially offset by impairment and change in intent write-downs.



## Allstate Financial Allstate Life Allstate Benefits Allstate Annuities

## Allstate Financial Highlights

Net income applicable to common shareholders was \$146 million and \$254 million in the second quarter and first six months of 2017, respectively, compared to \$116 million and \$184 million in the second quarter and first six months of 2016, respectively.

Premiums and contract charges totaled \$591 million in the second quarter of 2017, an increase of 4.8% from \$564 million in the second quarter of 2016, and \$1.18 billion in the first six months of 2017, an increase of 4.8% from \$1.13 billion in the first six months of 2016.

Investments totaled \$36.46 billion as of June 30, 2017, reflecting a decrease of \$384 million from \$36.84 billion as of December 31, 2016. Net investment income increased 14.0% to \$496 million in the second quarter of 2017 and 8.0% to \$922 million in the first six months of 2017 from \$435 million and \$854 million in the second quarter and first six months of 2016, respectively.

Net realized capital losses totaled \$4 million and \$5 million in the second quarter and first six months of 2017, respectively, compared to zero and \$49 million in the second quarter and first six months of 2016, respectively.

Contractholder funds totaled \$19.83 billion as of June 30, 2017, reflecting a decrease of \$428 million from \$20.26 billion as of December 31, 2016.

## Allstate Financial Segment

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

| (\$ in millions)                             | Three months ended June 30, |        | Six months ended June 30, |          |
|----------------------------------------------|-----------------------------|--------|---------------------------|----------|
|                                              | 2017                        | 2016   | 2017                      | 2016     |
| Revenues                                     |                             |        |                           |          |
| Premiums and contract charges                | \$591                       | \$564  | \$1,184                   | \$1,130  |
| Net investment income                        | 496                         | 435    | 922                       | 854      |
| Realized capital gains and losses            | (4 )                        | —      | (5 )                      | (49 )    |
| Total revenues                               | 1,083                       | 999    | 2,101                     | 1,935    |
| Costs and expenses                           |                             |        |                           |          |
| Contract benefits                            | (486 )                      | (454 ) | (960 )                    | (909 )   |
| Interest credited to contractholder funds    | (175 )                      | (185 ) | (348 )                    | (375 )   |
| Amortization of DAC                          | (73 )                       | (69 )  | (152 )                    | (142 )   |
| Operating costs and expenses                 | (130 )                      | (121 ) | (265 )                    | (244 )   |
| Restructuring and related charges            | (1 )                        | (1 )   | (1 )                      | (1 )     |
| Total costs and expenses                     | (865 )                      | (830 ) | (1,726 )                  | (1,671 ) |
| Gain on disposition of operations            | 2                           | 1      | 4                         | 3        |
| Income tax expense                           | (74 )                       | (54 )  | (125 )                    | (83 )    |
| Net income applicable to common shareholders | \$146                       | \$116  | \$254                     | \$184    |
| Life insurance                               | \$65                        | \$67   | \$125                     | \$126    |
| Accident and health insurance                | 20                          | 23     | 39                        | 41       |
| Annuities and institutional products         | 61                          | 26     | 90                        | 17       |
| Net income applicable to common shareholders | \$146                       | \$116  | \$254                     | \$184    |
| Allstate Life                                | \$60                        | \$61   | \$117                     | \$118    |
| Allstate Benefits                            | 25                          | 29     | 47                        | 49       |
| Allstate Annuities                           | 61                          | 26     | 90                        | 17       |
| Net income applicable to common shareholders | \$146                       | \$116  | \$254                     | \$184    |

Investments as of June 30

\$36,456 \$37,760

We are evaluating a plan to adopt a new segment reporting structure in the fourth quarter of 2017. Please see the Overview section at the beginning of Item 2 of this Form 10-Q for further information.

80 [www.allstate.com](http://www.allstate.com)

---

## Allstate Financial Allstate Life Allstate Benefits Allstate Annuities

## Allstate Life

Summarized financial data is presented in the following table.

| (\$ in millions)                             | Three months<br>ended June<br>30, |        | Six months<br>ended June<br>30, |        |
|----------------------------------------------|-----------------------------------|--------|---------------------------------|--------|
|                                              | 2017                              | 2016   | 2017                            | 2016   |
| Revenues                                     |                                   |        |                                 |        |
| Premiums and contract charges                | \$319                             | \$310  | \$640                           | \$622  |
| Net investment income                        | 123                               | 118    | 243                             | 238    |
| Realized capital gains and losses            | 1                                 | (3 )   | 2                               | (15 )  |
| Total revenues                               | 443                               | 425    | 885                             | 845    |
| Costs and expenses                           |                                   |        |                                 |        |
| Contract benefits                            | (187 )                            | (177 ) | (382 )                          | (357 ) |
| Interest credited to contractholder funds    | (71 )                             | (71 )  | (140 )                          | (141 ) |
| Amortization of DAC                          | (39 )                             | (34 )  | (75 )                           | (67 )  |
| Operating costs and expenses                 | (58 )                             | (54 )  | (117 )                          | (110 ) |
| Restructuring and related charges            | —                                 | (1 )   | —                               | (1 )   |
| Total costs and expenses                     | (355 )                            | (337 ) | (714 )                          | (676 ) |
| Income tax expense                           | (28 )                             | (27 )  | (54 )                           | (51 )  |
| Net income applicable to common shareholders | \$60                              | \$61   | \$117                           | \$118  |

Policies in force as of June 30 (in thousands) 2,020 2,022

Net income applicable to common shareholders was \$60 million in the second quarter of 2017 compared to \$61 million in the second quarter of 2016. The decrease was primarily due to higher contract benefits and amortization of DAC, partially offset by higher premiums and contract charges and net investment income. Net income applicable to common shareholders was \$117 million in the first six months of 2017 compared to \$118 million in the first six months of 2016. The decrease was primarily due to higher contract benefits, amortization of DAC and operating costs and expenses, partially offset by higher premiums and contract charges and net realized capital gains in the first six months of 2017 compared to net realized capital losses in the first six months of 2016.

The following table summarizes premiums and contract charges by product.

| (\$ in millions)                                   | Three<br>months<br>ended June<br>30, |       | Six months<br>ended June<br>30, |       |
|----------------------------------------------------|--------------------------------------|-------|---------------------------------|-------|
|                                                    | 2017                                 | 2016  | 2017                            | 2016  |
| Traditional life insurance premiums                | \$139                                | \$130 | \$279                           | \$260 |
| Accident and health insurance premiums             | 1                                    | 1     | 1                               | 1     |
| Interest-sensitive life insurance contract charges | 179                                  | 179   | 360                             | 361   |
| Premiums and contract charges <sup>(1)</sup>       | \$319                                | \$310 | \$640                           | \$622 |

(1) Contract charges related to the cost of insurance totaled \$123 million and \$122 million for the second quarter of 2017 and 2016, respectively, and \$247 million for both the first six months of 2017 and 2016.

Premiums and contract charges increased 2.9% or \$9 million in the second quarter of 2017 and 2.9% or \$18 million in the first six months of 2017 compared to the same periods of 2016. The increase in both periods primarily relates to increased traditional life insurance renewal premiums as well as lower levels of reinsurance premiums ceded.

Contract benefits increased 5.6% or \$10 million in the second quarter of 2017 and 7.0% or \$25 million in the first six months of 2017 compared to the same periods of 2016, primarily due to higher life insurance mortality experience. We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and contract benefits (“benefit spread”). Benefit spread of \$76 million in the second quarter of 2017 was comparable to the second quarter of 2016. Benefit spread decreased 4.0% to \$145 million in the first six months of 2017 compared to \$151 million in the first six months of 2016, primarily due to higher life insurance mortality experience, partially offset by higher life insurance premiums.

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 interest credited to contractholder funds (“investment spread”).

The Allstate Corporation 81

---

## Allstate Financial Allstate Life Allstate Benefits Allstate Annuities

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

| (\$ in millions)                                        | Three<br>months<br>ended<br>June 30,<br>2017 | Three<br>months<br>ended<br>June 30,<br>2016 | Six months<br>ended June<br>30,<br>2017 | Six months<br>ended June<br>30,<br>2016 |
|---------------------------------------------------------|----------------------------------------------|----------------------------------------------|-----------------------------------------|-----------------------------------------|
| Life insurance                                          | \$32                                         | \$26                                         | \$61                                    | \$58                                    |
| Accident and health insurance                           | —                                            | 2                                            | 2                                       | 3                                       |
| Net investment income on investments supporting capital | 20                                           | 19                                           | 40                                      | 36                                      |
| Total investment spread                                 | \$52                                         | \$47                                         | \$103                                   | \$97                                    |

Investment spread increased 10.6% or \$5 million in the second quarter of 2017 and 6.2% or \$6 million in the first six months of 2017 compared to the same periods of 2016, due to higher net investment income.

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

| (\$ in millions)                                                                                                 | Three<br>months<br>ended<br>June 30,<br>2017 | Three<br>months<br>ended<br>June 30,<br>2016 | Six<br>months<br>ended<br>June 30,<br>2017 | Six<br>months<br>ended<br>June 30,<br>2016 |
|------------------------------------------------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|--------------------------------------------|--------------------------------------------|
| Amortization of DAC before amortization relating to realized capital gains and losses and changes in assumptions | \$35                                         | \$32                                         | \$67                                       | \$63                                       |
| Amortization relating to realized capital gains and losses <sup>(1)</sup>                                        | 4                                            | 2                                            | 8                                          | 4                                          |
| Amortization acceleration for changes in assumptions (“DAC unlocking”)                                           | —                                            | —                                            | —                                          | —                                          |
| Total amortization of DAC                                                                                        | \$39                                         | \$34                                         | \$75                                       | \$67                                       |

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 14.7% or \$5 million in the second quarter of 2017 and 11.9% or \$8 million in the first six months of 2017 compared to the same periods of 2016. The increase in both periods relates to higher gross profits and net realized capital gains on interest-sensitive life insurance.

