UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 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 _X_ No ___

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

Yes _X_ No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	_X_	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 _X_

As of April 18, 2017, the registrant had 364,518,067 common shares, $.01 par value, outstanding.

THE ALLSTATE CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
March 31, 2017

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

($ in millions, except per share data)	Three months ended March 31,	
	2017	2016
	(unaudited)	
Revenues		
Property-liability insurance premiums	$ 7,959	$ 7,723
Life and annuity premiums and contract charges	593	566
Net investment income	748	731
Realized capital gains and losses:		
Total other-than-temporary impairment (“OTTI”) losses	(62)	(91)
OTTI losses reclassified to (from) other comprehensive income	3	10
Net OTTI losses recognized in earnings	(59)	(81)
Sales and other realized capital gains and losses	193	(68)
Total realized capital gains and losses	134	(149)
	9,434	8,871
Costs and expenses		
Property-liability insurance claims and claims expense	5,416	5,684
Life and annuity contract benefits	474	455
Interest credited to contractholder funds	173	190
Amortization of deferred policy acquisition costs	1,169	1,129
Operating costs and expenses	1,097	982
Restructuring and related charges	10	5
Interest expense	85	73
	8,424	8,518
Gain on disposition of operations	2	2
Income from operations before income tax expense	1,012	355
Income tax expense	317	109
Net income	695	246
Preferred stock dividends	29	29
Net income applicable to common shareholders	$ 666	$ 217
Earnings per common share:		
Net income applicable to common shareholders per common share - Basic	$ 1.82	$ 0.57
Weighted average common shares - Basic	365.7	378.1
Net income applicable to common shareholders per common share - Diluted	$ 1.79	$ 0.57
Weighted average common shares - Diluted	371.3	382.9
Cash dividends declared per common share	$ 0.37	$ 0.33

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ in millions)	Three months ended March 31,	
	2017	2016
	(unaudited)	
Net income	$ 695	$ 246
Other comprehensive income, after-tax		
Changes in:		
Unrealized net capital gains and losses	203	580
Unrealized foreign currency translation adjustments	(3)	14
Unrecognized pension and other postretirement benefit cost	19	11
Other comprehensive income, after-tax	219	605
Comprehensive income	$ 914	$ 851

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in millions, except par value data)	March 31, 2017 (unaudited)	December 31, 2016
Assets		
Investments		
Fixed income securities, at fair value (amortized cost $57,194 and $56,576)	$ 58,636	$ 57,839
Equity securities, at fair value (cost $5,026 and $5,157)	5,685	5,666
Mortgage loans	4,349	4,486
Limited partnership interests	5,982	5,814
Short-term, at fair value (amortized cost $2,753 and $4,288)	2,753	4,288
Other	3,738	3,706
Total investments	81,143	81,799
Cash	442	436
Premium installment receivables, net	5,649	5,597
Deferred policy acquisition costs	3,988	3,954
Reinsurance recoverables, net	8,723	8,745
Accrued investment income	577	567
Property and equipment, net	1,067	1,065
Goodwill	2,295	1,219
Other assets	2,923	1,835
Separate Accounts	3,436	3,393
Total assets	$ 110,243	$ 108,610
Liabilities		
Reserve for property-liability insurance claims and claims expense	$ 25,628	$ 25,250
Reserve for life-contingent contract benefits	12,223	12,239
Contractholder funds	20,051	20,260
Unearned premiums	12,705	12,583
Claim payments outstanding	845	879
Deferred income taxes	833	487
Other liabilities and accrued expenses	7,018	6,599
Long-term debt	6,346	6,347
Separate Accounts	3,436	3,393
Total liabilities	89,085	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, 365 million and 366 million shares outstanding	9	9
Additional capital paid-in	3,285	3,303
Retained income	41,208	40,678
Deferred ESOP expense	(6)	(6)
Treasury stock, at cost (535 million and 534 million shares)	(24,887)	(24,741)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	59	57
Other unrealized net capital gains and losses	1,304	1,091
Unrealized adjustment to DAC, DSI and insurance reserves	(107)	(95)
Total unrealized net capital gains and losses	1,256	1,053
Unrealized foreign currency translation adjustments	(53)	(50)
Unrecognized pension and other postretirement benefit cost	(1,400)	(1,419)
Total accumulated other comprehensive loss	(197)	(416)
Total shareholders' equity	21,158	20,573
Total liabilities and shareholders' equity	$ 110,243	$ 108,610

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

($ in millions)	Three months ended March 31, 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
Equity incentive plans activity	(18)	(8)
Balance, end of period	3,285	3,237
Retained income		
Balance, beginning of period	40,678	39,413
Net income	695	246
Dividends on common stock	(136)	(125)
Dividends on preferred stock	(29)	(29)
Balance, end of period	41,208	39,505
Deferred ESOP expense	(6)	(13)
Treasury stock		
Balance, beginning of period	(24,741)	(23,620)
Shares acquired	(249)	(450)
Shares reissued under equity incentive plans, net	103	76
Balance, end of period	(24,887)	(23,994)
Accumulated other comprehensive income		
Balance, beginning of period	(416)	(755)
Change in unrealized net capital gains and losses	203	580
Change in unrealized foreign currency translation adjustments	(3)	14
Change in unrecognized pension and other postretirement benefit cost	19	11
Balance, end of period	(197)	(150)
Total shareholders' equity	$ 21,158	$ 20,340

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	Three months ended March 31, 2017	2016
Cash flows from operating activities	(unaudited)	
Net income	$ 695	$ 246
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	119	91
Realized capital gains and losses	(134)	149
Gain on disposition of operations	(2)	(2)
Interest credited to contractholder funds	173	190
Changes in:		
Policy benefits and other insurance reserves	183	459
Unearned premiums	(248)	(205)
Deferred policy acquisition costs	14	(7)
Premium installment receivables, net	(19)	11
Reinsurance recoverables, net	11	(40)
Income taxes	284	(26)
Other operating assets and liabilities	(219)	(152)
Net cash provided by operating activities	857	714
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	7,083	6,216
Equity securities	2,601	1,664
Limited partnership interests	210	180
Other investments	24	94
Investment collections		
Fixed income securities	1,029	949
Mortgage loans	223	79
Other investments	174	43
Investment purchases		
Fixed income securities	(8,800)	(5,401)
Equity securities	(2,383)	(1,733)
Limited partnership interests	(268)	(270)
Mortgage loans	(86)	(44)
Other investments	(219)	(253)
Change in short-term investments, net	1,572	(1,357)
Change in other investments, net	(10)	(19)
Purchases of property and equipment, net	(74)	(52)
Acquisition of operations	(1,356)	—
Net cash (used in) provided by investing activities	(280)	96
Cash flows from financing activities		
Repayments of long-term debt	—	(16)
Contractholder fund deposits	257	261
Contractholder fund withdrawals	(483)	(492)
Dividends paid on common stock	(122)	(115)
Dividends paid on preferred stock	(29)	(29)
Treasury stock purchases	(264)	(456)
Shares reissued under equity incentive plans, net	67	30
Excess tax benefits on share-based payment arrangements	—	12
Other	3	31
Net cash used in financing activities	(571)	(774)
Net increase in cash	6	36
Cash at beginning of period	436	495
Cash at end of period	$ 442	$ 531

See notes to condensed consolidated financial statements.

1. General

Basis of presentation

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

The condensed consolidated financial statements and notes as of March 31, 2017 and for the three-month periods ended March 31, 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 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 March 31, 2017, relate to the change in accounting for equity securities, where $659 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 $194 million, pre-tax, with the 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. 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, which includes 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, which include 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 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 March 31,**	
	2017	**2016**
Numerator:		
Net income	$ 695	$ 246
Less: Preferred stock dividends	29	29
Net income applicable to common shareholders [1]	$ 666	$ 217
Denominator:		
Weighted average common shares outstanding	365.7	378.1
Effect of dilutive potential common shares:		
Stock options	4.2	3.4
Restricted stock units (non-participating) and performance stock awards	1.4	1.4
Weighted average common and dilutive potential common shares outstanding	371.3	382.9
Earnings per common share - Basic	$ 1.82	$ 0.57
Earnings per common share - Diluted	$ 1.79	$ 0.57

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

The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per common share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect. Options to purchase 2.8 million and 5.0 million Allstate common shares, with exercise prices ranging from $67.81 to $81.86 and $52.18 to $71.29, were outstanding for the three-month periods ended March 31, 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.

As of March 31, 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. Supplemental Cash Flow Information

Non-cash investing activities include $5 million and $7 million related to mergers and exchanges completed with equity securities for the three months ended March 31, 2017 and 2016, respectively. Non-cash financing activities include $40 million and $37 million related to the issuance of Allstate common shares for vested equity awards for the three months ended March 31, 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 three months ended March 31, 2016.

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

($ in millions)	Three months ended March 31,	
	2017	2016
Net change in proceeds managed		
Net change in fixed income securities	$ (17)	$ —
Net change in short-term investments	(26)	(34)
Operating cash flow used	$ (43)	$ (34)
Net change in liabilities		
Liabilities for collateral, beginning of period	$ (1,129)	$ (840)
Liabilities for collateral, end of period	(1,172)	(874)
Operating cash flow provided	$ 43	$ 34

5. Investments

Fair values

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

($ in millions)		Gross unrealized		Fair value
	Amortized cost	Gains	Losses	
March 31, 2017				
U.S. government and agencies	$ 4,329	$ 70	$ (4)	$ 4,395
Municipal	7,249	315	(57)	7,507
Corporate	42,543	1,234	(242)	43,535
Foreign government	995	34	(2)	1,027
Asset-backed securities ("ABS")	1,262	15	(12)	1,265
Residential mortgage-backed securities ("RMBS")	589	89	(6)	672
Commercial mortgage-backed securities ("CMBS")	206	14	(9)	211
Redeemable preferred stock	21	3	—	24
Total fixed income securities	$ 57,194	$ 1,774	$ (332)	$ 58,636
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 March 31, 2017:

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 4,193	$ 4,225
Due after one year through five years	29,206	29,746
Due after five years through ten years	16,306	16,549
Due after ten years	5,432	5,968
	55,137	56,488
ABS, RMBS and CMBS	2,057	2,148
Total	$ 57,194	$ 58,636

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

Net investment income

Net investment income is as follows:

($ in millions)	Three months ended March 31,	
	2017	2016
Fixed income securities	$ 518	$ 518
Equity securities	44	28
Mortgage loans	55	53
Limited partnership interests	120	121
Short-term investments	6	4
Other	56	51
Investment income, before expense	799	775
Investment expense	(51)	(44)
Net investment income	$ 748	$ 731

Realized capital gains and losses

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

($ in millions)	Three months ended March 31,	
	2017	2016
Fixed income securities	$ 5	$ (71)
Equity securities	106	(90)
Limited partnership interests	40	26
Derivatives	(15)	(9)
Other	(2)	(5)
Realized capital gains and losses	$ 134	$ (149)

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

($ in millions)	Three months ended March 31,	
	2017	2016
Impairment write-downs	$ (43)	$ (59)
Change in intent write-downs	(16)	(22)
Net other-than-temporary impairment losses recognized in earnings	(59)	(81)
Sales and other	208	(59)
Valuation and settlements of derivative instruments	(15)	(9)
Realized capital gains and losses	$ 134	$ (149)

Gross gains of $235 million and $143 million and gross losses of $75 million and $211 million were realized on sales of fixed income and equity securities during the three months ended March 31, 2017 and 2016, respectively.

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

($ in millions)	Three months ended March 31, 2017			Three months ended March 31, 2016		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Corporate	$ (9)	$ 3	$ (6)	$ (16)	$ 7	$ (9)
ABS	—	—	—	(6)	1	(5)
RMBS	(1)	(3)	(4)	—	—	—
CMBS	(6)	3	(3)	(4)	2	(2)
Total fixed income securities	(16)	3	(13)	(26)	10	(16)
Equity securities	(36)	—	(36)	(77)	—	(77)
Limited partnership interests	(7)	—	(7)	13	—	13
Other	(3)	—	(3)	(1)	—	(1)
Other-than-temporary impairment losses	$ (62)	$ 3	$ (59)	$ (91)	$ 10	$ (81)

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 $239 million and $221 million as of March 31, 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)	March 31, 2017	December 31, 2016
Municipal	$ (8)	$ (8)
Corporate	(8)	(7)
ABS	(22)	(21)
RMBS	(102)	(90)
CMBS	(8)	(7)
Total	$ (148)	$ (133)

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 March 31,	
	2017	2016
Beginning balance	$ (318)	$ (392)
Additional credit loss for securities previously other-than-temporarily impaired	(8)	(8)
Additional credit loss for securities not previously other-than-temporarily impaired	(5)	(8)
Reduction in credit loss for securities disposed or collected	37	58
Ending balance	$ (294)	$ (350)

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) March 31, 2017	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
Fixed income securities	$ 58,636	$ 1,774	$ (332)	$ 1,442
Equity securities	5,685	714	(55)	659
Short-term investments	2,753	—	—	—
Derivative instruments [(1)]	3	3	(3)	—
Equity method ("EMA") limited partnerships [(2)]				—
Unrealized net capital gains and losses, pre-tax				2,101
Amounts recognized for:				
Insurance reserves [(3)]				—
DAC and DSI [(4)]				(165)
Amounts recognized				(165)
Deferred income taxes				(680)
Unrealized net capital gains and losses, after-tax				$ 1,256

(1) Included in the fair value of derivative instruments is $(3) million classified as liabilities.

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

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

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

($ in millions) December 31, 2016	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
Fixed income securities	$ 57,839	$ 1,710	$ (447)	$ 1,263
Equity securities	5,666	594	(85)	509
Short-term investments	4,288	—	—	—
Derivative instruments [(1)]	5	5	(3)	2
EMA limited partnerships				(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

(1) 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 three months ended March 31, 2017 is as follows:

($ in millions)		
Fixed income securities	$	179
Equity securities		150
Derivative instruments		(2)
EMA limited partnerships		4
Total		331
Amounts recognized for:		
Insurance reserves		—
DAC and DSI		(19)
Amounts recognized		(19)
Deferred income taxes		(109)
Increase in unrealized net capital gains and losses, after-tax	$	203

Portfolio monitoring

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

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

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

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

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

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

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

($ in millions)	Less than 12 months			12 months or more			Total unrealized losses
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	
March 31, 2017							
Fixed income securities							
U.S. government and agencies	45	$ 1,411	$ (4)	—	$ —	$ —	$ (4)
Municipal	963	2,000	(47)	8	30	(10)	(57)
Corporate	714	10,634	(186)	51	462	(56)	(242)
Foreign government	33	166	(2)	—	—	—	(2)
ABS	30	219	(1)	13	61	(11)	(12)
RMBS	63	44	(1)	187	77	(5)	(6)
CMBS	8	21	(2)	7	19	(7)	(9)
Total fixed income securities	1,856	14,495	(243)	266	649	(89)	(332)
Equity securities	133	476	(41)	21	98	(14)	(55)
Total fixed income and equity securities	1,989	$ 14,971	$ (284)	287	$ 747	$ (103)	$ (387)
Investment grade fixed income securities	1,697	$ 12,905	$ (211)	194	$ 340	$ (47)	$ (258)
Below investment grade fixed income securities	159	1,590	(32)	72	309	(42)	(74)
Total fixed income securities	1,856	$ 14,495	$ (243)	266	$ 649	$ (89)	$ (332)
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 March 31, 2017, $314 million of the $387 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 $314 million, $232 million are related to unrealized losses on investment grade fixed income securities and $34 million are related to equity securities. Of the remaining $48 million, $28 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 March 31, 2017, the remaining $73 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost. Investment grade fixed income securities comprising $26 million of these unrealized losses were evaluated based on factors such as discounted cash flows and the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations. Of the $73 million, $26 million are related to below investment grade fixed income securities and $21 million are related to equity securities. Of these amounts, $17 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 March 31, 2017.

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 March 31, 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 March 31, 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 March 31, 2017 and December 31, 2016, the carrying value of equity method limited partnerships totaled $4.69 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 March 31, 2017 and December 31, 2016, the carrying value for cost method limited partnerships was $1.29 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 March 31, 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.

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)	March 31, 2017			December 31, 2016		
Debt service coverage ratio distribution	**Fixed rate mortgage loans**	**Variable rate mortgage loans**	**Total**	**Fixed rate mortgage loans**	**Variable rate mortgage loans**	**Total**
Below 1.0	$ 27	$ —	$ 27	$ 60	$ —	$ 60
1.0 - 1.25	334	—	334	324	—	324
1.26 - 1.50	1,316	—	1,316	1,293	—	1,293
Above 1.50	2,628	39	2,667	2,765	39	2,804
Total non-impaired mortgage loans	$ 4,305	$ 39	$ 4,344	$ 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)	March 31, 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 three months ended March 31, 2017 and 2016, respectively.

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

($ in millions)	Three months ended March 31,	
	2017	2016
Beginning balance	$ 3	$ 3
Charge offs	—	—
Ending balance	$ 3	$ 3

Payments on all mortgage loans were current as of March 31, 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 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.

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

Level 3 measurements

- Fixed income securities:

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

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

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

- Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements.
- Other investments: Certain OTC derivatives, such as interest rate caps, certain credit default swaps and certain options (including swaptions), are valued using models that are widely accepted in the financial services industry. These are categorized as Level 3 as a result of the significance of non-market observable inputs such as volatility. Other primary inputs include interest rate yield curves and credit spreads.
- Contractholder funds: Derivatives embedded in certain life and annuity contracts are valued internally using models widely accepted in the financial services industry that determine a single best estimate of fair value for the embedded derivatives within a block of contractholder liabilities. The models primarily use stochastically determined cash flows based on the contractual elements of embedded derivatives, projected option cost and applicable market data, such as interest rate yield curves and equity index volatility assumptions. These are categorized as Level 3 as a result of the significance of non-market observable inputs.

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

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

The following table summarizes the Company’s assets and liabilities measured at fair value on a recurring and non-recurring basis as of March 31, 2017.

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of March 31, 2017
Assets					
Fixed income securities:					
U.S. government and agencies	$ 3,710	$ 685	$ —		$ 4,395
Municipal	—	7,383	124		7,507
Corporate - public	—	31,262	60		31,322
Corporate - privately placed	—	11,950	263		12,213
Foreign government	—	1,027	—		1,027
ABS - CDO	—	533	147		680
ABS - consumer and other	—	505	80		585
RMBS	—	672	—		672
CMBS	—	186	25		211
Redeemable preferred stock	—	24	—		24
Total fixed income securities	3,710	54,227	699		58,636
Equity securities	5,240	275	170		5,685
Short-term investments	449	2,269	35		2,753
Other investments: Free-standing derivatives	—	120	1	$ (13)	108
Separate account assets	3,436	—	—		3,436
Total recurring basis assets	12,835	56,891	905	(13)	70,618
Non-recurring basis [(1)]	—	—	18		18
Total assets at fair value	$ 12,835	$ 56,891	$ 923	$ (13)	$ 70,636
% of total assets at fair value	18.2%	80.5%	1.3%	— %	100%
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (286)		$ (286)
Other liabilities: Free-standing derivatives	—	(71)	(2)	$ 23	(50)
Total liabilities at fair value	$ —	$ (71)	$ (288)	$ 23	$ (336)
% of total liabilities at fair value	—%	21.1%	85.7%	(6.8)%	100%

(1) Includes $16 million of limited partnership interests and $2 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 in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of December 31, 2016
Assets					
Fixed income securities:					
U.S. government and agencies	$ 2,918	$ 719	$ —		$ 3,637
Municipal	—	7,208	125		7,333
Corporate - public	—	31,414	78		31,492
Corporate - privately placed	—	11,846	263		12,109
Foreign government	—	1,075	—		1,075
ABS - CDO	—	650	27		677
ABS - consumer and other	—	452	42		494
RMBS	—	727	1		728
CMBS	—	248	22		270
Redeemable preferred stock	—	24	—		24
Total fixed income securities	2,918	54,363	558		57,839
Equity securities	5,247	256	163		5,666
Short-term investments	850	3,423	15		4,288
Other investments: Free-standing derivatives	—	119	1	$ (9)	111
Separate account assets	3,393	—	—		3,393
Other assets	—	—	1		1
Total recurring basis assets	12,408	58,161	738	(9)	71,298
Non-recurring basis [(1)]	—	—	24		24
Total assets at fair value	$ 12,408	$ 58,161	$ 762	$ (9)	$ 71,322
% of total assets at fair value	17.4%	81.5%	1.1%	— %	100%
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (290)		$ (290)
Other liabilities: Free-standing derivatives	(1)	(68)	(3)	$ 28	(44)
Total liabilities at fair value	$ (1)	$ (68)	$ (293)	$ 28	$ (334)
% of total liabilities at fair value	0.3%	20.4%	87.7%	(8.4)%	100%

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

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

($ in millions)	Fair value	Valuation technique	Unobservable input	Range	Weighted average
March 31, 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 March 31, 2017 and December 31, 2016, Level 3 fair value measurements of fixed income securities total $699 million and $558 million, respectively, and include $328 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 $79 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 (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 March 31, 2017.

($ in millions)

		Total gains (losses) included in:			
	Balance as of December 31, 2016	**Net income** [1]	**OCI**	**Transfers into Level 3**	**Transfers out of Level 3**
Assets					
Fixed income securities:					
Municipal	$ 125	$ 1	$ 1	$ —	$ (1)
Corporate - public	78	—	—	—	(16)
Corporate - privately placed	263	—	5	—	—
ABS - CDO	27	—	2	27	—
ABS - consumer and other	42	—	—	—	(2)
RMBS	1	—	—	—	—
CMBS	22	—	—	—	—
Total fixed income securities	558	1	8	27	(19)
Equity securities	163	10	—	—	(3)
Short-term investments	15	—	—	—	—
Free-standing derivatives, net	(2)	1	—	—	—
Other assets	1	(1)	—	—	—
Total recurring Level 3 assets	$ 735	$ 11	$ 8	$ 27	$ (22)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (290)	$ 3	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (290)	$ 3	$ —	$ —	$ —

	Purchases	**Sales**	**Issues**	**Settlements**	**Balance as of March 31, 2017**
Assets					
Fixed income securities:					
Municipal	$ —	$ (2)	$ —	$ —	$ 124
Corporate - public	—	—	—	(2)	60
Corporate - privately placed	—	—	—	(5)	263
ABS - CDO	95	—	—	(4)	147
ABS - consumer and other	41	—	—	(1)	80
RMBS	—	—	—	(1)	—
CMBS	3	—	—	—	25
Total fixed income securities	139	(2)	—	(13)	699
Equity securities	1	(1)	—	—	170
Short-term investments	20	—	—	—	35
Free-standing derivatives, net	—	—	—	—	(1) [2]
Other assets	—	—	—	—	—
Total recurring Level 3 assets	$ 160	$ (3)	$ —	$ (13)	$ 903
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (1)	$ 2	$ (286)
Total recurring Level 3 liabilities	$ —	$ —	$ (1)	$ 2	$ (286)

(1) The effect to net income totals $14 million and is reported in the Condensed Consolidated Statements of Operations as follows: $2 million in realized capital gains and losses, $10 million in net investment income, $(5) million in interest credited to contractholder funds and $7 million in life and annuity contract benefits.

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

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three months ended March 31, 2016.

($ in millions)	Balance as of December 31, 2015	Total gains (losses) included in: Net income [1]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
U.S. government and agencies	$ 5	$ —	$ —	$ —	$ —
Municipal	161	10	(8)	—	—
Corporate - public	46	—	1	25	(7)
Corporate - privately placed	502	1	5	—	(14)
ABS - CDO	61	—	(1)	4	—
ABS - consumer and other	50	—	(1)	—	—
RMBS	1	—	—	—	—
CMBS	20	—	—	—	—
Total fixed income securities	846	11	(4)	29	(21)
Equity securities	133	(24)	7	—	—
Free-standing derivatives, net	(7)	(1)	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	$ 973	$ (14)	$ 3	$ 29	$ (21)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (299)	$ (15)	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (299)	$ (15)	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of March 31, 2016
Assets					
Fixed income securities:					
U.S. government and agencies	$ —	$ —	$ —	$ (1)	$ 4
Municipal	—	(16)	—	(1)	146
Corporate - public	—	—	—	(2)	63
Corporate - privately placed	63	—	—	(8)	549
ABS - CDO	—	(2)	—	(4)	58
ABS - consumer and other	—	(5)	—	—	44
RMBS	—	—	—	—	1
CMBS	2	—	—	(2)	20
Total fixed income securities	65	(23)	—	(18)	885
Equity securities	9	—	—	—	125
Free-standing derivatives, net	—	—	—	—	(8) [2]
Other assets	—	—	—	—	1
Total recurring Level 3 assets	$ 74	$ (23)	$ —	$ (18)	$ 1,003
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (1)	$ 2	$ (313)
Total recurring Level 3 liabilities	$ —	$ —	$ (1)	$ 2	$ (313)

[1] The effect to net income totals $(29) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(16) million in realized capital gains and losses, $2 million in net investment income, $1 million in interest credited to contractholder funds and $(16) million in life and annuity contract benefits.

[2] Comprises $1 million of assets and $9 million of liabilities.

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

Level 3. Transfers in and out of level categorizations are reported as having occurred at the beginning of the quarter in which the transfer occurred. Therefore, for all transfers into Level 3, all realized and changes in unrealized gains and losses in the quarter of transfer are reflected in the Level 3 rollforward table.