Operating costs and expenses increased 7.4% or \$4 million in the second quarter of 2017 and 6.4% or \$7 million in the first six months of 2017 compared to the same periods of 2016, primarily due to higher net Allstate agencies distribution channel expenses reflecting increased regulatory compliance costs and lower fees from sales of third party financial products. The following table summarizes operating costs and expenses.

| (\$ in millions)                    | Three<br>months<br>ended<br>June 30,<br>2017 | Three<br>months<br>ended<br>June 30,<br>2016 | Six months<br>ended June<br>30,<br>2017 | Six months<br>ended June<br>30,<br>2016 |
|-------------------------------------|----------------------------------------------|----------------------------------------------|-----------------------------------------|-----------------------------------------|
| Non-deferrable commissions          | \$3                                          | \$4                                          | \$7                                     | \$9                                     |
| General and administrative expenses | 55                                           | 50                                           | 110                                     | 101                                     |
| Total operating costs and expenses  | \$58                                         | \$54                                         | \$117                                   | \$110                                   |

Analysis of reserves and contractholder funds

The following table summarizes our reserve for life-contingent contract benefits by product.

| (\$ in millions)                              | June 30,<br>2017 | June 30,<br>2016 |
|-----------------------------------------------|------------------|------------------|
| Traditional life insurance                    | \$2,420          | \$2,359          |
| Accident and health insurance                 | 180              | 180              |
| Reserve for life-contingent contract benefits | \$2,600          | \$2,539          |





## Allstate Financial Allstate Life Allstate Benefits Allstate Annuities

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

| (\$ in millions)                                  | Three months<br>ended June 30, |         | Six months<br>ended June 30, |         |
|---------------------------------------------------|--------------------------------|---------|------------------------------|---------|
|                                                   | 2017                           | 2016    | 2017                         | 2016    |
| Contractholder funds, beginning balance           | \$7,497                        | \$7,385 | \$7,464                      | \$7,359 |
| Deposits                                          | 243                            | 245     | 494                          | 498     |
| Interest credited                                 | 70                             | 71      | 140                          | 141     |
| Benefits, withdrawals and other adjustments       |                                |         |                              |         |
| Benefits                                          | (66 )                          | (62 )   | (129 )                       | (121 )  |
| Surrenders and partial withdrawals                | (63 )                          | (62 )   | (128 )                       | (126 )  |
| Contract charges                                  | (176 )                         | (175 )  | (352 )                       | (352 )  |
| Net transfers from separate accounts              | 2                              | 1       | 3                            | 2       |
| Other adjustments <sup>(1)</sup>                  | 7                              | 7       | 22                           | 9       |
| Total benefits, withdrawals and other adjustments | (296 )                         | (291 )  | (584 )                       | (588 )  |
| Contractholder funds, ending balance              | \$7,514                        | \$7,410 | \$7,514                      | \$7,410 |

The table above illustrates the changes in contractholder funds, which are presented gross of reinsurance recoverables on the Condensed Consolidated Statements of Financial Position. The table above is intended to <sup>(1)</sup> supplement our discussion and analysis of revenues, which are presented net of reinsurance on the Condensed Consolidated Statements of Operations. As a result, the net change in contractholder funds associated with products reinsured is reflected as a component of the other adjustments line.

Contractholder deposits decreased 0.8% in both the second quarter and first six months of 2017 compared to the same periods of 2016, primarily due to lower deposits on interest-sensitive life insurance.

## Allstate Financial Allstate Life Allstate Benefits Allstate Annuities

## Allstate Benefits

Summarized financial data is presented in the following table.

| (\$ in millions)                             | Three months ended June 30, |        | Six months ended June 30, |        |
|----------------------------------------------|-----------------------------|--------|---------------------------|--------|
|                                              | 2017                        | 2016   | 2017                      | 2016   |
| <b>Revenues</b>                              |                             |        |                           |        |
| Premiums and contract charges                | \$269                       | \$251  | \$538                     | \$502  |
| Net investment income                        | 19                          | 18     | 36                        | 36     |
| Realized capital gains and losses            | —                           | —      | —                         | (5 )   |
| Total revenues                               | 288                         | 269    | 574                       | 533    |
| <b>Costs and expenses</b>                    |                             |        |                           |        |
| Contract benefits                            | (143 )                      | (121 ) | (279 )                    | (249 ) |
| Interest credited to contractholder funds    | (9 )                        | (10 )  | (18 )                     | (19 )  |
| Amortization of DAC                          | (33 )                       | (34 )  | (74 )                     | (72 )  |
| Operating costs and expenses                 | (64 )                       | (60 )  | (131 )                    | (119 ) |
| Total costs and expenses                     | (249 )                      | (225 ) | (502 )                    | (459 ) |
| Income tax expense                           | (14 )                       | (15 )  | (25 )                     | (25 )  |
| Net income applicable to common shareholders | \$25                        | \$29   | \$47                      | \$49   |

Policies in force as of June 30 (in thousands) 4,064 3,752

Net income applicable to common shareholders was \$25 million in the second quarter of 2017 compared to \$29 million in the second quarter of 2016. The decrease was primarily due to higher contract benefits, partially offset by higher premiums and contract charges. Net income applicable to common shareholders was \$47 million in the first six months of 2017 compared to \$49 million in the first six months of 2016. The decrease was primarily due to higher contract benefits and operating costs and expenses, partially offset by higher premiums and contract charges and lower realized capital losses.

The following table summarizes premiums and contract charges by product.

| (\$ in millions)                                   | Three months ended June 30, |       | Six months ended June 30, |       |
|----------------------------------------------------|-----------------------------|-------|---------------------------|-------|
|                                                    | 2017                        | 2016  | 2017                      | 2016  |
| Traditional life insurance premiums                | \$9                         | \$9   | \$18                      | \$17  |
| Accident and health insurance premiums             | 232                         | 213   | 464                       | 429   |
| Interest-sensitive life insurance contract charges | 28                          | 29    | 56                        | 56    |
| Premiums and contract charges <sup>(1)</sup>       | \$269                       | \$251 | \$538                     | \$502 |

(1) Contract charges related to the cost of insurance totaled \$15 million and \$16 million for the second quarter of 2017 and 2016, respectively, and \$30 million for both the first six months of 2017 and 2016.

Premiums and contract charges increased 7.2% or \$18 million in the second quarter of 2017 and 7.2% or \$36 million in the first six months of 2017 compared to the same periods of 2016. The increase in both periods primarily relates to growth in hospital indemnity, critical illness, disability and accident products. Policies in force increased 8.3% as of June 30, 2017 compared to June 30, 2016.

Contract benefits increased 18.2% or \$22 million in the second quarter of 2017 and 12.0% or \$30 million in the first six months of 2017 compared to the same periods of 2016, primarily due to higher claim experience as well as growth.

Benefit spread decreased 3.4% to \$113 million in the second quarter of 2017 compared to \$117 million in the second quarter of 2016 as growth in business in force was more than offset by higher claim experience. Benefit spread increased 2.6% to \$233 million in the first six months of 2017 compared to \$227 million in the first six months of 2016, primarily due to growth in business in force, partially offset by higher claim experience.

# Allstate Financial Allstate Life Allstate Benefits Allstate Annuities

Operating costs and expenses increased 6.7% or \$4 million in the second quarter of 2017 compared to the second quarter of 2016, primarily due to higher non-deferrable commissions and employee-related costs related to growth, as well as higher technology expenses. Operating costs and expenses increased 10.1% or \$12 million in the first six months of 2017 compared to the first six months of 2016, primarily due to higher employee-related costs and non-deferrable commissions related to growth, higher technology expenses and higher guaranty fund expenses. The following table summarizes operating costs and expenses.

| (\$ in millions)                    | Three months ended June 30, |      | Six months ended June 30, |       |
|-------------------------------------|-----------------------------|------|---------------------------|-------|
|                                     | 2017                        | 2016 | 2017                      | 2016  |
| Non-deferrable commissions          | \$24                        | \$22 | \$49                      | \$45  |
| General and administrative expenses | 40                          | 38   | 82                        | 74    |
| Total operating costs and expenses  | \$64                        | \$60 | \$131                     | \$119 |

## Analysis of reserves and contractholder funds

The following table summarizes our reserve for life-contingent contract benefits by product.

| (\$ in millions)                              | June 30, |       |
|-----------------------------------------------|----------|-------|
|                                               | 2017     | 2016  |
| Traditional life insurance                    | \$252    | \$235 |
| Accident and health insurance                 | 708      | 674   |
| Reserve for life-contingent contract benefits | \$960    | \$909 |

Contractholder funds relate to interest-sensitive life insurance and totaled \$890 million as of June 30, 2017 compared to \$881 million as of December 31, 2016 and \$875 million as of June 30, 2016.

Edgar Filing: ALLSTATE CORP - Form 10-Q

Allstate Financial Allstate Life Allstate Benefits Allstate Annuities

Allstate Annuities

Summarized financial data is presented in the following table.

| (\$ in millions)                                            | Three months ended June 30, |       | Six months ended June 30, |          |
|-------------------------------------------------------------|-----------------------------|-------|---------------------------|----------|
|                                                             | 2017                        | 2016  | 2017                      | 2016     |
| Revenues                                                    |                             |       |                           |          |
| Contract charges                                            | \$3                         | \$3   | \$6                       | \$6      |
| Net investment income                                       | 354                         | 299   | 643                       | 580      |
| Realized capital gains and losses                           | (5 )                        | 3     | (7 )                      | (29 )    |
| Total revenues                                              | 352                         | 305   | 642                       | 557      |
| Costs and expenses                                          |                             |       |                           |          |
| Contract benefits                                           | (156)                       | (156) | (299 )                    | (303 )   |
| Interest credited to contractholder funds                   | (95 )                       | (104) | (190 )                    | (215 )   |
| Amortization of DAC                                         | (1 )                        | (1 )  | (3 )                      | (3 )     |
| Operating costs and expenses                                | (8 )                        | (7 )  | (17 )                     | (15 )    |
| Restructuring and related charges                           | (1 )                        | —     | (1 )                      | —        |
| Total costs and expenses                                    | (261)                       | (268) | (510 )                    | (536 )   |
| Gain on disposition of operations                           | 2                           | 1     | 4                         | 3        |
| Income tax expense                                          | (32 )                       | (12 ) | (46 )                     | (7 )     |
| Net income applicable to common shareholders                | \$61                        | \$26  | \$90                      | \$17     |
| Reserve for life-contingent contract benefits as of June 30 |                             |       | \$8,674                   | \$8,767  |
| Contractholder funds as of June 30                          |                             |       | \$11,428                  | \$12,560 |
| Policies in force as of June 30 (in thousands)              |                             |       | 240                       | 261      |

Net income applicable to common shareholders was \$61 million in the second quarter of 2017 compared to \$26 million in the second quarter of 2016. The increase was primarily due to higher net investment income and lower interest credited to contractholder funds, partially offset by net realized capital losses in the second quarter of 2017 compared to net realized capital gains in the second quarter of 2016. Net income applicable to common shareholders was \$90 million in the first six months of 2017 compared to \$17 million in the first six months of 2016. The increase was primarily due to higher net investment income, lower interest credited to contractholder funds and lower net realized capital losses.