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2017 or 2016.

Transfers into Level 3 during the three months ended March 31, 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 ended March 31, 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 March 31.

($ in millions)	Three months ended March 31, 2017	Three months ended March 31, 2016
Assets		
Fixed income securities:		
Corporate	$ —	$ (2)
Equity securities	10	(24)
Free-standing derivatives, net	1	(1)
Other assets	(1)	—
Total recurring Level 3 assets	$ 10	$ (27)
Liabilities		
Contractholder funds: Derivatives embedded in life and annuity contracts	$ 3	$ (15)
Total recurring Level 3 liabilities	$ 3	$ (15)

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 $13 million for the three months ended March 31, 2017 and are reported as follows: $1 million in realized capital gains and losses, $10 million in net investment income, $(5) million in interest credited to contractholder funds and $7 million in life and annuity contract benefits. These gains and losses total $(42) million for the three months ended March 31, 2016 and are reported as follows: $(29) million in realized capital gains and losses, $2 million in net investment income, $1 million in interest credited to contractholder funds and $(16) 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)	March 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Mortgage loans	$ 4,349	$ 4,445	$ 4,486	$ 4,514
Cost method limited partnerships	1,293	1,525	1,282	1,493
Bank loans	1,673	1,677	1,669	1,677
Agent loans	489	488	467	467

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)	March 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	$ 11,082	$ 11,635	$ 11,313	$ 12,009
Long-term debt	6,346	6,991	6,347	6,920
Liability for collateral	1,172	1,172	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.

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

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

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

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

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 March 31, 2017, the Company pledged $13 million of cash in the form of margin deposits.

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

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

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statement of Financial Position as of March 31, 2017.

($ in millions, except number of contracts)		Volume [1]				
	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	$ 30	n/a	$ 1	$ 1	$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other investments	33	n/a	—	—	—
Equity and index contracts						
Options	Other investments	—	4,115	102	102	—
Financial futures contracts	Other assets	—	720	—	—	—
Foreign currency contracts						
Foreign currency forwards	Other investments	540	n/a	(9)	9	(18)
Credit default contracts						
Credit default swaps – buying protection	Other investments	117	n/a	(2)	1	(3)
Credit default swaps – selling protection	Other investments	90	n/a	1	1	—
Other contracts						
Other contracts	Other assets	3	n/a	—	—	—
Subtotal		783	4,835	92	113	(21)
Total asset derivatives		$ 813	4,835	$ 93	$ 114	$ (21)
Liability derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$ 19	n/a	$ 3	$ 3	$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other liabilities & accrued expenses	29	n/a	1	1	—
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	—	4,558	(44)	—	(44)
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	224	n/a	—	3	(3)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	350	n/a	(29)	—	(29)
Guaranteed withdrawal benefits	Contractholder funds	291	n/a	(7)	—	(7)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,750	n/a	(250)	—	(250)
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	131	n/a	(4)	—	(4)
Credit default swaps – selling protection	Other liabilities & accrued expenses	115	n/a	(1)	—	(1)
Subtotal		2,890	4,558	(334)	4	(338)
Total liability derivatives		2,909	4,558	(331)	$ 7	$ (338)
Total derivatives		$ 3,722	9,393	$ (238)		

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

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

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

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

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

($ in millions)	Gross amount	Offsets: Counter-party netting	Offsets: Cash collateral (received) pledged	Net amount on balance sheet	Securities collateral (received) pledged	Net amount
March 31, 2017						
Asset derivatives	$ 18	$ (28)	$ 15	$ 5	$ (2)	$ 3
Liability derivatives	(29)	28	(5)	(6)	3	(3)
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 $2 million during the next twelve months. There was no hedge ineffectiveness reported in realized gains and losses for the three months ended March 31, 2017 or 2016.

($ in millions)	Three months ended March 31, 2017	Three months ended March 31, 2016
Loss recognized in OCI on derivatives during the period	$ (2)	$ (2)
Gain recognized in OCI on derivatives during the term of the hedging relationship	—	4

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 ended March 31, 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 March 31, 2017					
Equity and index contracts	$ (7)	$ —	$ 13	$ 7	$ 13
Embedded derivative financial instruments	—	7	(4)	—	3
Foreign currency contracts	(7)	—	—	1	(6)
Credit default contracts	(1)	—	—	—	(1)
Total	$ (15)	$ 7	$ 9	$ 8	$ 9
Three months ended March 31, 2016					
Equity and index contracts	$ —	$ —	$ (7)	$ —	$ (7)
Embedded derivative financial instruments	—	(16)	2	—	(14)
Foreign currency contracts	(5)	—	—	(5)	(10)
Credit default contracts	(4)	—	—	—	(4)
Total	$ (9)	$ (16)	$ (5)	$ (5)	$ (35)

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 March 31, 2017, counterparties pledged $9 million in cash and securities to the Company, and the Company pledged $20 million in cash and securities to counterparties which includes $1 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and $19 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.

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

($ in millions)	March 31, 2017				December 31, 2016			
Rating [1]	Number of counter-parties	Notional amount [2]	Credit exposure [2]	Exposure, net of collateral [2]	Number of counter-parties	Notional amount [2]	Credit exposure [2]	Exposure, net of collateral [2]
AA-	1	$ 6	$ —	$ —	2	$ 80	$ 2	$ 2
A+	5	707	8	1	5	698	20	9
A	1	30	1	1	—	—	—	—
A-	—	—	—	—	1	110	1	1
Total	7	$ 743	$ 9	$ 2	8	$ 888	$ 23	$ 12

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

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

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

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

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

($ in millions)	March 31, 2017	December 31, 2016
Gross liability fair value of contracts containing credit-risk-contingent features	$ 11	$ 9
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(9)	(7)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	(1)	—
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	$ 1	$ 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 following table shows the CDS notional amounts by credit rating and fair value of protection sold.

($ in millions)	Notional amount					
	AA	A	BBB	BB and lower	Total	Fair value
March 31, 2017						
Single name						
Corporate debt	$ —	$ —	$ 25	$ —	$ 25	$ 1
First-to-default Basket						
Municipal	—	—	100	—	100	(2)
Index						
Corporate debt	—	19	48	13	80	1
Total	$ —	$ 19	$ 173	$ 13	$ 205	$ —
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, 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)	Three months ended March 31,	
	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	5,513	5,660
Prior years	(97)	24
Total incurred	5,416	5,684
Claims and claims expense paid related to:		
Current year	2,239	2,148
Prior years	2,815	2,867
Total paid	5,054	5,015
Net balance as of March 31	19,445	18,646
Plus reinsurance recoverables	6,183	5,959
Balance as of March 31	$ 25,628	$ 24,605

Incurred claims and claims expense represents the sum of paid losses and reserve changes in the period. This expense includes losses from catastrophes of $781 million and $827 million in the three months ended March 31, 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 three months ended March 31, 2017, incurred claims and claims expense related to prior years was primarily composed of net decreases in auto reserves of $86 million primarily due to claim severity development for bodily injury coverage that was better than expected, net decreases in homeowners reserves of $24 million due to favorable non-catastrophe reserve reestimates, net increases in other reserves of $11 million primarily due to unfavorable catastrophe loss reestimates, and net increases in Discontinued Lines and Coverages of $2 million. Incurred claims and claims expense includes unfavorable catastrophe loss reestimates of $4 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 March 31,	
	2017	2016
Property-liability insurance premiums earned	$ 246	$ 249
Life and annuity premiums and contract charges	75	74

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 March 31,	
	2017	2016
Property-liability insurance claims and claims expense	$ 131	$ 161
Life and annuity contract benefits	47	67
Interest credited to contractholder funds	5	5

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 $10 million and $5 million during the three months ended March 31, 2017 and 2016, respectively.

The following table presents changes in the restructuring liability during the three months ended March 31, 2017.

($ in millions)	Employee costs	Exit costs	Total liability
Balance as of December 31, 2016	$ —	$ 2	$ 2
Expense incurred	3	2	5
Payments applied against liability	—	(3)	(3)
Balance as of March 31, 2017	$ 3	$ 1	$ 4

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 March 31, 2017, the cumulative amount incurred to date for active programs totaled $62 million for employee costs and $63 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 March 31, 2017, the Company's maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be $43 million as of March 31, 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 March 31, 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 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 $725 million, pre-tax. This disclosure is not an indication of expected loss, if any. Under accounting guidance, an event is "reasonably possible" if "the chance of the future event or events occurring is more than remote but less than likely" and an event is "remote" if "the chance of the future event or events occurring is slight." This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimate will change from time to time, and actual results may vary significantly from the current estimate. The estimate does not include matters or losses for which an estimate is not possible. Therefore, this estimate represents an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum possible loss exposure. Information is provided below regarding the nature of all of the disclosed matters and, where specified, the amount, if any, of plaintiff claims associated with these loss contingencies.

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

Claims related proceedings

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

The first case is *Christopher Williams, et al. v. Allstate Insurance Company*. The *Williams* case is pending in Los Angeles Superior Court and was filed in December 2007. The case involves two classes. The first class includes auto field physical damage adjusters employed in the state of California from January 1, 2005 to the date of final judgment, to the extent the Company failed to pay for off-the-clock work to those adjusters who performed certain duties prior to their first assignments. The other class includes all non-exempt employees in California from December 19, 2006 until June 2011 who received pay statements from Allstate which allegedly did not comply with California law. On April 13, 2016, the court granted the Company's motion to decertify both classes; both classes are thus dissolved unless and until the appellate court orders the classes recertified. On May 17, 2016, plaintiffs filed their notice of appeal. Plaintiff's opening brief was filed on November 22, 2016. Allstate's response is due May 9, 2017.

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

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

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

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

On January 26, 2017, the Florida Supreme Court issued its decision in *Allstate Insurance Company v. Orthopedic Specialists, et al.*, holding that Allstate's language was clear and unambiguous and provided adequate notice of its intent to use the fee schedules. 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 will be resolved favorably to Allstate in other pending cases. There are three cases with petitions for leave to appeal to the Florida Supreme Court pending. In those cases, three District Courts of Appeal had previously ruled in favor of Allstate. The Florida Supreme Court has 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. 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 are due May 8, 2017. We expect the Florida Supreme Court to decline exercising jurisdiction.

The Company was also litigating one class action on this issue, *Randy Rosenberg, et al. v. Allstate Fire & Casualty Insurance Company, Allstate Insurance Company*, and *Allstate Property & Casualty Insurance Company,* in the U.S. District Court for the Northern District of Illinois. This case had been stayed by the Illinois federal court pending a decision on this issue by the Florida Supreme Court. On March 31, 2017, the court entered an order pursuant to the parties' joint stipulation, dismissing this case with prejudice.

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. This will allow Allstate to seek final resolution in its favor of all fee schedule claims currently in litigation as well as those not in litigation. Allstate also may be able to seek restitution from some plaintiffs for attorneys' fees and costs.

Due to the Florida Supreme Court's decision in the *Orthopedic Specialists case*, a loss is not probable.

Other proceedings

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

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

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

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

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

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

Phase I discovery closed and the Company filed a motion for summary judgment as to all Phase I claims. Plaintiffs did not move for summary judgment. On November 22, 2016, the court granted in part, and denied in part, Allstate's Phase I summary judgment motion. The court determined that there were material issues of disputed fact requiring a trial on plaintiffs' claim challenging certain Plan amendments. The court granted the motion with respect to one plaintiff whose claim the court determined was barred by the statute of limitations. Further, the court granted the motion with respect to two other claims: 1) a claim that a 1993 Plan amendment resulted in an unlawful cutback of benefits; and 2) a claim for breach of fiduciary duty. The parties thereafter proceeded to a bench trial on December 5-6, 2016. On April 27, 2017, the court issued its Phase I findings and opinion and ruled that (a) the Company's 1991 amendments to the Plan did not violate ERISA by improperly cutting back on plaintiffs' benefits, and (b) the Company's interpretation of the Plan's definition of "retire" violated ERISA's anti-cutback rule. The court's order requires the parties to provide further information to determine whether any plaintiffs suffered a loss based on any such cutback.

Discovery in Phase II closed, and the Company filed motions for summary judgment on plaintiffs' ADEA claims and ERISA interference with employee benefits claim. Plaintiffs filed a cross-motion for summary judgment on the ERISA claim. On April 21, 2017, the court entered an order granting Allstate's motion for summary judgment on plaintiffs' disparate impact claim under the ADEA. The court reserved resolution of plaintiffs' disparate treatment claim under the ADEA for later individual proceedings. The court also entered an order granting Allstate's motion for summary judgment, and denying plaintiffs' motion for summary judgment, on the ERISA claim. The Phase II trial which had been scheduled to commence on May 8, 2017, was canceled.

With respect to the claims not included in Phase I or II, the Company filed a motion requesting that the court sever the claims of all individual plaintiffs who reside outside the Eastern District of Pennsylvania and then transfer those claims to each respective plaintiff's home jurisdiction. The court has not yet ruled on that motion. On April 27, 2017, the court issued an order allowing the parties to file supplemental memoranda addressing their positions on severance and case management in light of the Phase I and II rulings. Briefing on this issue is scheduled to be completed by May 30, 2017.

On September 2, 2016, in two cases asserting similar claims to those asserted in *Romero I* that had been filed on May 15, 2015, the U.S. District Court for the Southern District of Texas entered judgment in Allstate's favor on statute of limitations and other grounds. Plaintiffs did not appeal the judgments.

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

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

Asbestos and environmental

Allstate's reserves for asbestos claims were $891 million and $912 million, net of reinsurance recoverables of $428 million and $444 million, as of March 31, 2017 and December 31, 2016, respectively. Reserves for environmental claims were $178 million and $179 million, net of reinsurance recoverables of $39 million and $40 million, as of March 31, 2017 and December 31, 2016, respectively. Approximately 57% of the total net asbestos and environmental reserves as of both March 31, 2017 and December 31, 2016, were for incurred but not reported estimated losses.

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

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 March 31, 2017	Three months ended March 31, 2016
Pension benefits		
Service cost	$ 29	$ 28
Interest cost	66	71
Expected return on plan assets	(102)	(99)
Amortization of:		
Prior service credit	(14)	(14)
Net actuarial loss	47	43
Settlement loss	8	8
Net periodic pension cost	$ 34	$ 37
Postretirement benefits		
Service cost	$ 2	$ 2
Interest cost	4	4
Amortization of:		
Prior service credit	(6)	(5)
Net actuarial gain	(6)	(8)
Net periodic postretirement credit	$ (6)	$ (7)

13. Reporting Segments

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

($ in millions)	Three months ended March 31, 2017	Three months ended March 31, 2016
Property-Liability		
Property-liability insurance premiums		
Auto	$ 5,388	$ 5,220
Homeowners	1,815	1,810
Other personal lines	431	421
Commercial lines	125	129
Other business lines	141	143
SquareTrade	59	—
Allstate Protection	7,959	7,723
Discontinued Lines and Coverages	—	—
Total property-liability insurance premiums	7,959	7,723
Net investment income	311	302
Realized capital gains and losses	135	(99)
Total Property-Liability	8,405	7,926
Allstate Financial		
Life and annuity premiums and contract charges		
Premiums		
Traditional life insurance	149	138
Accident and health insurance	232	216
Total premiums	381	354
Contract charges		
Interest-sensitive life insurance	209	209
Fixed annuities	3	3
Total contract charges	212	212
Total life and annuity premiums and contract charges	593	566
Net investment income	426	419
Realized capital gains and losses	(1)	(49)
Total Allstate Financial	1,018	936
Corporate and Other		
Service fees	1	1
Net investment income	11	10
Realized capital gains and losses	—	(1)
Total Corporate and Other before reclassification of service fees	12	10
Reclassification of service fees [1]	(1)	(1)
Total Corporate and Other	11	9
Consolidated revenues	$ 9,434	$ 8,871

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

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

($ in millions)	Three months ended March 31, 2017	Three months ended March 31, 2016
Property-Liability		
Underwriting income		
Allstate Protection	$ 509	$ 127
Discontinued Lines and Coverages	(2)	(2)
Total underwriting income	507	125
Net investment income	311	302
Income tax expense on operations	(255)	(141)
Realized capital gains and losses, after-tax	89	(64)
Property-Liability net income applicable to common shareholders	652	222
Allstate Financial		
Life and annuity premiums and contract charges	593	566
Net investment income	426	419
Contract benefits and interest credited to contractholder funds	(647)	(639)
Operating costs and expenses and amortization of deferred policy acquisition costs	(210)	(194)
Income tax expense on operations	(52)	(48)
Operating income	110	104
Realized capital gains and losses, after-tax	(1)	(32)
Valuation changes on embedded derivatives that are not hedged, after-tax	—	(4)
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)
Gain on disposition of operations, after-tax	2	1
Allstate Financial net income applicable to common shareholders	108	68
Corporate and Other		
Service fees [(1)]	1	1
Net investment income	11	10
Operating costs and expenses [(1)]	(94)	(80)
Income tax benefit on operations	30	25
Preferred stock dividends	(29)	(29)
Operating loss	(81)	(73)
Realized capital gains and losses, after-tax	—	—
Business combination expenses, after-tax	(13)	—
Corporate and Other net loss applicable to common shareholders	(94)	(73)
Consolidated net income applicable to common shareholders	$ 666	$ 217

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

14. Other Comprehensive Income

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

($ in millions)	Three months ended March 31,					
	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	$ 444	$ (155)	$ 289	$ 753	$ (263)	$ 490
Less: reclassification adjustment of realized capital gains and losses	132	(46)	86	(139)	49	(90)
Unrealized net capital gains and losses	312	(109)	203	892	(312)	580
Unrealized foreign currency translation adjustments	(5)	2	(3)	22	(8)	14
Unrecognized pension and other postretirement benefit cost arising during the period	—	—	—	(8)	3	(5)
Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses	(29)	10	(19)	(24)	8	(16)
Unrecognized pension and other postretirement benefit cost	29	(10)	19	16	(5)	11
Other comprehensive income	$ 336	$ (117)	$ 219	$ 930	$ (325)	$ 605

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 March 31, 2017, and the related condensed consolidated statements of operations, comprehensive income, shareholders’ equity and cash flows for the three-month periods ended March 31, 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
May 2, 2017

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2017 AND 2016

OVERVIEW

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

HIGHLIGHTS

- Consolidated net income applicable to common shareholders was $666 million in the first quarter of 2017 compared to $217 million in the first quarter of 2016. Net income applicable to common shareholders per diluted common share was $1.79 in the first quarter of 2017 compared to $0.57 in the first quarter of 2016.
- Property-Liability net income applicable to common shareholders was $652 million in the first quarter of 2017 compared to $222 million in the first quarter of 2016.
- The Property-Liability combined ratio was 93.6 in the first quarter of 2017 compared to 98.4 in the first quarter of 2016.
- Allstate Financial net income applicable to common shareholders was $108 million in the first quarter of 2017 compared to $68 million in the first quarter of 2016.
- Total revenues were $9.43 billion in the first quarter of 2017 compared to $8.87 billion in the first quarter of 2016.
- Property-Liability premiums earned totaled $7.96 billion in the first quarter of 2017, an increase of 3.1% from $7.72 billion in the first quarter of 2016.
- Investments totaled $81.14 billion as of March 31, 2017, decreasing from $81.80 billion as of December 31, 2016. Net investment income was $748 million in the first quarter of 2017, an increase of 2.3% from $731 million in the first quarter of 2016.
- Net realized capital gains were $134 million in the first quarter of 2017 compared to net realized capital losses of $149 million in the first quarter 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 $52.41 as of March 31, 2017, an increase of 7.2% from $48.89 as of March 31, 2016, and an increase of 3.2% from $50.77 as of December 31, 2016.
- For the twelve months ended March 31, 2017, return on the average of beginning and ending period common shareholders' equity of 11.6% increased by 3.3 points from 8.3% for the twelve months ended March 31, 2016.
- As of March 31, 2017, shareholders' equity was $21.16 billion. This total included $2.74 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 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 March 31,	
	2017	2016
Revenues		
Property-liability insurance premiums	$ 7,959	$ 7,723
Life and annuity premiums and contract charges	593	566
Net investment income	748	731
Realized capital gains and losses:		
Total other-than-temporary impairment (“OTTI”) losses	(62)	(91)
OTTI losses reclassified to (from) other comprehensive income	3	10
Net OTTI losses recognized in earnings	(59)	(81)
Sales and other realized capital gains and losses	193	(68)
Total realized capital gains and losses	134	(149)
Total revenues	9,434	8,871
Costs and expenses		
Property-liability insurance claims and claims expense	(5,416)	(5,684)
Life and annuity contract benefits	(474)	(455)
Interest credited to contractholder funds	(173)	(190)
Amortization of deferred policy acquisition costs	(1,169)	(1,129)
Operating costs and expenses	(1,097)	(982)
Restructuring and related charges	(10)	(5)
Interest expense	(85)	(73)
Total costs and expenses	(8,424)	(8,518)
Gain on disposition of operations	2	2
Income tax expense [1]	(317)	(109)
Net income	695	246
Preferred stock dividends	(29)	(29)
Net income applicable to common shareholders	$ 666	$ 217
Property-Liability [1]	$ 652	$ 222
Allstate Financial	108	68
Corporate and Other	(94)	(73)
Net income applicable to common shareholders	$ 666	$ 217

(1) Income tax expense includes a tax benefit of $23 million related to the adoption of the new accounting standard for share-based payments in the first quarter 2017. The tax benefit was recorded in Property-Liability.

PROPERTY-LIABILITY HIGHLIGHTS

- Net income applicable to common shareholders was $652 million in the first quarter of 2017 compared to $222 million in the first quarter of 2016.
- Premiums written totaled $7.72 billion in the first quarter of 2017, an increase of 2.8% from $7.52 billion in the first quarter of 2016. The first quarter of 2017 included $81 million of premiums written related to SquareTrade. Excluding SquareTrade, premiums written totaled $7.64 billion.
- Premiums earned totaled $7.96 billion in the first quarter of 2017, an increase of 3.1% from $7.72 billion in the first quarter of 2016. The first quarter of 2017 included $59 million of premiums earned related to SquareTrade. Excluding SquareTrade, premiums earned totaled $7.90 billion in the first quarter of 2017.
- The loss ratio was 68.0 in the first quarter of 2017 compared to 73.6 in the first quarter of 2016.
- Catastrophe losses were $781 million in the first quarter of 2017 compared to $827 million in the first quarter of 2016. The effect of catastrophes on the combined ratio was 9.8 in the first quarter of 2017 compared to 10.7 in the first quarter of 2016.
- Prior year reserve reestimates totaled $97 million favorable in the first quarter of 2017 compared to $24 million unfavorable in the first quarter of 2016.
- Underwriting income was $507 million in the first quarter of 2017 compared to $125 million in the first quarter of 2016.
- Investments were $42.00 billion as of March 31, 2017, a decrease of 1.7% from $42.72 billion as of December 31, 2016. Net investment income was $311 million in the first quarter of 2017, an increase of 3.0% from $302 million in the first quarter of 2016.
- Net realized capital gains were $135 million in the first quarter of 2017 compared to net realized capital losses of $99 million in the first quarter of 2016.
- On January 3, 2017, we acquired 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.

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 Allstate Roadside Services, Allstate Dealer Services, Arity and Ivantage, 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. With the acquisition of SquareTrade and the strategic focus and expansion of Arity and other emerging businesses, management is evaluating modifying the existing oversight structure and capital allocation processes.

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.

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 March 31, 2017	Three months ended March 31, 2016
Premiums written	$ 7,723	$ 7,515
Revenues		
Premiums earned	$ 7,959	$ 7,723
Net investment income	311	302
Realized capital gains and losses	135	(99)
Total revenues	8,405	7,926
Costs and expenses		
Claims and claims expense	(5,416)	(5,684)
Amortization of DAC	(1,090)	(1,056)
Operating costs and expenses	(936)	(853)
Restructuring and related charges	(10)	(5)
Total costs and expenses	(7,452)	(7,598)
Income tax expense [(1)]	(301)	(106)
Net income applicable to common shareholders	$ 652	$ 222
Underwriting income	$ 507	$ 125
Net investment income	311	302
Income tax expense on operations	(255)	(141)
Realized capital gains and losses, after-tax	89	(64)
Net income applicable to common shareholders	$ 652	$ 222
Catastrophe losses	$ 781	$ 827
GAAP operating ratios		
Claims and claims expense ratio	68.0	73.6
Expense ratio	25.6	24.8
Combined ratio	93.6	98.4
Effect of catastrophe losses on combined ratio	9.8	10.7
Effect of prior year reserve reestimates on combined ratio	(1.2)	0.3
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio [(2)]	0.1	(0.1)
Effect of amortization of purchased intangible assets on combined ratio [(3)]	0.3	0.1
Effect of restructuring and related charges on combined ratio	0.1	0.1
Effect of Discontinued Lines and Coverages on combined ratio	—	—

(1) Income tax expense includes a tax benefit of $23 million related to the adoption of the new accounting standard for share-based payments in the first quarter 2017.

(2) Prior year reserve reestimates included in catastrophe losses totaled $4 million unfavorable and $3 million favorable in the three months ended March 31, 2017 and 2016, respectively.

(3) Includes $23 million of amortization of purchased intangible assets related to the acquisition of SquareTrade that was completed on January 3, 2017.