Net investment income increased 18.4% or \$55 million in the second quarter of 2017 and 10.9% or \$63 million in the first six months of 2017 compared to the same periods of 2016, primarily due to higher limited partnership income, including private equity value appreciation and distributions related to the sales of underlying investments. The investment portfolio supporting our immediate annuities is managed to ensure the assets match the characteristics of the liabilities and provide the long-term returns needed to support this business. To better match the long-term nature of our immediate annuities, we continue to increase performance-based investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic asset or operating performance. Economic conditions and equity market performance are reflected in performance-based investment results and income could vary significantly between periods.

Net realized capital losses in the second quarter and the first six months of 2017 primarily related to impairment write-downs, partially offset by net gains on sales in connection with ongoing portfolio management.

Contract benefits in the second quarter of 2017 were comparable to the second quarter of 2016. Contract benefits decreased 1.3% or \$4 million in the first six months of 2017 compared to the first six months of 2016, primarily due to favorable immediate annuity mortality experience.

Interest credited to contractholder funds decreased 8.7% or \$9 million in the second quarter of 2017 and 11.6% or \$25 million in the first six months of 2017 compared to the same periods of 2016, primarily due to lower average contractholder funds. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged increased interest credited to contractholder funds by \$1 million in both the second quarter and first six months of 2017 compared to increases of \$6 million and \$12 million in the second quarter and first six months of 2016, respectively.

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

Allstate Financial Allstate Life Allstate Benefits Allstate Annuities

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

| (\$ in millions)                                                                                  | Three months ended June 30, |      | Six months ended June 30, |       |
|---------------------------------------------------------------------------------------------------|-----------------------------|------|---------------------------|-------|
|                                                                                                   | 2017                        | 2016 | 2017                      | 2016  |
| Annuities and institutional products                                                              | \$94                        | \$35 | \$122                     | \$52  |
| Net investment income on investments supporting capital                                           | 40                          | 37   | 80                        | 68    |
| Investment spread before valuation changes on embedded derivatives that are not hedged            | 134                         | 72   | 202                       | 120   |
| Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged | (1 )                        | (6 ) | (1 )                      | (12 ) |
| Total investment spread                                                                           | \$133                       | \$66 | \$201                     | \$108 |

Investment spread before valuation changes on embedded derivatives that are not hedged increased 86.1% to \$134 million in the second quarter of 2017 and 68.3% to \$202 million in the first six months of 2017 compared to \$72 million and \$120 million in the second quarter and first six months of 2016, respectively, primarily due to higher net investment income and lower credited interest.

To further analyze investment spreads, the following table summarizes the weighted average investment yield on assets supporting product liabilities, interest crediting rates and investment spreads. Investment spreads may vary significantly between periods due to the variability in investment income, particularly for immediate fixed annuities where the investment portfolio includes limited partnerships.

|                                                               | Three months ended June 30,       |      |                                          |       |                                     |       | Six months ended June 30,         |      |                                          |       |                                     |       |
|---------------------------------------------------------------|-----------------------------------|------|------------------------------------------|-------|-------------------------------------|-------|-----------------------------------|------|------------------------------------------|-------|-------------------------------------|-------|
|                                                               | Weighted average investment yield |      | Weighted average interest crediting rate |       | Weighted average investment spreads |       | Weighted average investment yield |      | Weighted average interest crediting rate |       | Weighted average investment spreads |       |
|                                                               | 2017                              | 2016 | 2017                                     | 2016  | 2017                                | 2016  | 2017                              | 2016 | 2017                                     | 2016  | 2017                                | 2016  |
| Deferred fixed annuities and institutional products           | 4.2%                              | 4.2% | 2.8 %                                    | 2.8 % | 1.4 %                               | 1.4 % | 4.3%                              | 4.1% | 2.8 %                                    | 2.8 % | 1.5 %                               | 1.3 % |
| Immediate fixed annuities with and without life contingencies | 8.9                               | 6.5  | 6.0                                      | 5.8   | 2.9                                 | 0.7   | 7.6                               | 6.3  | 5.9                                      | 5.9   | 1.7                                 | 0.4   |

|                                                               | Three months ended June 30,       |      |                                          |       |                                     |       | Six months ended June 30,         |      |                                          |       |                                     |       |
|---------------------------------------------------------------|-----------------------------------|------|------------------------------------------|-------|-------------------------------------|-------|-----------------------------------|------|------------------------------------------|-------|-------------------------------------|-------|
|                                                               | Weighted average investment yield |      | Weighted average interest crediting rate |       | Weighted average investment spreads |       | Weighted average investment yield |      | Weighted average interest crediting rate |       | Weighted average investment spreads |       |
|                                                               | 2017                              | 2016 | 2017                                     | 2016  | 2017                                | 2016  | 2017                              | 2016 | 2017                                     | 2016  | 2017                                | 2016  |
| Deferred fixed annuities and institutional products           | 4.2%                              | 4.2% | 2.8 %                                    | 2.8 % | 1.4 %                               | 1.4 % | 4.3%                              | 4.1% | 2.8 %                                    | 2.8 % | 1.5 %                               | 1.3 % |
| Immediate fixed annuities with and without life contingencies | 8.9                               | 6.5  | 6.0                                      | 5.8   | 2.9                                 | 0.7   | 7.6                               | 6.3  | 5.9                                      | 5.9   | 1.7                                 | 0.4   |

Operating costs and expenses increased 14.3% or \$1 million in the second quarter of 2017 and 13.3% or \$2 million in the first six months of 2017 compared to the same periods of 2016, primarily due to higher guaranty fund expenses.

The second quarter 2016 period included a reduction in the accrual for anticipated guaranty fund expenses.

Analysis of reserves and contractholder funds

The following table summarizes our product liabilities.

| (\$ in millions)                                     | June 30, |         |
|------------------------------------------------------|----------|---------|
|                                                      | 2017     | 2016    |
| Immediate fixed annuities with life contingencies    | \$8,579  | \$8,656 |
| Other                                                | 95       | 111     |
| Reserve for life-contingent contract benefits        | \$8,674  | \$8,767 |
| Deferred fixed annuities                             | \$8,523  | \$9,321 |
| Immediate fixed annuities without life contingencies | 2,792    | 2,998   |
| Institutional products                               | —        | 85      |
| Other                                                | 113      | 156     |



Contractholder funds

\$ 11,428 \$ 12,560

The Allstate Corporation 87

---

## Allstate Financial Allstate Life Allstate Benefits Allstate Annuities

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

| (\$ in millions)                                              | Three months ended June 30, |          | Six months ended June 30, |          |
|---------------------------------------------------------------|-----------------------------|----------|---------------------------|----------|
|                                                               | 2017                        | 2016     | 2017                      | 2016     |
| Contractholder funds, beginning balance                       | \$11,669                    | \$12,836 | \$11,915                  | \$13,070 |
| Deposits                                                      | 6                           | 11       | 17                        | 21       |
| Interest credited                                             | 94                          | 104      | 188                       | 214      |
| Benefits, withdrawals, maturities and other adjustments       |                             |          |                           |          |
| Benefits                                                      | (160 )                      | (160 )   | (326 )                    | (349 )   |
| Surrenders and partial withdrawals                            | (180 )                      | (231 )   | (361 )                    | (406 )   |
| Contract charges                                              | (1 )                        | (2 )     | (3 )                      | (4 )     |
| Net transfers from separate accounts                          | —                           | —        | 1                         | —        |
| Other adjustments <sup>(1)</sup>                              | —                           | 2        | (3 )                      | 14       |
| Total benefits, withdrawals, maturities and other adjustments | (341 )                      | (391 )   | (692 )                    | (745 )   |
| Contractholder funds, ending balance                          | \$11,428                    | \$12,560 | \$11,428                  | \$12,560 |

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

Contractholder funds decreased 2.1% and 4.1% in the second quarter and first six months of 2017, respectively, primarily due to the continued runoff of our deferred fixed annuity business. We exited the continuing sale of annuities over an eight year period from 2006 to 2014, but still accept additional deposits on existing contracts. Contractholder deposits decreased 45.5% and 19.0% in the second quarter and first six months of 2017, respectively, compared to the same periods of 2016, primarily due to the continued runoff of our deferred fixed annuity business. Surrenders and partial withdrawals decreased 22.1% to \$180 million in the second quarter of 2017 and 11.1% to \$361 million in the first six months of 2017 from \$231 million and \$406 million in the second quarter and first six months of 2016, respectively. The annualized surrender and partial withdrawal rate on deferred fixed annuities products, based on the beginning of year contractholder funds, was 8.7% in the first six months of 2017 compared to 9.0% in the first six months of 2016.

## Investments

## Consolidated Investment Highlights

Investments totaled \$81.31 billion as of June 30, 2017, decreasing from \$81.80 billion as of December 31, 2016.