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

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

($ in millions)	Three months ended March 31,	
	2017	2016
Premiums written:		
Allstate Protection	$ 7,723	$ 7,515
Discontinued Lines and Coverages	—	—
Property-Liability premiums written	7,723	7,515
Decrease in unearned premiums	234	166
Other	2	42
Property-Liability premiums earned	$ 7,959	$ 7,723
Premiums earned:		
Allstate Protection	$ 7,959	$ 7,723
Discontinued Lines and Coverages	—	—
Property-Liability	$ 7,959	$ 7,723

ALLSTATE PROTECTION SEGMENT

Underwriting results are shown in the following table.

($ in millions)	Three months ended March 31,	
	2017	2016
Premiums written	$ 7,723	$ 7,515
Premiums earned	$ 7,959	$ 7,723
Claims and claims expense	(5,414)	(5,683)
Amortization of DAC	(1,090)	(1,056)
Other costs and expenses	(936)	(852)
Restructuring and related charges	(10)	(5)
Underwriting income	$ 509	$ 127
Catastrophe losses	$ 781	$ 827
Underwriting income (loss) by line of business		
Auto	$ 449	$ 18
Homeowners	72	107
Other personal lines [(1)]	25	17
Commercial lines	(4)	(28)
Other business lines [(2)]	3	14
SquareTrade	(35)	—
Answer Financial	(1)	(1)
Underwriting income	$ 509	$ 127

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

(2) 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 (loss) by line of business. The 2017 columns present changes in the first quarter of 2017 compared to the first quarter of 2016. The 2016 columns present changes in the first quarter of 2016 compared to the first quarter of 2015.

($ in millions)	Three months ended March 31,											
	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	$ 18	$ 76	$ 107	$ 366	$ 17	$ 37	$ (28)	$ (11)	$ —	$ —	$ 127	$ 469
Changes in underwriting income (loss) from:												
Premiums earned	168	241	5	49	10	1	(4)	4	59	—	236	297
Incurred claims and claims expense (“losses”):												
Incurred losses, excluding catastrophe losses and reserve reestimates	149	(234)	(32)	50	(1)	12	5	(9)	(36)	—	94	(173)
Catastrophe losses, excluding reserve reestimates	63	(128)	(21)	(368)	11	(33)	—	(2)	—	—	53	(531)
Non-catastrophe reserve reestimates	86	19	23	8	4	(4)	16	(8)	—	—	129	15
Catastrophe reserve reestimates	5	—	(6)	—	(8)	—	2	(2)	—	—	(7)	(2)
Losses subtotal	303	(343)	(36)	(310)	6	(25)	23	(21)	(36)	—	269	(691)
Expenses	(40)	44	(4)	2	(8)	4	5	—	(58)	—	(123)	52
Underwriting income (loss) - current period	$ 449	$ 18	$ 72	$ 107	$ 25	$ 17	$ (4)	$ (28)	$ (35)	$ —	$ 509	$ 127

(1) Includes other business lines underwriting income of $3 million and $14 million in the first quarter of 2017 and 2016, respectively, and Answer Financial underwriting loss of $1 million in both the first quarter of 2017 and 2016.

(2) Arity had affiliate revenues and expenses of $20 million and $19 million, respectively, in the first quarter of 2017, which has been eliminated in consolidation.

Underwriting income totaled $509 million in the first quarter of 2017, an increase from $127 million in the first quarter of 2016, primarily due to increased premiums earned, lower claim frequency, favorable reserve reestimates and lower catastrophe losses.

Investment results are not included in the underwriting income analysis above. The Company does not allocate Property- Liability investment income, realized capital gains and losses, or assets to the Allstate Protection and Discontinued Lines and Coverages segments. Management reviews assets at the Property-Liability level for decision-making purposes. For a more detailed discussion on investment results, see the Property-Liability Investment Results section of the MD&A and Note 13 of the consolidated financial statements.

Allstate Protection premiums written and earned by line of business are shown in the following table.

($ in millions)	Three months ended March 31,	
Premiums written	**2017**	**2016**
Auto	$ 5,446	$ 5,323
Homeowners	1,510	1,507
Other personal lines	390	376
Subtotal – Personal lines	7,346	7,206
Commercial lines	123	126
Other business lines	173	183
SquareTrade	81	—
Total	$ 7,723	$ 7,515
Premiums earned		
Auto	$ 5,388	$ 5,220
Homeowners	1,815	1,810
Other personal lines	431	421
Subtotal – Personal lines	7,634	7,451
Commercial lines	125	129
Other business lines	141	143
SquareTrade	59	—
Total	$ 7,959	$ 7,723

Allstate Protection combined ratios by line of business are analyzed in the following table.

	Loss ratio [1]		Expense ratio [1]		Combined ratio [1]	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Three months ended March 31,						
Auto	67.4	75.3	24.3	24.4	91.7	99.7
Homeowners	72.4	70.7	23.6	23.4	96.0	94.1
Other Personal lines	66.6	69.6	27.6	26.4	94.2	96.0
Commercial lines	76.8	92.2	26.4	29.5	103.2	121.7
Other business lines	36.9	42.7	61.0	47.5	97.9	90.2
SquareTrade	61.0	—	98.3	—	159.3	—
Total	68.0	73.6	25.6	24.8	93.6	98.4

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

Allstate Protection 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 March 31,								
Auto	67.4	75.3	1.4	2.7	(1.6)	0.1	(0.1)	(0.1)
Homeowners	72.4	70.7	35.2	33.9	(1.3)	(0.4)	0.2	(0.2)
Other Personal lines	66.6	69.6	14.1	15.2	2.1	1.2	1.6	(0.3)
Commercial lines	76.8	92.2	5.6	7.0	1.6	15.5	0.8	2.4
Other business lines	36.9	42.7	—	—	—	—	—	—
SquareTrade	61.0	—	—	—	—	—	—	—
Total	68.0	73.6	9.8	10.7	(1.2)	0.3	0.1	(0.1)

Catastrophe losses were $781 million in the first quarter of 2017, a decrease of 5.6% from $827 million in the first quarter of 2016. Both periods have been impacted by higher than normal historical first quarter catastrophe losses.

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 March 31, 2017						
	Number of events		Claims and claims expense			Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss							
Greater than $250 million	1	3.6%	$	267	34.2%	3.4	$ 267
$101 million to $250 million	—	—		—	—	—	—
$50 million to $100 million	3	10.7		230	29.4	2.9	77
Less than $50 million	24	85.7		280	35.9	3.5	12
Total	28	100.0%		777	99.5	9.8	28
Prior year reserve reestimates				4	0.5	—	
Total catastrophe losses			$	781	100.0%	9.8	

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

($ in millions)	Three months ended March 31,			
	Number of events	2017	Number of events	2016
Hurricanes/Tropical storms	—	$ —	—	$ —
Tornadoes	2	53	—	—
Wind/Hail	23	703	15	783
Wildfires	1	1	—	—
Other events	2	20	2	47
Prior year reserve reestimates		4		(3)
Total catastrophe losses	28	$ 781	17	$ 827

Allstate Protection expense ratio for Allstate Protection increased in the first quarter of 2017 compared to the first quarter of 2016. The expense ratios by line of business are shown in the following table.

	Three months ended March 31,	
	2017	2016
Auto	24.3	24.4
Homeowners	23.6	23.4
Other personal lines	27.6	26.4
Commercial lines	26.4	29.5
Other business lines	61.0	47.5
SquareTrade [(1)]	98.3	—
Total expense ratio	25.6	24.8

(1) Includes $23 million of amortization of purchased intangible assets related to the acquisition that was completed on January 3, 2017, an impact of 39.0 points to the expense ratio.

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

	Three months ended March 31,	
	2017	2016
Amortization of DAC	13.7	13.7
Advertising expense	2.3	2.0
Amortization of purchased intangible assets	0.3	0.1
Other costs and expenses	9.2	8.9
Restructuring and related charges	0.1	0.1
Total expense ratio	25.6	24.8

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. Except for the Florida component of the program that is expected to be placed in the second quarter of 2017, we have substantially completed the placement of our 2017 catastrophe reinsurance program.

Similar to our 2016 program, our 2017 program includes coverage for losses to personal lines property and automobile arising out of multiple perils, in addition to hurricanes and earthquakes, in all agreements, except for two agreements placed in the insurance linked securities ("ILS") market, forming part of our nationwide reinsurance program, and the Kentucky agreement.

The June 1, 2017 nationwide reinsurance program, excluding Florida and New Jersey where separate reinsurance agreements address the distinct needs of our separately capitalized legal entities in these states, provides $4.4 billion of reinsurance limits, less a $500 million retention, subject to the percentage of reinsurance placed in each of its nine layers. The nationwide reinsurance program includes reinsurance agreements with both the traditional and ILS markets as described below:

- The traditional market placement provides limits totaling $2.5 billion, comprised of $2.1 billion of limits for losses arising out of multiple perils with one annual reinstatement of limits and $439 million of limits for losses arising out of multiple perils with one reinstatement of limits over a seven year term.
- The ILS placements provide $1.1 billion of limits, with no reinstatement of the limits, and are comprised of a $750 million placement reinsuring losses in certain states caused by hurricanes, earthquakes and fire following earthquakes with amounts payable based on insured industry losses and further adjusted to account for our exposures in reinsured areas, and a $375 million placement reinsuring losses in all states except Florida and New Jersey caused by named storms, earthquakes and fire following earthquakes, severe thunderstorms, winter storms, volcanic eruptions, and meteorite impacts. Recoveries are limited to our ultimate net loss from the reinsured event and are subject to the placed limits.

The New Jersey agreement comprises three contracts that reinsure personal lines property and automobile catastrophe losses in New Jersey and provides $400 million of limits excess of provisional retentions of approximately $153 million. Each contract includes one annual reinstatement of limits.

The Pennsylvania agreement comprises a three-year term contract that reinsures personal lines property losses caused by multiple perils in Pennsylvania and provides $95 million of limits each year in excess of a $100 million retention.

The Kentucky Earthquake agreement comprises a three-year term contract that reinsures personal lines property losses caused by earthquakes and fires following earthquakes in Kentucky and provides $27 million of limits in excess of a $2 million retention.

The total cost of our property catastrophe reinsurance programs during the first quarter of 2017 was $93 million. The total cost of our catastrophe reinsurance programs during 2016 was $393 million or an average quarterly cost of $98 million.

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

($ in millions, except ratios)	Three months ended March 31,			
	Reserve reestimate [1]		Effect on combined ratio [2]	
	2017	2016	2017	2016
Auto	$ (86)	$ 5	(1.0)	0.1
Homeowners	(24)	(7)	(0.3)	(0.1)
Other personal lines	9	5	0.1	0.1
Commercial lines	2	20	—	0.2
Other business lines	—	—	—	—
Total Allstate Protection [3]	$ (99)	$ 23	(1.2)	0.3
Allstate brand	$ (105)	$ 13	(1.3)	0.2
Esurance brand	—	(4)	—	(0.1)
Encompass brand	6	14	0.1	0.2
Total Allstate Protection	$ (99)	$ 23	(1.2)	0.3

(1) Favorable reserve reestimates are shown in parentheses.

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

(3) Prior year reserve reestimates included in catastrophe losses totaled $4 million unfavorable in the three months ended March 31, 2017 compared to $3 million favorable in the three months ended March 31, 2016.

Favorable reserve reestimates in the first quarter of 2017 primarily relate to severity development for auto and homeowners that were better than expected.

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 three months ended March 31, 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		**Percent to total**		**Percent to total**		**Percent to total**		**Percent to total**
Auto	$ 4,882	70.2 %	$ 439	96.1 %	$ 125	53.0%	$ 5,446	70.5 %
Homeowners	1,403	20.2	16	3.5	91	38.5	1,510	19.6
Other personal lines	368	5.3	2	0.4	20	8.5	390	5.1
Commercial lines	123	1.8	—	—	—	—	123	1.6
Other business lines	173	2.5	—	—	—	—	173	2.2
SquareTrade	—	—	—	—	—	—	81	1.0
Total	$ 6,949	100.0 %	$ 457	100.0 %	$ 236	100.0%	$ 7,723	100.0 %
Percent to total Allstate Protection		**90.0 %**		**5.9 %**		**3.1%**		
PIF (thousands)								
Auto	19,565	55.9 %	1,400	92.6 %	595	61.2%	21,560	32.0 %
Homeowners	6,090	17.3	63	4.2	284	29.1	6,437	9.6
Other personal lines	4,200	12.0	48	3.2	94	9.7	4,342	6.4
Commercial lines	272	0.8	—	—	—	—	272	0.4
Other business lines	4,893	14.0	—	—	—	—	4,893	7.2
SquareTrade	—	—	—	—	—	—	29,907	44.4
Total	35,020	100.0 %	1,511	100.0 %	973	100.0%	67,411	100.0 %
Percent to total Allstate Protection		**51.9 %**		**2.2 %**		**1.4%**		
Underwriting income (loss)								
Auto	$ 454	77.2 %	$ (4)	40.0 %	$ (1)	3.0%	$ 449	88.2 %
Homeowners	107	18.2	(7)	70.0	(28)	84.9	72	14.2
Other personal lines	28	4.8	1	(10.0)	(4)	12.1	25	4.9
Commercial lines	(4)	(0.7)	—	—	—	—	(4)	(0.8)
Other business lines	3	0.5	—	—	—	—	3	0.6
SquareTrade	—	—	—	—	—	—	(35)	(6.9)
Answer Financial	—	—	—	—	—	—	(1)	(0.2)
Total	$ 588	100.0 %	$ (10)	100.0 %	$ (33)	100%	$ 509	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.

Allstate Brand

Underwriting results are shown in the following table.

($ in millions)	Three months ended March 31,	
	2017	2016
Premiums written	$ 6,949	$ 6,800
Premiums earned	$ 7,198	$ 7,010
Claims and claims expense	(4,831)	(5,150)
Amortization of DAC	(1,020)	(988)
Other costs and expenses	(751)	(696)
Restructuring and related charges	(8)	(5)
Underwriting income	$ 588	$ 171
Catastrophe losses	$ 706	$ 783
Underwriting income (loss) by line of business		
Auto	$ 454	$ 45
Homeowners	107	111
Other personal lines [1]	28	29
Commercial lines	(4)	(28)
Other business lines [2]	3	14
Underwriting income	$ 588	$ 171

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

(2) 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 first quarter of 2017 compared to the first quarter of 2016. The 2016 columns present changes in the first quarter of 2016 compared to the first quarter of 2015.

($ in millions)	Three months ended March 31,	
	2017	2016
Underwriting income - prior period	$ 171	$ 526
Changes in underwriting income from:		
Premiums earned	188	290
Incurred claims and claims expense (“losses”):		
Incurred losses, excluding catastrophe losses and reserve reestimates	118	(193)
Catastrophe losses, excluding reserve reestimates	83	(511)
Non-catastrophe reserve reestimates	124	32
Catastrophe reserve reestimates	(6)	2
Losses subtotal	319	(670)
Expenses	(90)	25
Underwriting income	$ 588	$ 171

Underwriting income totaled $588 million in the first quarter of 2017, an increase from $171 million in the first quarter of 2016, primarily due to increased auto underwriting income as a result of rate actions, lower claim frequency, favorable reserve reestimates, and lower catastrophe losses, partially offset by increased advertising expense and higher employee-related 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 acceptable returns. We continue to file rates in certain areas not achieving targeted returns, subject to regulatory processes and review. On a countrywide basis, the overall magnitude of rates taken will moderate as profitability trends improve, allowing for a more balanced approach to profitable growth.

As we execute on this plan, our trusted advisor strategy for Allstate exclusive agencies remains a critical component. This includes enhancements to our approach to acquiring customers, 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. Allstate brand 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.

Allstate brand premiums written and earned by line of business are shown in the following table.

($ in millions)	**Three months ended March 31,**	
Premiums written	**2017**	**2016**
Auto	$ 4,882	$ 4,746
Homeowners	1,403	1,392
Other personal lines	368	353
Subtotal – Personal lines	6,653	6,491
Commercial lines	123	126
Other business lines	173	183
Total	$ 6,949	$ 6,800
Premiums earned		
Auto	$ 4,839	$ 4,667
Homeowners	1,688	1,678
Other personal lines	405	393
Subtotal – Personal lines	6,932	6,738
Commercial lines	125	129
Other business lines	141	143
Total	$ 7,198	$ 7,010

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

	Three months ended March 31,	
	2017	**2016**
PIF (thousands)	19,565	20,145
New issued applications (thousands)	610	584
Average premium	$ 538	$ 507
Renewal ratio (%)	87.4	88.0
Approved rate changes [(1)]:		
# of locations [(2)]	18	25
Total brand (%) [(3)]	1.7 [(6)]	1.7
Location specific (%) [(4)] [(5)]	5.3 [(6)]	7.3

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

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

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

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

(5) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled $338 million and $320 million in the three months ended March 31, 2017 and 2016, respectively. Approximately 47% of the Allstate brand rate increases approved in the first quarter of 2017 are expected to be earned in 2017, with the remainder expected to be earned in 2018.

(6) Includes a rate increase in California in first quarter 2017. Excluding California, Allstate brand auto total brand and location specific rate changes were 1.1% and 4.7% for the three months ended March 31, 2017, respectively.

Auto insurance premiums written totaled $4.88 billion in the first quarter of 2017, a 2.9% increase from $4.75 billion in the first quarter of 2016. Factors impacting premiums written were the following:

- 2.9% or 580 thousand decrease in PIF as of March 31, 2017 compared to March 31, 2016. Allstate brand auto PIF increased in 9 states, including 1 of our largest 10 states, as of March 31, 2017 compared to March 31, 2016.
- 4.5% increase in new issued applications in the first quarter of 2017 compared to the first quarter of 2016. Approximately 60% of states, including 4 of our 10 largest states, experienced increases in new issued applications in the first quarter of 2017 compared to the first quarter of 2016. Quote volume increased in the first quarter of 2017 compared to the first quarter of 2016, with approximately 70% of our states increasing, including 7 of our largest 10, above prior year.
- 6.1% increase in average premium in the first quarter of 2017 compared to the first quarter 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 65% of the change in rates approved for auto in the first 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 the first quarter of 2017 compared to the first quarter of 2016. 1 of our largest 10 states experienced increases in the renewal ratio in the first quarter of 2017 compared to the first quarter of 2016.

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

	Three months ended March 31,	
	2017	**2016**
PIF (thousands)	6,090	6,176
New issued applications (thousands)	163	164
Average premium	$ 1,187	$ 1,174
Renewal ratio (%)	87.1	88.1
Approved rate changes [1]:		
# of locations [2]	14	15
Total brand (%)	1.0	(0.4) [4]
Location specific (%) [3]	4.2	(2.3) [4]

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

(2) Allstate brand operates in 50 states, the District of Columbia, and 5 Canadian provinces. In April 2017, we plan to start writing a limited number of homeowners policies in select areas of Florida.

(3) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for homeowners totaled an increase of $70 million and a decrease of $28 million in the three months ended March 31, 2017 and 2016, respectively.

(4) Includes the impact of a rate decrease in California in first quarter 2016. Excluding California, Allstate brand homeowners total brand and location specific rate changes were 0.6% and 3.7% for the three months ended March 31, 2016, respectively.

Homeowners insurance premiums written totaled $1.40 billion in the first quarter of 2017, a 0.8% increase from $1.39 billion in the first quarter of 2016. Factors impacting premiums written were the following:

- 1.4% or 86 thousand decrease in PIF as of March 31, 2017 compared to March 31, 2016. Allstate brand homeowners PIF increased in 15 states, including 2 of our largest 10 states, as of March 31, 2017 compared to March 31, 2016.
- 0.6% decrease in new issued applications in the first quarter of 2017 compared to the first quarter of 2016. Of our largest 10 states, 4 experienced increases in new issued applications in the first quarter of 2017 compared to the first quarter of 2016. Although in total quote volume decreased slightly in the first quarter of 2017 compared to the first quarter of 2016, over half of our states, including 4 of our largest 10, experienced increases in quote volume in the first quarter of 2017 compared to the first quarter of 2016.
- 1.1% increase in average premium in the first quarter of 2017 compared to the first quarter of 2016, primarily due to rate changes and increasing insured home valuations due to inflationary costs.
- 1.0 point decrease in the renewal ratio in the first quarter of 2017 compared to the first quarter of 2016. Of our largest 10 states, 1 experienced an increase in the renewal ratio in the first quarter of 2017 compared to the first quarter of 2016.
- $10 million decrease in the cost of our catastrophe reinsurance program to $79 million in the first quarter of 2017 from $89 million in the first quarter of 2016. Catastrophe reinsurance premiums are a reduction of premium.

Premiums written for Allstate's House and Home product, our redesigned homeowners new business offering currently available in 80% of total states, totaled $445 million in the first quarter of 2017 compared to $357 million in the first quarter of 2016.

Other personal lines insurance premiums written totaled $368 million in the first quarter of 2017, a 4.2% increase from $353 million in the first quarter of 2016. The increase was primarily due to involuntary auto, included in other personal lines products.

Commercial lines insurance premiums written totaled $123 million in the first quarter of 2017, a 2.4% decrease from $126 million in the first quarter of 2016. The decrease was driven by decreased new business and lower renewals due to profit improvement actions, partially offset by higher average premiums.

Other business lines insurance premiums written totaled $173 million in the first quarter of 2017, a 5.5% decrease from $183 million in the first quarter of 2016. The decrease was 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 their profit improvement actions, which have impacted premium, but are reducing loss costs. Allstate Dealer Services premiums written was down slightly from prior year due to lower new business in the Guaranteed Asset Protection product related to profit improvement actions.

Allstate brand combined ratios by line of business are analyzed in the following table.

	Loss ratio [1]		Expense ratio [1]		Combined ratio [1]	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Three months ended March 31,						
Auto	66.6	75.4	24.0	23.6	90.6	99.0
Homeowners	70.8	70.9	22.9	22.5	93.7	93.4
Other personal lines	65.4	66.4	27.7	26.2	93.1	92.6
Commercial lines	76.8	92.2	26.4	29.5	103.2	121.7
Other business lines	36.9	42.7	61.0	47.5	97.9	90.2
Total	67.1	73.5	24.7	24.1	91.8	97.6

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

Allstate brand 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 March 31,								
Auto	66.6	75.4	1.3	2.9	(1.8)	0.1	(0.2)	(0.1)
Homeowners	70.8	70.9	34.1	34.2	(1.6)	(0.5)	0.1	(0.3)
Other personal lines	65.4	66.4	14.6	16.0	1.5	(1.5)	1.8	—
Commercial lines	76.8	92.2	5.6	7.0	1.6	15.5	0.8	2.4
Other business lines	36.9	42.7	—	—	—	—	—	—
Total	67.1	73.5	9.8	11.2	(1.5)	0.2	—	(0.1)

Auto loss ratio decreased 8.8 points in the first quarter of 2017 compared to the first quarter of 2016, due to increased premiums earned, lower claim frequency, favorable prior year reserve reestimates and decreased catastrophe losses.

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

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

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

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

Claims is undergoing continuous improvement focusing on effective loss cost management, process efficiency and leveraging emerging technologies to enhance the customer experience to ensure our claim processes result in an easy settlement experience that is fast and fair. We will simplify and streamline the claim handling process using automated loss notification, real-time processing, predicted damage assessments, self-service capabilities and electronic payments.

We have opened two Digital Operating Centers that are handling auto claims by estimating through photos, including the use of QuickFoto Claim®. We are assessing hail events utilizing drones, piloted airplanes and satellite imagery and we launched Quick Card Pay in late 2016, an immediate payment method. These advances will improve effectiveness and efficiency by providing greater consistency and accuracy, quicker processing of claims and a better customer experience. 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 3.2% in the first quarter of 2017 compared to the first quarter of 2016. Approximately 80% of individual states experienced a year over year decrease in property damage paid claim frequency in first quarter 2017 when compared to first quarter 2016. These declines were observed mainly in January and February, as the country broadly experienced milder than normal winter weather. Property damage paid claim severities increased 4.8% in the first quarter of 2017 compared to the first quarter of 2016, due to the impact of increased third party subrogation payments, higher costs to repair more sophisticated newer model vehicles and increased volume of total losses.

Bodily injury gross claim frequency decreased 6.0% in the first quarter of 2017 compared to the first quarter of 2016. Bodily injury paid claim frequency decreased 20.5% while bodily injury paid claim severity increased 25.1% in the first quarter of 2017 compared to the first quarter 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 decreased 0.1 points in the first quarter of 2017 compared to the first quarter of 2016, primarily due to increased premiums earned and higher favorable reserve reestimates, partially offset by increased claim frequency. Paid claim frequency excluding catastrophe losses increased 2.3% in the first quarter of 2017 compared to the first quarter of 2016. Paid claim severity excluding catastrophe losses increased 4.1% in the first quarter of 2017 compared to the first quarter of 2016. Homeowner paid claim severity can be impacted by both the mix of perils and the magnitude of specific losses paid during the quarter.

Commercial lines loss ratio decreased 15.4 points in the first quarter of 2017 compared to the first quarter of 2016, primarily due to lower unfavorable prior year reserve reestimates compared to in the first quarter of 2016.

Catastrophe losses were $706 million in the first quarter of 2017 compared to $783 million in the first quarter of 2016.