Unrealized net capital gains totaled \$2.55 billion as of June 30, 2017, increasing from \$1.77 billion as of December 31, 2016.

Net investment income was \$897 million in the second quarter of 2017, an increase of 17.7% from \$762 million in the second quarter of 2016, and \$1.65 billion in the first six months of 2017, an increase of 10.2% from \$1.49 billion in the first six months of 2016.

Net realized capital gains were \$81 million in the second quarter of 2017 compared to \$24 million in the second quarter of 2016. Net realized capital gains were \$215 million in the first six months of 2017 compared to net realized capital losses of \$125 million in the first six months of 2016.

## Investments

Portfolio composition by reporting segment The composition of the investment portfolios by reporting segment as of June 30, 2017 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>       | \$ 31,882                         | 74.0 %           |  | \$ 25,065                         | 68.7 %           |  | \$ 1,709                           | 96.8 %           | \$ 58,656 | 72.2 %           |
| Equity securities <sup>(2)</sup>             | 4,410                             | 10.2             |  | 1,699                             | 4.7              |  | 8                                  | 0.4              | 6,117     | 7.5              |
| Mortgage loans                               | 297                               | 0.7              |  | 4,039                             | 11.1             |  | —                                  | —                | 4,336     | 5.3              |
| Limited partnership interests <sup>(3)</sup> | 3,266                             | 7.6              |  | 2,940                             | 8.1              |  | —                                  | —                | 6,206     | 7.6              |
| Short-term investments <sup>(4)</sup>        | 1,560                             | 3.6              |  | 566                               | 1.5              |  | 49                                 | 2.8              | 2,175     | 2.7              |
| Other                                        | 1,668                             | 3.9              |  | 2,147                             | 5.9              |  | —                                  | —                | 3,815     | 4.7              |
| Total                                        | \$ 43,083                         | 100.0 %          |  | \$ 36,456                         | 100.0 %          |  | \$ 1,766                           | 100.0 %          | \$ 81,305 | 100.0 %          |

Fixed income securities are carried at fair value. Amortized cost basis for these securities was \$31.53 billion,

<sup>(1)</sup> \$23.68 billion, \$1.69 billion and \$56.90 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 \$3.84 billion, \$1.47 billion, \$8 million and \$5.32 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 \$1.66 billion, \$1.41 billion and \$3.07 billion for Property-Liability, Allstate Financial, and in Total, respectively.

<sup>(4)</sup> Short-term investments are carried at fair value.

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

Investments totaled \$81.31 billion as of June 30, 2017, decreasing from \$81.80 billion as of December 31, 2016, primarily due to the \$1.4 billion SquareTrade acquisition on January 3, 2017. Common share repurchases, dividends paid to shareholders and net reductions in contractholder funds also contributed to the decline, which were offset by positive operating cash flows and higher fixed income and equity valuations.

The Property-Liability investment portfolio totaled \$43.08 billion as of June 30, 2017, increasing from \$42.72 billion as of December 31, 2016, primarily due to higher fixed income and equity valuations, positive operating cash flows and dividends paid by Allstate Life Insurance Company (“ALIC”) to AIC, partially offset by the SquareTrade acquisition and dividends paid by AIC to The Allstate Corporation (the “Corporation”).

The Allstate Financial investment portfolio totaled \$36.46 billion as of June 30, 2017, decreasing from \$36.84 billion as of December 31, 2016, primarily due to dividends paid by ALIC to AIC and net reductions in contractholder funds, partially offset by higher fixed income and equity valuations and positive operating cash flows.

The Corporate and Other investment portfolio totaled \$1.77 billion as of June 30, 2017, decreasing from \$2.24 billion as of December 31, 2016, primarily due to dividends paid to shareholders and common share repurchases, partially offset by dividends paid by AIC to the Corporation.

The Allstate Corporation 89

---

## Investments

## Portfolio composition by investment strategy

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

Market-Based strategies include investments primarily in public fixed income and equity securities. Market-Based Core seeks to deliver predictable earnings aligned to business needs and returns consistent with the markets in which we invest. Private fixed income assets, such as commercial mortgages, bank loans and privately placed debt that provide liquidity premiums are also included in this category. Market-Based Active seeks to outperform within the public markets through tactical positioning and by taking advantage of short-term opportunities. This category may generate results that meaningfully deviate from those achieved by market indices, both favorably and unfavorably. Performance-Based strategy seeks to deliver attractive risk-adjusted returns and supplement market risk with idiosyncratic risk. Returns are impacted by a variety of factors including general macroeconomic and public market conditions as public benchmarks are often used in the valuation of underlying investments. Variability in earnings will also result from the performance of the underlying assets or business and the timing of liquidation of those investments. Earnings from the liquidation of investments may be recorded as net investment income or realized capital gains and losses. 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 often enhance returns and income through transformation at the company or property level. A portion of these investments seek returns in markets or asset classes that are dislocated or special situations, primarily in private markets.

The following table presents the investment portfolio by strategy as of June 30, 2017.

| (\$ in millions)                        | Total    | Market-Based<br>Core | Market-Based<br>Active | Performance-Based |
|-----------------------------------------|----------|----------------------|------------------------|-------------------|
| Fixed income securities                 | \$58,656 | \$ 51,100            | \$ 7,488               | \$ 68             |
| Equity securities                       | 6,117    | 4,583                | 1,438                  | 96                |
| Mortgage loans                          | 4,336    | 4,336                | —                      | —                 |
| Limited partnership interests           | 6,206    | 553                  | —                      | 5,653             |
| Short-term investments                  | 2,175    | 1,880                | 295                    | —                 |
| Other                                   | 3,815    | 3,094                | 176                    | 545               |
| Total                                   | \$81,305 | \$ 65,546            | \$ 9,397               | \$ 6,362          |
| % of total                              |          | 81                   | % 11                   | % 8               |
| Property-Liability                      | \$43,083 | \$ 31,523            | \$ 8,179               | \$ 3,381          |
| Allstate Financial                      | 36,456   | 32,257               | 1,218                  | 2,981             |
| Corporate & Other                       | 1,766    | 1,766                | —                      | —                 |
| Unrealized net capital gains and losses |          |                      |                        |                   |
| Fixed income securities                 | \$1,755  | \$ 1,674             | \$ 81                  | \$ —              |
| Equity securities                       | 796      | 730                  | 53                     | 13                |
| Limited partnership interests           | (1 )     | —                    | —                      | (1 )              |
| Other                                   | (1 )     | (1 )                 | —                      | —                 |
| Total                                   | \$2,549  | \$ 2,403             | \$ 134                 | \$ 12             |

## Investments

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

| (\$ in millions)                                | Fair value as of June 30, 2017 | Fair value as of December 31, 2016 |
|-------------------------------------------------|--------------------------------|------------------------------------|
| U.S. government and agencies                    | \$3,426                        | \$ 3,637                           |
| Municipal                                       | 7,855                          | 7,333                              |
| Corporate                                       | 44,251                         | 43,601                             |
| Foreign government                              | 1,047                          | 1,075                              |
| Asset-backed securities ("ABS")                 | 1,243                          | 1,171                              |
| Residential mortgage-backed securities ("RMBS") | 641                            | 728                                |
| Commercial mortgage-backed securities ("CMBS")  | 170                            | 270                                |
| Redeemable preferred stock                      | 23                             | 24                                 |
| Total fixed income securities                   | \$58,656                       | \$ 57,839                          |

Fixed income securities are rated by third party credit rating agencies and/or are internally rated. As of June 30, 2017, 85.3% 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 Global Ratings ("S&P"), a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third party rating. Our initial investment decisions and ongoing monitoring procedures for fixed income securities are based on a thorough due diligence process which includes, but is not limited to, an assessment of the credit quality, sector, structure, and liquidity risks of each issue.

The following table summarizes the fair value and unrealized net capital gains and losses for fixed income securities by credit quality as of June 30, 2017.

| (\$ 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                                          | \$3,426          | \$ 63                  | \$ —                   | \$ —                   | \$3,426    | \$ 63                  |
| Municipal                                                             |                  |                        |                        |                        |            |                        |
| Tax exempt                                                            | 5,477            | 38                     | 43                     | —                      | 5,520      | 38                     |
| Taxable                                                               | 2,302            | 273                    | 33                     | 1                      | 2,335      | 274                    |
| Corporate                                                             |                  |                        |                        |                        |            |                        |
| Public                                                                | 27,381           | 721                    | 4,758                  | 139                    | 32,139     | 860                    |
| Privately placed                                                      | 9,002            | 301                    | 3,110                  | 83                     | 12,112     | 384                    |
| Foreign government                                                    | 1,046            | 28                     | 1                      | —                      | 1,047      | 28                     |
| ABS                                                                   |                  |                        |                        |                        |            |                        |
| Collateralized debt obligations ("CDO")                               | 568              | (6)                    | 43                     | 8                      | 611        | 2                      |
| Consumer and other asset-backed securities ("Consumer and other ABS") | 631              | 4                      | 1                      | —                      | 632        | 4                      |
| RMBS                                                                  |                  |                        |                        |                        |            |                        |
| U.S. government sponsored entities ("U.S. Agency")                    | 122              | 4                      | —                      | —                      | 122        | 4                      |
| Non-agency                                                            | 22               | (1)                    | 497                    | 89                     | 519        | 88                     |
| CMBS                                                                  | 55               | 1                      | 115                    | 6                      | 170        | 7                      |
| Redeemable preferred stock                                            | 23               | 3                      | —                      | —                      | 23         | 3                      |
| Total fixed income securities                                         | \$50,055         | \$ 1,429               | \$ 8,601               | \$ 326                 | \$58,656   | \$ 1,755               |
| Property-Liability                                                    | \$26,573         | \$ 166                 | \$ 5,309               | \$ 182                 | \$31,882   | \$ 348                 |

Edgar Filing: ALLSTATE CORP - Form 10-Q

|                               |          |          |          |        |          |          |
|-------------------------------|----------|----------|----------|--------|----------|----------|
| Allstate Financial            | 21,871   | 1,246    | 3,194    | 141    | 25,065   | 1,387    |
| Corporate & Other             | 1,611    | 17       | 98       | 3      | 1,709    | 20       |
| Total fixed income securities | \$50,055 | \$ 1,429 | \$ 8,601 | \$ 326 | \$58,656 | \$ 1,755 |

Municipal bonds, including tax exempt and taxable securities, totaled \$7.86 billion as of June 30, 2017 with an unrealized net capital gain of \$312 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 Allstate Corporation 91

---

## Investments

Corporate bonds, including publicly traded and privately placed, totaled \$44.25 billion as of June 30, 2017, with an unrealized net capital gain of \$1.24 billion. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

ABS, including CDO and Consumer and other ABS, totaled \$1.24 billion as of June 30, 2017, with 96.5% rated investment grade and an unrealized net capital gain of \$6 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 \$611 million as of June 30, 2017, with 93.0% rated investment grade. 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 \$632 million as of June 30, 2017, with 99.8% rated investment grade. Consumer and other ABS consists of \$223 million of consumer auto, \$148 million of credit card and \$261 million of other ABS with unrealized net capital gains of \$1 million, zero and \$3 million, respectively.