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

	Three months ended March 31,	
	2017	**2016**
Auto	24.0	23.6
Homeowners	22.9	22.5
Other personal lines	27.7	26.2
Commercial lines	26.4	29.5
Other business lines [1]	61.0	47.5
Total expense ratio	24.7	24.1

(1) Increase is primarily due to Allstate Roadside Services increase in strategic investments in the Good Hands Rescue Network and an increase in employee-related and technology costs at Allstate Dealer Services.

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

	Three months ended March 31,	
	2017	2016
Amortization of DAC	14.2	14.1
Advertising expense	2.0	1.5
Other costs and expenses	8.4	8.4
Restructuring and related charges	0.1	0.1
Total expense ratio	24.7	24.1

Expense ratio increased 0.6 points in the first quarter of 2017 compared to the first quarter of 2016, primarily due to increased advertising expense and higher employee-related costs. Amortization of DAC primarily includes agent remuneration and premium taxes. Allstate agency total incurred base commissions, variable compensation and bonuses in the first quarter of 2017 were higher than the first quarter of 2016.

Esurance Brand

Underwriting results are shown in the following table.

($ in millions)	Three months ended March 31,	
	2017	2016
Premiums written	$ 457	$ 452
Premiums earned	$ 419	$ 404
Claims and claims expense	(314)	(294)
Amortization of DAC	(10)	(11)
Other costs and expenses	(103)	(124)
Restructuring and related charges	(2)	—
Underwriting loss	$ (10)	$ (25)
Catastrophe losses	$ 8	$ 3
Underwriting income (loss) by line of business		
Auto	$ (4)	$ (18)
Homeowners	(7)	(7)
Other personal lines	1	—
Underwriting loss	$ (10)	$ (25)

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 first quarter of 2017 compared to the first quarter of 2016. The 2016 columns present changes in the first quarter of 2016 compared to the first quarter of 2015.

($ in millions)	Three months ended March 31,	
	2017	2016
Underwriting loss - prior period	$ (25)	$ (69)
Changes in underwriting loss from:		
Premiums earned	15	17
Incurred claims and claims expense (“losses”):		
Incurred losses, excluding catastrophe losses and reserve reestimates	(11)	8
Catastrophe losses, excluding reserve reestimates	(5)	(3)
Non-catastrophe reserve reestimates	(4)	—
Catastrophe reserve reestimates	—	—
Losses subtotal	(20)	5
Expenses	20	22
Underwriting loss	$ (10)	$ (25)

Underwriting loss totaled $10 million in the first quarter of 2017, a $15 million improvement from a $25 million underwriting loss in the first quarter of 2016, primarily due to improved auto underwriting losses resulting from the profit improvement plan.

Esurance brand underwriting results were impacted by profit improvement actions that include rate increases, underwriting guideline adjustments, and decreased marketing in select geographies.

Esurance brand premiums written and earned by line of business are shown in the following table.

($ in millions)	**Three months ended March 31,**	
Premiums written	**2017**	**2016**
Auto	$ 439	$ 439
Homeowners	16	11
Other personal lines	2	2
Total	$ 457	$ 452
Premiums earned		
Auto	$ 403	$ 394
Homeowners	14	8
Other personal lines	2	2
Total	$ 419	$ 404

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

	Three months ended March 31,	
	2017	**2016**
PIF (thousands)	1,400	1,428
New issued applications (thousands)	143	168
Average premium	$ 571	$ 547
Renewal ratio (%)	80.4	79.6
Approved rate changes (1):		
# of locations (2)	7	6
Total brand (%) (3)	0.7	0.3
Location specific (%) (4) (5)	5.3	2.7

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

(2) Esurance brand operates in 43 states and 1 Canadian province.

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

(5) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled $11 million and $4 million in the three months ended March 31, 2017 and 2016, respectively.

Auto insurance premiums written totaled $439 million in both the first quarter of 2017 and 2016. Factors impacting premiums written were the following:

- 2.0% or 28 thousand decrease in PIF as of March 31, 2017 compared to March 31, 2016.
- 14.9% decrease in new issued applications and a decrease in quote volume in the first quarter of 2017 compared to the first quarter of 2016 due to marketing spending reductions and the impact of rate increases. The conversion rate (the percentage of actual issued policies to completed quotes) decreased 0.8 points in the first quarter of 2017 compared to the first quarter of 2016.
- 4.4% increase in average premium in the first quarter of 2017 compared to the first quarter of 2016.
- 0.8 point increase in the renewal ratio in the first quarter of 2017 compared to the first quarter of 2016.

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

	Three months ended March 31,	
	2017	2016
PIF (thousands)	63	37
New issued applications (thousands)	8	7
Average premium	$ 919	$ 891
Renewal ratio (%) [(1)]	83.5	81.6
Approved rate changes:		
# of locations	—	N/A
Total brand (%)	—	N/A
Location specific (%)	—	N/A

(1) 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, causing the renewal ratio to appear lower.

N/A reflects not applicable.

Homeowners insurance premiums written totaled $16 million in the first quarter of 2017 compared to $11 million in the first quarter of 2016. Factors impacting premiums written were the following:

- 26 thousand increase in PIF as of March 31, 2017 compared to March 31, 2016.
- 14.3% increase in new issued applications in the first quarter of 2017 compared to the first quarter of 2016.
- As of March 31, 2017, Esurance is writing homeowners insurance in 31 states with lower hurricane risk that have lower average premium.

Esurance brand combined ratios by line of business are analyzed in the following table.

	Loss ratio [(1)]		Expense ratio [(1)]		Combined ratio [(1)]	
	2017	2016	2017	2016	2017	2016
Three months ended March 31,						
Auto	74.4	73.4	26.6	31.2	101.0	104.6
Homeowners	92.9	50.0	57.1	137.5	150.0	187.5
Other personal lines	50.0	50.0	—	50.0	50.0	100.0
Total	74.9	72.8	27.5	33.4	102.4	106.2

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

Esurance brand 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 March 31,								
Auto	74.4	73.4	1.0	0.5	—	(1.0)	—	—
Homeowners	92.9	50.0	28.6	12.5	—	—	—	—
Other personal lines	50.0	50.0	—	—	—	—	—	—
Total	74.9	72.8	1.9	0.7	—	(1.0)	—	—

Auto loss ratio increased 1.0 point in the first quarter of 2017 compared to the first quarter of 2016, primarily due to higher catastrophe losses and lower prior year reserve reestimates.

Catastrophe losses were $8 million in the first quarter of 2017 compared to $3 million in the first quarter of 2016.

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

	Three months ended March 31,	
	2017	2016
Auto	26.6	31.2
Homeowners	57.1	137.5
Other personal lines	—	50.0
Total expense ratio	27.5	33.4

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

	Three months ended March 31,	
	2017	2016
Amortization of DAC	2.4	2.7
Advertising expense	8.6	11.6
Amortization of purchased intangible assets	0.3	1.5
Restructuring and related charges	0.5	—
Other costs and expenses	15.7	17.6
Total expense ratio	27.5	33.4

Expense ratio decreased 5.9 points in the first quarter of 2017 compared to the first quarter 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 3.0 points in the first quarter of 2017 compared to the first quarter of 2016 due to strategic reductions in marketing spending as a result of our profitability actions.

Other costs and expenses, including salaries of telephone sales personnel and other underwriting costs related to customer acquisition, were lower in the first quarter of 2017 compared to the first quarter 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 will no longer be amortized, but tested for impairment on an annual basis. During the first quarter of 2017, Esurance reorganized, realigned and regionalized certain departments to improve business performance and the customer experience. The costs associated with this change has been recorded as restructuring and related expenses.

Encompass Brand

Underwriting results are shown in the following table.

($ in millions)	Three months ended March 31,	
	2017	2016
Premiums written	$ 236	$ 263
Premiums earned	$ 283	$ 309
Claims and claims expense	(233)	(239)
Amortization of DAC	(52)	(57)
Other costs and expenses	(31)	(31)
Underwriting loss	$ (33)	$ (18)
Catastrophe losses	$ 67	$ 41
Underwriting income (loss) by line of business		
Auto	$ (1)	$ (9)
Homeowners	(28)	3
Other personal lines	(4)	(12)
Underwriting loss	$ (33)	$ (18)

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 first quarter of 2017 compared to the first quarter of 2016. The 2016 columns present changes in the first quarter of 2016 compared to the first quarter of 2015.

($ in millions)	Three months ended March 31, 2017	2016
Underwriting (loss) income - prior period	$ (18)	$ 14
Changes in underwriting loss from:		
Premiums earned	(26)	(10)
Incurred claims and claims expense ("losses"):		
Incurred losses, excluding catastrophe losses and reserve reestimates	23	12
Catastrophe losses, excluding reserve reestimates	(25)	(17)
Non-catastrophe reserve reestimates	9	(17)
Catastrophe reserve reestimates	(1)	(4)
Losses subtotal	6	(26)
Expenses	5	4
Underwriting loss	$ (33)	$ (18)

Underwriting loss totaled $33 million in the first quarter of 2017, an increase from $18 million in the first quarter of 2016, primarily due to higher catastrophe losses and lower premiums earned, partially offset by lower loss costs in auto and other personal lines.

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

Encompass brand premiums written and earned by line of business are shown in the following table.

($ in millions)	Three months ended March 31, 2017	2016
Premiums written		
Auto	$ 125	$ 138
Homeowners	91	104
Other personal lines	20	21
Total	$ 236	$ 263
Premiums earned		
Auto	$ 146	$ 159
Homeowners	113	124
Other personal lines	24	26
Total	$ 283	$ 309

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

	Three months ended March 31,	
	2017	2016
PIF (thousands)	595	701
New issued applications (thousands)	12	15
Average premium	$ 1,057	$ 981
Renewal ratio (%)	73.1	76.1
Approved rate changes [1]:		
# of locations [2]	5	4
Total brand (%) [3]	1.5	1.6
Location specific (%) [4] [5]	7.2	14.3

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

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

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

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

(5) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled $8 million and $11 million in the three months ended March 31, 2017 and 2016, respectively. Approximately 35% of the Encompass brand rate increases approved in the first quarter 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 $125 million in the first quarter of 2017, a 9.4% decrease from $138 million in the first quarter of 2016. Factors impacting premiums written were the following:

- 15.1% or 106 thousand decrease in PIF as of March 31, 2017 compared to March 31, 2016.
- 20.0% decrease in new issued applications in the first quarter of 2017 compared to the first quarter of 2016.
- 7.7% increase in average premium in the first quarter of 2017 compared to the first quarter of 2016.
- 3.0 point decrease in the renewal ratio in the first quarter of 2017 compared to the first quarter 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.

Encompass has implemented actions to improve profitability in states with inadequate returns. 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.

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

	Three months ended March 31,	
	2017	2016
PIF (thousands)	284	329
New issued applications (thousands)	7	9
Average premium	$ 1,659	$ 1,618
Renewal ratio (%)	78.2	81.5
Approved rate changes [1]:		
# of locations [2]	3	5
Total brand (%)	0.2	1.4
Location specific (%) [3]	3.4	11.6

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

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

(3) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for homeowners totaled $1 million and $7 million in the three months ended March 31, 2017 and 2016, respectively.

Homeowners insurance premiums written totaled $91 million in the first quarter of 2017, a 12.5% decrease from $104 million in the first quarter of 2016. Factors impacting premiums written were the following:

- 13.7% or 45 thousand decrease in PIF as of March 31, 2017 compared to March 31, 2016.
- 22.2% decrease in new issued applications in the first quarter of 2017 compared to the first quarter of 2016.
- 2.5% increase in average premium in the first quarter of 2017 compared to the first quarter of 2016, primarily due to rate changes.
- 3.3 point decrease in the renewal ratio in the first quarter of 2017 compared to the first quarter 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 ratio [1]		Expense ratio [1]		Combined ratio [1]	
	2017	2016	2017	2016	2017	2016
Three months ended March 31,						
Auto	71.2	77.4	29.5	28.3	100.7	105.7
Homeowners	95.6	68.6	29.2	29.0	124.8	97.6
Other personal lines	87.5	119.3	29.2	26.9	116.7	146.2
Total	82.4	77.3	29.3	28.5	111.7	105.8

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

Encompass brand 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 March 31,								
Auto	71.2	77.4	2.8	1.3	—	1.3	—	—
Homeowners	95.6	68.6	54.0	30.7	2.7	0.8	1.8	1.6
Other personal lines	87.5	119.3	8.3	3.8	12.6	42.3	—	(3.9)
Total	82.4	77.3	23.7	13.3	2.1	4.5	0.7	0.3

Auto loss ratio decreased 6.2 points in the first quarter of 2017 compared to the first quarter of 2016, primarily due to lower claim frequency, partially offset by higher catastrophe losses.

Homeowners loss ratio increased 27.0 points in the first quarter of 2017 compared to the first quarter of 2016, primarily due to higher catastrophe losses and higher loss costs.

Catastrophe losses were $67 million in the first quarter of 2017 compared to $41 million in the first quarter of 2016.