RMBS totaled \$641 million as of June 30, 2017, with 22.5% rated investment grade and an unrealized net capital gain of \$92 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 \$519 million as of June 30, 2017, with 4.2% rated investment grade and an unrealized net capital gain of \$88 million. CMBS totaled \$170 million as of June 30, 2017, with 32.4% rated investment grade and an unrealized net capital gain of \$7 million. The CMBS portfolio is subject to credit risk and has a sequential paydown structure. The CMBS investments are primarily traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area.

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 \$6.12 billion as of June 30, 2017, with an unrealized net capital gain of \$796 million.

Mortgage loans, which are primarily held in the Allstate Financial portfolio, totaled \$4.34 billion as of June 30, 2017 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 condensed consolidated financial statements.

Limited partnership interests include interests in private equity funds and co-investments, real estate funds and joint ventures, and other funds. The following table presents carrying value and other information about our limited partnership interests as of June 30, 2017.

| (\$ in millions)                    | Private equity | Real estate | Other | Total   |
|-------------------------------------|----------------|-------------|-------|---------|
| Cost method of accounting ("Cost")  | \$1,109        | \$115       | \$45  | \$1,269 |
| Equity method of accounting ("EMA") | 3,416          | 1,013       | 508   | 4,937   |
| Total                               | \$4,525        | \$1,128     | \$553 | \$6,206 |

|                                       |       |      |       |       |
|---------------------------------------|-------|------|-------|-------|
| Number of managers                    | 130   | 39   | 14    | 183   |
| Number of individual investments      | 240   | 83   | 19    | 342   |
| Largest exposure to single investment | \$170 | \$62 | \$224 | \$224 |

Unrealized net capital gains totaled \$2.55 billion as of June 30, 2017 compared to \$1.77 billion as of December 31, 2016. The increase for fixed income securities was primarily due to a decrease in market yields resulting from tighter credit spreads and lower long-term risk-free interest rates. The increase for equity securities was primarily due to favorable equity market performance, partially offset by capital gains through sales.



## Investments

The following table presents unrealized net capital gains and losses.

| (\$ in millions)                                 | June 30, December 31, |          |
|--------------------------------------------------|-----------------------|----------|
|                                                  | 2017                  | 2016     |
| U.S. government and agencies                     | \$63                  | \$ 65    |
| Municipal                                        | 312                   | 217      |
| Corporate                                        | 1,244                 | 859      |
| Foreign government                               | 28                    | 32       |
| ABS                                              | 6                     | 2        |
| RMBS                                             | 92                    | 77       |
| CMBS                                             | 7                     | 8        |
| Redeemable preferred stock                       | 3                     | 3        |
| Fixed income securities                          | 1,755                 | 1,263    |
| Equity securities                                | 796                   | 509      |
| Derivatives                                      | (1 )                  | 2 )      |
| EMA limited partnerships                         | (1 )                  | (4 )     |
| Unrealized net capital gains and losses, pre-tax | \$2,549               | \$ 1,770 |

|                                                  |         |          |
|--------------------------------------------------|---------|----------|
| Property-Liability                               | \$918   | \$ 500   |
| Allstate Financial                               | 1,615   | 1,263    |
| Corporate & Other                                | 16      | 7        |
| Unrealized net capital gains and losses, pre-tax | \$2,549 | \$ 1,770 |

The unrealized net capital gain for the fixed income portfolio totaled \$1.76 billion, comprised of \$1.96 billion of gross unrealized gains and \$208 million of gross unrealized losses as of June 30, 2017. This is compared to an unrealized net capital gain for the fixed income portfolio totaling \$1.26 billion, comprised of \$1.71 billion of gross unrealized gains and \$447 million of gross unrealized losses as of December 31, 2016.

Gross unrealized gains and losses on fixed income securities by type and sector as of June 30, 2017 are provided in the following table.

| (\$ in millions)                           | Amortized cost | Gross unrealized Gains | Losses  | Fair value |
|--------------------------------------------|----------------|------------------------|---------|------------|
| Corporate:                                 |                |                        |         |            |
| Consumer goods (cyclical and non-cyclical) | \$ 13,264      | \$ 334                 | \$(37 ) | \$ 13,561  |
| Utilities                                  | 5,496          | 351                    | (30 )   | 5,817      |
| Banking                                    | 3,160          | 41                     | (19 )   | 3,182      |
| Energy                                     | 2,279          | 87                     | (15 )   | 2,351      |
| Communications                             | 3,636          | 105                    | (13 )   | 3,728      |
| Capital goods                              | 4,646          | 137                    | (13 )   | 4,770      |
| Financial services                         | 2,808          | 89                     | (8 )    | 2,889      |
| Technology                                 | 3,623          | 70                     | (6 )    | 3,687      |
| Basic industry                             | 2,139          | 80                     | (5 )    | 2,214      |
| Transportation                             | 1,571          | 89                     | (3 )    | 1,657      |
| Other                                      | 385            | 11                     | (1 )    | 395        |
| Total corporate fixed income portfolio     | 43,007         | 1,394                  | (150 )  | 44,251     |
| U.S. government and agencies               | 3,363          | 70                     | (7 )    | 3,426      |
| Municipal                                  | 7,543          | 336                    | (24 )   | 7,855      |
| Foreign government                         | 1,019          | 34                     | (6 )    | 1,047      |
| ABS                                        | 1,237          | 16                     | (10 )   | 1,243      |
| RMBS                                       | 549            | 96                     | (4 )    | 641        |
| CMBS                                       | 163            | 14                     | (7 )    | 170        |

Edgar Filing: ALLSTATE CORP - Form 10-Q

|                               |           |          |           |           |
|-------------------------------|-----------|----------|-----------|-----------|
| Redeemable preferred stock    | 20        | 3        | —         | 23        |
| Total fixed income securities | \$ 56,901 | \$ 1,963 | \$ (208 ) | \$ 58,656 |

The consumer goods, utilities and capital goods sectors comprise 31%, 13% and 11%, respectively, of the carrying value of our corporate fixed income securities portfolio as of June 30, 2017. The consumer goods, utilities and banking sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of June 30, 2017. In general, the gross unrealized losses are related to an increase in market yields which may include increased risk-free interest rates and/or wider credit spreads since the time of initial purchase. Similarly, gross unrealized gains reflect a decrease in market yields since the time of initial purchase.

The Allstate Corporation 93

---

## Investments

The unrealized net capital gain for the equity portfolio totaled \$796 million, comprised of \$837 million of gross unrealized gains and \$41 million of gross unrealized losses as of June 30, 2017. This is compared to an unrealized net capital gain for the equity portfolio totaling \$509 million, comprised of \$594 million of gross unrealized gains and \$85 million of gross unrealized losses as of December 31, 2016.

Net investment income The following table presents net investment income.

| (\$ in millions)                  | Three months<br>ended June<br>30, |       | Six months<br>ended June 30, |         |
|-----------------------------------|-----------------------------------|-------|------------------------------|---------|
|                                   | 2017                              | 2016  | 2017                         | 2016    |
| Fixed income securities           | \$527                             | \$520 | \$1,045                      | \$1,038 |
| Equity securities                 | 49                                | 44    | 93                           | 72      |
| Mortgage loans                    | 50                                | 53    | 105                          | 106     |
| Limited partnership interests     | 253                               | 126   | 373                          | 247     |
| Short-term investments            | 6                                 | 3     | 12                           | 7       |
| Other                             | 60                                | 57    | 116                          | 108     |
| Investment income, before expense | 945                               | 803   | 1,744                        | 1,578   |
| Investment expense                | (48 )                             | (41 ) | (99 )                        | (85 )   |
| Net investment income             | \$897                             | \$762 | \$1,645                      | \$1,493 |
| Property-Liability                | \$391                             | \$316 | \$702                        | \$618   |
| Allstate Financial                | 496                               | 435   | 922                          | 854     |
| Corporate & Other                 | 10                                | 11    | 21                           | 21      |
| Net investment income             | \$897                             | \$762 | \$1,645                      | \$1,493 |
| Market-Based Core                 | \$601                             | \$595 | \$1,186                      | \$1,176 |
| Market-Based Active               | 73                                | 67    | 147                          | 128     |
| Performance-Based                 | 271                               | 141   | 411                          | 274     |
| Investment income, before expense | \$945                             | \$803 | \$1,744                      | \$1,578 |

Net investment income increased 17.7% or \$135 million in the second quarter of 2017 compared to the second quarter of 2016. Net investment income increased 10.2% or \$152 million in the first six months of 2017 compared to the first six months of 2016. Both periods benefited from strong performance-based results, including higher limited partnership and equity income. Limited partnership income reflects the continued growth of our performance-based strategy and included private equity value appreciation and distributions related to the sales of underlying investments.

## Investments

Performance-based investments primarily include private equity, real estate, infrastructure, timber and agriculture-related assets with a majority being limited partnerships. The following table presents investment income for performance-based investments.

| (\$ in millions)                             | Three months ended June 30, |        | Six months ended June 30, |         |
|----------------------------------------------|-----------------------------|--------|---------------------------|---------|
|                                              | 2017                        | 2016   | 2017                      | 2016    |
| Limited partnerships                         |                             |        |                           |         |
| Private equity <sup>(1)</sup>                | \$209                       | \$113  | \$323                     | \$198   |
| Real estate                                  | 43                          | 12     | 47                        | 45      |
| Timber and agriculture-related               | 1                           | 1      | 3                         | 4       |
| Performance-based - limited partnerships     | 253                         | 126    | 373                       | 247     |
| Non-limited partnerships                     |                             |        |                           |         |
| Private equity                               | 5                           | 4      | 14                        | 6       |
| Real estate                                  | 10                          | 8      | 20                        | 16      |
| Timber and agriculture-related               | 3                           | 3      | 4                         | 5       |
| Performance-based - non-limited partnerships | 18                          | 15     | 38                        | 27      |
| Total                                        |                             |        |                           |         |
| Private equity                               | 214                         | 117    | 337                       | 204     |
| Real estate                                  | 53                          | 20     | 67                        | 61      |
| Timber and agriculture-related               | 4                           | 4      | 7                         | 9       |
| Total performance-based                      | \$271                       | \$141  | \$411                     | \$274   |
| Investee level expenses <sup>(2)</sup>       | \$(8 )                      | \$(8 ) | \$(17 )                   | \$(16 ) |
| Property-Liability                           | \$129                       | \$69   | \$196                     | \$135   |
| Allstate Financial                           | 142                         | 72     | 215                       | 139     |
| Total performance-based                      | \$271                       | \$141  | \$411                     | \$274   |

<sup>(1)</sup> Includes infrastructure.

Investee level expenses include depreciation and asset level operating expenses reported in investment expense.

<sup>(2)</sup> When calculating the pre-tax yields, investee level expenses are netted against income for directly held real estate, timber and other consolidated investments.

Performance-based investment income increased 92.2% or \$130 million in the second quarter of 2017 and 50.0% or \$137 million in the first six months of 2017 compared to the same periods of 2016. The increase in both periods reflects the continued growth of our performance-based strategy and included private equity value appreciation and distributions related to the sales of underlying investments. Economic conditions and equity market performance impact performance-based investment results and income could vary significantly between periods.

## Investments

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

| (\$ in millions)                                                  | Three months ended June 30, 2017 |        | Six months ended June 30, 2016 |         |
|-------------------------------------------------------------------|----------------------------------|--------|--------------------------------|---------|
| Impairment write-downs                                            |                                  |        |                                |         |
| Fixed income securities                                           | \$(7 )                           | \$(3 ) | \$(20 )                        | \$(19 ) |
| Equity securities                                                 | (11 )                            | (35 )  | (31 )                          | (90 )   |
| Limited partnership interests                                     | (9 )                             | (24 )  | (16 )                          | (11 )   |
| Other investments                                                 | (1 )                             | (1 )   | (4 )                           | (2 )    |
| Total impairment write-downs                                      | (28 )                            | (63 )  | (71 )                          | (122 )  |
| Change in intent write-downs                                      | (22 )                            | (16 )  | (38 )                          | (38 )   |
| Net other-than-temporary impairment losses recognized in earnings | (50 )                            | (79 )  | (109 )                         | (160 )  |
| Sales and other                                                   | 139                              | 104    | 347                            | 45      |
| Valuation and settlements of derivative instruments               | (8 )                             | (1 )   | (23 )                          | (10 )   |
| Realized capital gains and losses, pre-tax                        | 81                               | 24     | 215                            | (125 )  |
| Income tax (expense) benefit                                      | (28 )                            | (7 )   | (74 )                          | 46      |
| Realized capital gains and losses, after-tax                      | \$53                             | \$17   | \$141                          | \$(79 ) |
| Property-Liability                                                | \$56                             | \$18   | \$145                          | \$(46 ) |
| Allstate Financial                                                | (3 )                             | —      | (4 )                           | (32 )   |
| Corporate & Other                                                 | —                                | (1 )   | —                              | (1 )    |
| Realized capital gains and losses, after-tax                      | \$53                             | \$17   | \$141                          | \$(79 ) |
| Market-Based Core                                                 | \$44                             | \$13   | \$131                          | \$(78 ) |
| Market-Based Active                                               | 43                               | 39     | 102                            | (8 )    |
| Performance-Based                                                 | (6 )                             | (28 )  | (18 )                          | (39 )   |
| Realized capital gains and losses, pre-tax                        | \$81                             | \$24   | \$215                          | \$(125) |

Realized capital gains in the second quarter and in the first six months of 2017, primarily related to net gains on sales, partially offset by impairments and change in intent write-downs.

Impairment write-downs totaled \$28 million and \$71 million in the three and six months ended June 30, 2017. Equity securities were written down due to the length of time and extent to which fair value was below cost, considering our assessment of the financial condition and prospects of the issuer, including relevant industry conditions and trends. Fixed income and limited partnership write-downs related to investment specific circumstances.

Change in intent write-downs totaled \$22 million and \$38 million in the three and six months ended June 30, 2017, respectively, and primarily relates to \$1.8 billion of equity securities as of June 30, 2017 that we may not hold for a period of time sufficient to recover unrealized losses given our preference to maintain flexibility to reposition the portfolio as well as approximately \$0.6 billion of equity securities managed by a third party where we do not retain decision making authority as it pertains to selling securities that are in an unrealized loss position due to an upcoming change in the equity manager.

Sales and other generated \$139 million and \$347 million of net realized capital gains in the three and six months ended June 30, 2017, respectively. Sales and other primarily included sales of equity securities in connection with ongoing portfolio management, as well as gains from valuation changes in public securities held in certain limited partnerships.

Valuation and settlements of derivative instruments generated net realized capital losses of \$8 million for the three months ended June 30, 2017 primarily comprised of losses on foreign currency contracts due to the weakening of the U.S. Dollar. Valuation and settlements of derivative instruments generated net realized capital losses of \$23 million

for the six months ended June 30, 2017 primarily comprised of losses on foreign currency contracts due to the weakening of the U.S. Dollar and losses on equity futures used for risk management due to increases in equity indices.

## Investments

The following table presents realized capital gains and losses for performance-based investments.

| (\$ in millions)                                        | Three months ended June 30, |        | Six months ended June 30, |        |
|---------------------------------------------------------|-----------------------------|--------|---------------------------|--------|
|                                                         | 2017                        | 2016   | 2017                      | 2016   |
| Limited partnerships                                    |                             |        |                           |        |
| Private equity                                          | \$(8)                       | \$(20) | \$(18)                    | \$(8 ) |
| Real estate                                             | 4                           | —      | 5                         | 1      |
| Timber and agriculture-related                          | —                           | —      | —                         | —      |
| Performance-based - limited partnerships <sup>(1)</sup> | (4 )                        | (20 )  | (13 )                     | (7 )   |
| Non-limited partnerships                                |                             |        |                           |        |
| Private equity                                          | (11)                        | (8 )   | (15 )                     | (33 )  |
| Real estate                                             | 9                           | —      | 9                         | 1      |
| Timber and agriculture-related                          | —                           | —      | 1                         | —      |
| Performance-based - non-limited partnerships            | (2 )                        | (8 )   | (5 )                      | (32 )  |
| Total                                                   |                             |        |                           |        |
| Private equity                                          | (19)                        | (28 )  | (33 )                     | (41 )  |
| Real estate                                             | 13                          | —      | 14                        | 2      |
| Timber and agriculture-related                          | —                           | —      | 1                         | —      |
| Total performance-based                                 | \$(6)                       | \$(28) | \$(18)                    | \$(39) |
| Property-Liability                                      | \$4                         | \$(20) | \$(2 )                    | \$(28) |
| Allstate Financial                                      | (10)                        | (8 )   | (16 )                     | (11 )  |
| Total performance-based                                 | \$(6)                       | \$(28) | \$(18)                    | \$(39) |

(1) Other limited partnership interests are located in market-based core and are not included in the table above. Realized capital gains and losses were \$35 million and \$7 million in the second quarter of 2017 and 2016, respectively, and \$84 million and \$20 million in the first six months of 2017 and 2016, respectively, for these limited partnership interests.

Net realized capital losses on performance-based investments were \$6 million in the second quarter of 2017 and \$18 million in the first six months of 2017. The second quarter and first six months of 2017 included impairment write-downs on private equity investments and derivative losses related to the hedging of foreign currency risk.

## Capital Resources and Liquidity

## Capital Resources and Liquidity Highlights

Shareholders' equity as of June 30, 2017 was \$21.50 billion, an increase of 4.5% from \$20.57 billion as of December 31, 2016.

On January 3, 2017 and April 3, 2017, we paid common shareholder dividends of \$0.33 and \$0.37, respectively. On May 25, 2017, we declared a common shareholder dividend of \$0.37 payable on July 3, 2017. On July 11, 2017, we declared a common shareholder dividend of \$0.37 payable on October 2, 2017.

As of June 30, 2017, there was \$45 million remaining on the \$1.5 billion common share repurchase program.

On June 9, 2017, we entered into an accelerated share repurchase agreement ("ASR Agreement") with Goldman, Sachs & Co. LLC ("Goldman") to purchase \$250 million of our outstanding common stock.

- On August 1, 2017, the Board authorized a new \$2 billion common share repurchase program that is expected to be completed by February 2019.

## Capital Resources and Liquidity

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

| (\$ in millions)                                                                                    | June 30,<br>2017 | December<br>31, 2016 |
|-----------------------------------------------------------------------------------------------------|------------------|----------------------|
| Preferred stock, common stock, treasury stock, retained income and other shareholders' equity items | \$21,399         | \$20,989             |
| Accumulated other comprehensive income (loss)                                                       | 102              | (416 )               |
| Total shareholders' equity                                                                          | 21,501           | 20,573               |
| Debt                                                                                                | 6,348            | 6,347                |
| Total capital resources                                                                             | \$27,849         | \$26,920             |
| Ratio of debt to shareholders' equity                                                               | 29.5 %           | 30.9 %               |
| Ratio of debt to capital resources                                                                  | 22.8 %           | 23.6 %               |

Shareholders' equity increased in the first six months of 2017, primarily due to net income and increased unrealized net capital gains on investments, partially offset by common share repurchases and dividends paid to shareholders. In the six months ended June 30, 2017, we paid dividends of \$257 million and \$58 million related to our common and preferred shares, respectively.

Common share repurchases As of June 30, 2017, there was \$45 million remaining on the \$1.5 billion common share repurchase program that is expected to be completed by August 2017. On June 9, 2017, we entered into an ASR Agreement with Goldman to purchase \$250 million of our outstanding common stock. Under the ASR Agreement, we paid \$250 million upfront and initially acquired 2.5 million shares. The actual number of shares we repurchase under the ASR Agreement, and the average price paid per share, will be determined at the completion of the ASR Agreement based on the volume weighted average price of Allstate's common stock during the period of Goldman's purchase, which will end on or before August 17, 2017. During the first six months of 2017, we repurchased 7.9 million common shares for \$646 million in the market.

On August 1, 2017, the Board authorized a new \$2 billion common share repurchase program that is expected to be completed by February 2019. We may issue preferred stock during the second half of 2017 for general corporate purposes, including partial funding of repurchases under the new authorization.

Financial ratings and strength Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage. The preferred stock and subordinated debentures are viewed as having a common equity component by certain rating agencies and are given equity credit up to a pre-determined limit in our capital structure as determined by their respective methodologies. These respective methodologies consider the existence of certain terms and features in the instruments such as the noncumulative dividend feature in the preferred stock. In July 2017, 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 both ALIC and Allstate Assurance Company ("AAC"). The outlook for the ratings remained stable. There have been no changes to our ratings from A.M. Best or S&P since December 31, 2016.



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

## Capital Resources and Liquidity

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

In addition to the Liquidity Agreement, the Corporation also has an intercompany loan agreement with certain of its subsidiaries, which include, but are not limited to, AIC and ALIC. The amount of intercompany loans available to the Corporation’s subsidiaries is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given point in time is limited to \$1.00 billion. The Corporation may use commercial paper borrowings, bank lines of credit and securities lending to fund intercompany borrowings. Parent company capital capacity At the parent holding company level, we have deployable assets totaling \$2.11 billion as of June 30, 2017 comprising cash and investments that are generally saleable within one quarter. The substantial earnings capacity of the operating subsidiaries is the primary source of capital generation for the Corporation. This provides funds for the parent company’s fixed charges and other corporate purposes.

In the first six months of 2017, AIC paid dividends totaling \$701 million to its parent, Allstate Insurance Holdings, LLC (“AIH”), which then paid \$701 million of dividends to the Corporation.

Dividends may not be paid or declared on our common stock and shares of common stock may not be repurchased unless the full dividends for the latest completed dividend period on our preferred stock have been declared and paid or provided for. We are prohibited from declaring or paying dividends on our preferred stock if we fail to meet specified capital adequacy, net income or shareholders’ equity levels, except out of the net proceeds of common stock issued during the 90 days prior to the date of declaration. As of June 30, 2017, we satisfied all of the tests with no current restrictions on the payment of preferred stock dividends.

The terms of our outstanding subordinated debentures also prohibit us from declaring or paying any dividends or distributions on our common or preferred stock or redeeming, purchasing, acquiring, or making liquidation payments on our common stock or preferred stock if we have elected to defer interest payments on the subordinated debentures, subject to certain limited exceptions. In the first six months of 2017, we did not defer interest payments on the subordinated debentures.

In connection with the Series A 6.50% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 and the Series B 6.125% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 (together the “Debentures”), the Corporation entered into replacement capital covenants (“RCCs”) for the benefit of the holders of one or more other designated series of the Corporation’s indebtedness (the “Covered Debt”). On May 16, 2017, a Redesignation Date occurred in accordance with the Series A RCCs. As a result, the Corporation’s 7.45% Senior Notes due 2019 were no longer the Covered Debt under the Series A RCCs, and the 5.75% Subordinated Debentures due 2053 became the new Covered Debt. On May 16, 2017, the Series B RCCs terminated pursuant to the terms of the Series B RCCs, and the obligations of the Corporation pursuant to the Series B RCCs expired. For further information, see Note 12 of our Annual Report on Form 10-K for 2016.

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 June 30, 2017, 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. The maturity date of this facility is April 2021. The facility is fully subscribed among 11 lenders with the largest commitment being \$115 million. The commitments of the lenders are several and no lender is responsible for any other lender’s commitment if such lender fails to make a loan under the facility. This facility contains an increase provision that would allow up to an additional \$500 million of borrowing. This facility has a financial covenant requiring that we not exceed a 37.5% debt to capitalization ratio as defined in the agreement. This ratio was 15.5% as of June 30, 2017. 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 second quarter or the first six months of 2017.

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 539 million shares of treasury stock as of June 30, 2017), 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.

The Allstate Corporation 99

---

## Capital Resources and Liquidity

Liquidity exposure Contractholder funds were \$19.83 billion as of June 30, 2017. The following table summarizes contractholder funds by their contractual withdrawal provisions as of June 30, 2017.

| (\$ in millions)                                                       |          | Percent<br>to total |
|------------------------------------------------------------------------|----------|---------------------|
| Not subject to discretionary withdrawal                                | \$3,055  | 15.4 %              |
| Subject to discretionary withdrawal with adjustments:                  |          |                     |
| Specified surrender charges <sup>(1)</sup>                             | 5,010    | 25.3                |
| Market value adjustments <sup>(2)</sup>                                | 1,516    | 7.6                 |
| Subject to discretionary withdrawal without adjustments <sup>(3)</sup> | 10,251   | 51.7                |
| Total contractholder funds <sup>(4)</sup>                              | \$19,832 | 100.0%              |

<sup>(1)</sup> Includes \$1.20 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

\$957 million of the contracts with market value adjusted surrenders have a 30-45 day period at the end of their

<sup>(2)</sup> initial and subsequent interest rate guarantee periods (which are typically 1, 5, 7 or 10 years) during which there is no surrender charge or market value adjustment.

<sup>(3)</sup> 89% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.

<sup>(4)</sup> Includes \$757 million of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc., in 2006.

Retail life and annuity products may be surrendered by customers for a variety of reasons. Reasons unique to individual customers include a current or unexpected need for cash or a change in life insurance coverage needs. Other key factors that may impact the likelihood of customer surrender include the level of the contract surrender charge, the length of time the contract has been in force, distribution channel, market interest rates, equity market conditions and potential tax implications. In addition, the propensity for retail life insurance policies to lapse is lower than it is for fixed annuities because of the need for the insured to be re-underwritten upon policy replacement. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 6.1% and 6.4% in the first six months of 2017 and 2016, 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.

## Recent Developments

### Recent Developments

The following updates the regulation disclosures included in Part I Regulation in our Annual Report on Form 10-K for the year-ended December 31, 2016 and Form 10-Q for the period ended March 31, 2017.

Department of Labor. In April 2016, the U.S. Department of Labor (“DOL”) issued a rule expanding the range of activities considered to be “investment advice” and establishing a new framework for determining whether an entity or person is a “fiduciary” when selling mutual funds, variable and indexed annuities, or variable life products in connection with an Individual Retirement Account (“IRA”) or an employee benefit plan covered under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). The rule, in its current form, impacts the non-proprietary products provided by Allstate agencies and Allstate’s broker-dealer, Allstate Financial Services, LLC, their sales processes and volumes, and producer compensation arrangements. Allstate does not currently sell proprietary annuities or proprietary variable life products in connection with IRAs or employee benefit plans covered under ERISA. Allstate Benefits offers universal life products which, when sold in an employee welfare benefit plan, may be considered subject to the fiduciary rule as an insurance product with an “investment component.” Products that we previously offered and continue to have in force, such as indexed annuities, are impacted by the rule. These requirements may increase regulatory costs and litigation exposure. The financial impact to Allstate is expected to be immaterial. The phased implementation of the rule began June 9, 2017, with full compliance currently required by January 1, 2018. The DOL is engaging in analysis of the issues raised by the President of the United States directing the DOL to examine the fiduciary duty rule to determine whether it may adversely affect investors or retirees or adversely affect the ability of Americans to gain access to retirement information and financial advice. The DOL has issued a Request For Information to assist the DOL in assessing the impact. It is yet to be determined whether any other action, including changes to the rule’s requirements, will result from the DOL’s continued examination of the rule. In addition, the new Securities and Exchange Commission Chairman has pledged to work with the DOL Secretary on a fiduciary rule.

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

In November 2015, Treasury and USTR notified Congress that they were formally initiating negotiations on a Covered Agreement with the EU (the “Covered Agreement”) addressing: permanent equivalence treatment of the U.S. regulatory system by the EU; confidential sharing of information across jurisdictions; and uniform treatment of EU-based reinsurers operating in the U.S., including with respect to reinsurance collateral. On January 13, 2017, the Secretary of the Treasury and USTR jointly submitted a Covered Agreement consistent with their November 2015 notification to Congress. The Covered Agreement submitted was designed to secure equivalence treatment of the U.S. regulatory system by the EU, address the confidential sharing of information by regulators across jurisdictions, and eliminate reinsurance collateral requirements for EU-based foreign reinsurers in all States that meet certain conditions. In accordance with authorities provided in Dodd-Frank, the Covered Agreement may preempt (i.e., displace) state

laws after 60 months from its effective date if then existing State insurance measures affected by the Covered Agreement result in less favorable treatment of an EU insurer or reinsurer subject to the Covered Agreement than a U.S. insurer domiciled, licensed, or otherwise admitted in a U.S. State. On July 14, 2017, the U.S. Department of the Treasury and USTR announced their intent to sign the Covered Agreement submitted to Congress on January 13, 2017. In addition to signing the Covered Agreement, the joint notice referenced a U.S. policy statement on implementation expected on or around the date of signing.

Federal Reserve Board. On April 21, 2017, the President signed an Executive Order directing the Secretary of the Treasury to conduct a review of the systemically important financial institutions (“SIFI”) designation process and provide a written report within 180 days of the date of the Executive Order. The Executive Order directs the Secretary of the Treasury to consider, among other attributes, whether the designation process is sufficiently transparent, provides entities with adequate due process, is supported by quantified risk assessments, and whether the designated entity is provided an opportunity to reduce identified risks to avoid SIFI designation. The Executive Order also directs the Secretary of the Treasury to evaluate the activities of the Financial Stability Oversight Council (“FSOC”) related to its authority to make SIFI designations and determine whether that authority is consistent

The Allstate Corporation 101

---

## Recent Developments

with the Presidential Executive Order on Core Principles for Regulating the U.S. Financial System. Lastly, the Executive Order temporarily suspends SIFI determinations and designations pending submission and review of the Secretary of the Treasury's report. The Company has not been designated a SIFI under existing criteria nor does it anticipate a future SIFI designation if the activities and authorities of the FSOC are modified.

On June 8, 2017, the House of Representatives passed the Financial CHOICE Act ("Act") that would repeal or modify significant portions of Dodd-Frank and address a wide range of other financial regulations. The Act would repeal FSOC authority to designate certain nonbank financial institutions as systemically important, rescind previous FSOC designations of nonbank financial institutions as systemically important, and repeal FSOC authority to order a nonbank financial institution to sell or transfer assets upon the recommendation of the Federal Reserve.

U.S. Treasury Department. On February 3, 2017, the President signed an Executive Order establishing Core Principles for financial regulation. These principles include empowering Americans to make independent financial decisions, save for retirement, and build wealth; preventing taxpayer-funded bailouts; promoting American competitiveness both at home and abroad; and making regulation efficient, effective and appropriately tailored. The Executing Order calls for the Secretary of the Treasury to evaluate the existing U.S. financial regulatory system to determine the extent to which existing regulation promotes the Core Principles and to identify laws, regulations, and other regulatory actions that inhibit regulation in a manner consistent with the Core Principles. The first in a series of reports examining the U.S. financial regulatory system focused on depository institutions and was released on June 12, 2017. Subsequent reports, including one that will address the asset management and insurance industries, are expected later in 2017.

## Forward-Looking Statements

This report contains “forward-looking statements” that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like “plans,” “seeks,” “expects,” “will,” “should,” “anticipates,” “estimates,” “intends,” “believes,” “likely,” “targets” and other words with similar meanings. We believe these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. Factors that could cause actual results to differ materially from those expressed in, or implied by, the forward-looking statements include risks related to: (1) adverse changes in the nature and level of catastrophes and severe weather events; (2) our catastrophe management strategy on premium growth; (3) unexpected increases in the frequency or severity of claims; (4) regulatory changes, including limitations on rate increases and requirements to underwrite business and participate in loss sharing arrangements; (5) impacts from the Covered Agreement, including possible new capital and solvency regulations and changes in state insurance laws; (6) the cyclical nature of the property and casualty business; (7) market convergence and regulatory changes on our risk segmentation and pricing; (8) reestimates of reserves for claims; (9) adverse legal determinations regarding discontinued product lines and other legal and regulatory actions; (10) changes in underwriting and actual experience; (11) changes in reserve estimates for life-contingent contract benefits payable; (12) the influence of changes in market interest rates or performance-based investment returns on spread-based products; (13) changes in estimates of profitability on interest-sensitive life products; (14) reducing our concentration in spread-based business and exiting certain distribution channels; (15) changes in tax laws; (16) our ability to mitigate the capital impact associated with statutory reserving and capital requirements; (17) a decline in Lincoln Benefit Life Company’s financial strength ratings; (18) market risk and declines in credit quality relating to our investment portfolio; (19) our subjective determination of the fair value of our fixed income and equity securities and the amount of realized capital losses recorded for impairments of our investments; (20) competition in the insurance industry; (21) impacts of new or changing technologies on our business; (22) conditions in the global economy and capital markets; (23) losses from legal and regulatory actions; (24) restrictive regulation and regulatory reforms; (25) the availability of reinsurance at current levels and prices; (26) risk of our reinsurers; (27) our participation in state industry pools and facilities; (28) a downgrade in our financial strength ratings; (29) the effect of adverse capital and credit market conditions; (30) failure in cyber or other information security; (31) the impact of a large scale pandemic, the threat or occurrence of terrorism or military action; (32) acquisitions of businesses; (33) possible impairments in the value of goodwill; (34) changes in accounting standards; (35) the realization of deferred tax assets; (36) restrictions on our subsidiaries’ ability to pay dividends; (37) restrictions under the terms of certain of our securities on our ability to pay dividends or repurchase our stock; (38) changing climate and weather conditions; (39) loss of key vendor relationships or failure of a vendor to protect confidential and proprietary information; and (40) intellectual property infringement, misappropriation and third party claims. Additional information concerning these and other factors may be found in our filings with the Securities and Exchange Commission, including the “Risk Factors” section in our most recent annual report on Form 10-K. Forward-looking statements speak only as of the date on which they are made, and we assume no obligation to update or revise any forward-looking statement.

## Item 4. Controls and Procedures

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



Changes in Internal Control over Financial Reporting. During the fiscal quarter ended June 30, 2017, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Allstate Corporation 103

---

## Part II. Other Information

## Item 1. Legal Proceedings

Information required for Part II, Item 1 is incorporated by reference to the discussion under the heading “Regulation and Compliance” and under the heading “Legal and regulatory proceedings and inquiries” in Note 11 of the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

## Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

## 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>(3)</sup> | Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs <sup>(4)</sup> |
|--------------------------------|------------------------------------------------------------|----------------------------------------|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| April 1, 2017 - April 30, 2017 |                                                            |                                        |                                                                                                            |                                                                                                                                        |
| Open Market Purchases          | 981,245                                                    | \$81.0887                              | 980,700                                                                                                    |                                                                                                                                        |
| May 1, 2017 - May 31, 2017     |                                                            |                                        |                                                                                                            |                                                                                                                                        |
| Open Market Purchases          | 1,141,384                                                  | \$84.7170                              | 1,140,200                                                                                                  |                                                                                                                                        |
| June 1, 2017 - June 30, 2017   |                                                            |                                        |                                                                                                            |                                                                                                                                        |
| Goldman ASR <sup>(2)</sup>     | 2,454,945                                                  | \$86.5600                              | 2,454,945                                                                                                  |                                                                                                                                        |
| Open Market Purchases          | 103,358                                                    | \$86.4810                              | 100,000                                                                                                    |                                                                                                                                        |
| Total                          | 4,680,932                                                  | \$84.9619                              | 4,675,845                                                                                                  | \$45 million                                                                                                                           |

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

April: 545

May: 1,184

June: 3,358

(2) On June 9, 2017, Allstate entered into an accelerated share repurchase agreement (“ASR Agreement”) with Goldman, Sachs & Co. LLC (“Goldman”) to purchase \$250 million of our outstanding shares of common stock. In exchange for an upfront payment of \$250 million, Goldman initially delivered 2,454,945 shares to Allstate. The actual number of shares we repurchase under the ASR Agreement, and the average price paid per share, will be determined at the completion of the ASR Agreement based on the volume weighted average price of Allstate’s common stock during the period of Goldman’s purchases, which will end on or before August 17, 2017.

(3) 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.

(4) On May 4, 2016, we announced the approval of a new common share repurchase program for \$1.5 billion, which we expect to be completed by August 2017.

Item 6. Exhibits

(a) Exhibits

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

| Exhibit Number | Exhibit Description                                                                                                                                                                                       | Incorporated by Reference |                |                           | Filed or<br>Furnished<br>Herewith |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|----------------|---------------------------|-----------------------------------|
|                |                                                                                                                                                                                                           | Form                      | File<br>Number | Exhibit<br>Filing<br>Date |                                   |
| 4              | The Allstate Corporation hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of holders of each issue of long-term debt of it and its consolidated subsidiaries |                           |                |                           |                                   |
| 10.1           | The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors                                                                                                                         | Proxy 1-11840             |                | April 12, 2017            |                                   |
| 10.2           | Form of Restricted Stock Unit Award Agreement for awards granted on or after June 1, 2017, under The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors                        |                           |                |                           | X                                 |
| 10.3           | Offer Letter dated September 4, 2015, to Mary Jane Fortin                                                                                                                                                 |                           |                |                           | X                                 |
| 15             | Acknowledgment of awareness from Deloitte & Touche LLP, dated August 1, 2017, concerning unaudited interim financial information                                                                          |                           |                |                           | X                                 |
| 31(i)          | Rule 13a-14(a) Certification of Principal Executive Officer                                                                                                                                               |                           |                |                           | X                                 |
| 31(i)          | Rule 13a-14(a) Certification of Principal Financial Officer                                                                                                                                               |                           |                |                           | X                                 |
| 32             | Section 1350 Certifications                                                                                                                                                                               |                           |                |                           | X                                 |
| 101.INS        | XBRL Instance Document                                                                                                                                                                                    |                           |                |                           | X                                 |
| 101.SCH        | XBRL Taxonomy Extension Schema                                                                                                                                                                            |                           |                |                           | X                                 |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase                                                                                                                                                              |                           |                |                           | X                                 |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase                                                                                                                                                               |                           |                |                           | X                                 |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase                                                                                                                                                                    |                           |                |                           | X                                 |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase                                                                                                                                                             |                           |                |                           | X                                 |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Allstate Corporation  
(Registrant)

August 1, 2017      By      /s/ Eric K. Ferren  
Eric K. Ferren  
(chief accounting officer  
and duly  
authorized officer of  
Registrant)

106    [www.allstate.com](http://www.allstate.com)