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

	Three months ended March 31,	
	2017	2016
Auto	29.5	28.3
Homeowners	29.2	29.0
Other personal lines	29.2	26.9
Total expense ratio	29.3	28.5

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

	Three months ended March 31,	
	2017	2016
Amortization of DAC	18.4	18.5
Advertising expense	—	—
Other costs and expenses	10.9	10.0
Restructuring and related charges	—	—
Total expense ratio	29.3	28.5

Expense ratio increased 0.8 points in the first quarter of 2017 compared to the first quarter of 2016, primarily due to increased spending on professional services.

SquareTrade

Underwriting results are shown in the following table.

($ in millions)	Three months ended March 31, 2017
Premiums written	$ 81
Premiums earned	$ 59
Claims and claims expense	(36)
Amortization of DAC	(8)
Advertising expense	(5)
Other costs and expenses	(22)
Amortization of purchased intangible assets	(23)
Underwriting loss	$ (35)

SquareTrade is focused on deepening existing customer relationships, continuing to win new retail partners and mobile operators and expanding internationally, while optimizing its existing retail business model. Underwriting loss totaled $35 million in the first quarter of 2017 primarily due to $23 million of amortization of purchased intangible assets related to the acquisition that was completed on January 3, 2017. 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. Purchased intangible assets will be amortized on an accelerated basis with approximately 75% of the balance amortized by 2021. Other costs and expenses primarily include employee-related costs and professional service fees.

DISCONTINUED LINES AND COVERAGES SEGMENT

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

Summarized underwriting results are presented in the following table.

($ in millions)	Three months ended March 31,	
	2017	2016
Premiums written	$ —	$ —
Premiums earned	$ —	$ —
Claims and claims expense	(2)	(1)
Operating costs and expenses	—	(1)
Underwriting loss	$ (2)	$ (2)

PROPERTY-LIABILITY INVESTMENT RESULTS

Net investment income The following table presents net investment income.

($ in millions)	Three months ended March 31,	
	2017	2016
Fixed income securities	$ 226	$ 223
Equity securities	29	20
Mortgage loans	3	3
Limited partnership interests	55	58
Short-term investments	4	2
Other	22	20
Investment income, before expense	339	326
Investment expense	(28)	(24)
Net investment income	$ 311	$ 302

Net investment income increased 3.0% or $9 million to $311 million in the first quarter of 2017 from $302 million in the first quarter of 2016, primarily due to higher equity income.

The average pre-tax investment yields are presented in the following table. 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.

	Three months ended March 31,	
	2017	2016
Fixed income securities: tax-exempt	1.9%	2.1%
Fixed income securities: tax-exempt equivalent	2.8	3.1
Fixed income securities: taxable	3.1	3.2
Equity securities	3.3	2.4
Mortgage loans	3.8	4.0
Limited partnership interests	7.1	8.9
Total portfolio	3.2	3.3

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

($ in millions)	Three months ended March 31,	
	2017	2016
Impairment write-downs	$ (22)	$ (35)
Change in intent write-downs	(13)	(19)
Net other-than-temporary impairment losses recognized in earnings	(35)	(54)
Sales and other	180	(41)
Valuation and settlements of derivative instruments	(10)	(4)
Realized capital gains and losses, pre-tax	135	(99)
Income tax (expense) benefit	(46)	35
Realized capital gains and losses, after-tax	$ 89	$ (64)

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

ALLSTATE FINANCIAL HIGHLIGHTS

- Net income applicable to common shareholders was $108 million in the first quarter of 2017 compared to $68 million in the first quarter of 2016.
- Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled $590 million in the first quarter of 2017, an increase of 4.8% from $563 million in the first quarter of 2016.
- Investments totaled $36.61 billion as of March 31, 2017, reflecting a decrease of $230 million from $36.84 billion as of December 31, 2016. Net investment income increased 1.7% to $426 million in the first quarter of 2017 from $419 million in the first quarter of 2016.
- Net realized capital losses totaled $1 million in the first quarter of 2017 compared to $49 million in the first quarter of 2016.
- Contractholder funds totaled $20.05 billion as of March 31, 2017, reflecting a decrease of $209 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 March 31, 2017	2016
Revenues		
Life and annuity premiums and contract charges	$ 593	$ 566
Net investment income	426	419
Realized capital gains and losses	(1)	(49)
Total revenues	1,018	936
Costs and expenses		
Life and annuity contract benefits	(474)	(455)
Interest credited to contractholder funds	(173)	(190)
Amortization of DAC	(79)	(73)
Operating costs and expenses	(135)	(123)
Total costs and expenses	(861)	(841)
Gain on disposition of operations	2	2
Income tax expense	(51)	(29)
Net income applicable to common shareholders	$ 108	$ 68
Life insurance	$ 60	$ 59
Accident and health insurance	19	18
Annuities and institutional products	29	(9)
Net income applicable to common shareholders	$ 108	$ 68
Allstate Life	$ 57	$ 57
Allstate Benefits	22	20
Allstate Annuities	29	(9)
Net income applicable to common shareholders	$ 108	$ 68
Investments as of March 31	$ 36,610	$ 37,336

Net income applicable to common shareholders was $108 million in the first quarter of 2017 compared to $68 million in the first quarter of 2016. The increase was primarily due to lower net realized capital losses, higher premiums and contract charges, and lower interest credited to contractholder funds, partially offset by higher contract benefits and operating costs and expenses.

Analysis of revenues Total revenues increased 8.8% or $82 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to lower net realized capital losses and higher premiums and contract charges.

Life and annuity premiums and contract charges Premiums represent revenues generated from traditional life insurance, accident and health insurance, and immediate annuities with life contingencies that have significant mortality or morbidity risk. Contract charges are revenues generated from interest-sensitive and variable life insurance and fixed annuities for which deposits are classified as contractholder funds or separate account liabilities. Contract charges are assessed against the contractholder account values for maintenance, administration, cost of insurance and surrender prior to contractually specified dates.

The following table summarizes life and annuity premiums and contract charges by product.

($ in millions)	**Three months ended March 31,**	
	2017	**2016**
Underwritten products		
Traditional life insurance premiums	$ 140	$ 130
Interest-sensitive life insurance contract charges	181	182
Subtotal – Allstate Life	321	312
Traditional life insurance premiums	9	8
Accident and health insurance premiums	232	216
Interest-sensitive life insurance contract charges	28	27
Subtotal – Allstate Benefits	269	251
Total underwritten products	590	563
Annuities		
Fixed annuity contract charges	3	3
Life and annuity premiums and contract charges [1]	$ 593	$ 566

[1] Contract charges related to the cost of insurance totaled $141 million for both the first quarter of 2017 and 2016.

Total premiums and contract charges increased 4.8% or $27 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to growth in critical illness, accident and hospital indemnity products at Allstate Benefits and increased traditional life insurance premiums at Allstate Life.

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

($ in millions)	**Three months ended March 31,**	
	2017	**2016**
Contractholder funds, beginning balance	$ 20,260	$ 21,295
Deposits		
Interest-sensitive life insurance	249	252
Fixed annuities	45	44
Total deposits	294	296
Interest credited	173	189
Benefits, withdrawals, maturities and other adjustments		
Benefits	(233)	(252)
Surrenders and partial withdrawals	(253)	(245)
Contract charges	(206)	(206)
Net transfers from separate accounts	2	1
Other adjustments [1]	14	14
Total benefits, withdrawals, maturities and other adjustments	(676)	(688)
Contractholder funds, ending balance	$ 20,051	$ 21,092

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

Contractholder funds decreased 1.0% in the first quarter of 2017 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 0.7% in the first quarter of 2017 compared to the first quarter of 2016, primarily due to lower deposits on interest-sensitive life insurance.

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products increased 3.3% to $253 million in the first quarter of 2017 from $245 million in the first quarter of 2016. 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 6.2% in the first quarter of 2017 compared to 5.7% in the first quarter of 2016.

Net investment income is presented in the following table.

($ in millions)	Three months ended March 31,	
	2017	2016
Fixed income securities	$ 281	$ 284
Equity securities	15	8
Mortgage loans	52	50
Limited partnership interests	65	63
Short-term investments	1	2
Other	33	30
Investment income, before expense	447	437
Investment expense	(21)	(18)
Net investment income	$ 426	$ 419
Allstate Life	$ 120	$ 120
Allstate Benefits	17	18
Allstate Annuities	289	281
Net investment income	$ 426	$ 419

Net investment income increased 1.7% or $7 million to $426 million in the first quarter of 2017 from $419 million in the first quarter of 2016, primarily due to higher yields on fixed income and equity securities, partially offset by lower average investment balances. The average annualized pre-tax investment yields were 5.0% and 4.8% in the first quarter of 2017 and 2016, respectively.

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

($ in millions)	Three months ended March 31,	
	2017	2016
Impairment write-downs	$ (21)	$ (24)
Change in intent write-downs	(3)	(3)
Net other-than-temporary impairment losses recognized in earnings	(24)	(27)
Sales and other	28	(17)
Valuation and settlements of derivative instruments	(5)	(5)
Realized capital gains and losses, pre-tax	(1)	(49)
Income tax benefit	—	17
Realized capital gains and losses, after-tax	$ (1)	$ (32)
Allstate Life	$ 1	$ (8)
Allstate Benefits	—	(3)
Allstate Annuities	(2)	(21)
Realized capital gains and losses, after-tax	$ (1)	$ (32)

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

Analysis of costs and expenses Total costs and expenses increased 2.4% or $20 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to higher contract benefits and operating costs and expenses, partially offset by lower interest credited to contractholder funds.

Life and annuity contract benefits increased 4.2% or $19 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to higher life insurance mortality experience, and growth at Allstate Benefits.

We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies ("benefit spread"). This implied interest totaled $126 million and $128 million in the first quarter of 2017 and 2016, respectively.

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

($ in millions)	Three months ended March 31,	
	2017	2016
Life insurance	$ 71	$ 75
Accident and health insurance	(2)	—
Subtotal – Allstate Life	69	75
Life insurance	5	5
Accident and health insurance	115	105
Subtotal – Allstate Benefits	120	110
Allstate Annuities	(15)	(17)
Total benefit spread	$ 174	$ 168

Benefit spread increased 3.6% or $6 million in the first quarter of 2017 compared to the first quarter of 2016. The increase was primarily due to growth in business in force at Allstate Benefits and higher life insurance premiums, partially offset by higher life insurance mortality experience.

Interest credited to contractholder funds decreased 8.9% or $17 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to lower average contractholder funds. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged had no impact on interest credited to contractholder funds in first quarter 2017 compared to an increase of $6 million in first quarter 2016.

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

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

($ in millions)	Three months ended March 31,	
	2017	2016
Life insurance	$ 29	$ 32
Accident and health insurance	2	1
Net investment income on investments supporting capital	20	17
Subtotal – Allstate Life	51	50
Life insurance	3	2
Accident and health insurance	2	3
Net investment income on investments supporting capital	3	4
Subtotal – Allstate Benefits	8	9
Annuities and institutional products	28	17
Net investment income on investments supporting capital	40	31
Subtotal – Allstate Annuities	68	48
Investment spread before valuation changes on embedded derivatives that are not hedged	127	107
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	—	(6)
Total investment spread	$ 127	$ 101

Investment spread before valuation changes on embedded derivatives that are not hedged increased 18.7% or $20 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to lower credited interest and higher net investment income at Allstate Annuities.

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

	Three months ended March 31,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2017	2016	2017	2016	2017	2016
Interest-sensitive life insurance	5.0%	5.0%	3.8%	3.9%	1.2%	1.1%
Deferred fixed annuities and institutional products	4.4	4.0	2.8	2.8	1.6	1.2
Immediate fixed annuities with and without life contingencies	6.3	6.0	5.9	5.9	0.4	0.1
Investments supporting capital, traditional life and other products	3.9	3.8	n/a	n/a	n/a	n/a

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

($ in millions)	March 31,	
	2017	2016
Immediate fixed annuities with life contingencies	$ 8,594	$ 8,688
Other life contingent contracts and other	3,629	3,536
Reserve for life-contingent contract benefits	$ 12,223	$ 12,224
Interest-sensitive life insurance	$ 8,091	$ 7,992
Deferred fixed annuities	8,722	9,555
Immediate fixed annuities without life contingencies	2,973	3,182
Institutional products	—	85
Other	265	278
Contractholder funds	$ 20,051	$ 21,092

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

($ in millions)	March 31,	
	2017	2016
Allstate Life	$ 2,582	$ 2,534
Allstate Benefits	950	908
Allstate Annuities	8,691	8,782
Reserve for life-contingent contract benefits	$ 12,223	$ 12,224
Allstate Life	$ 7,353	$ 7,241
Allstate Benefits	956	946
Allstate Annuities	11,742	12,905
Contractholder funds	$ 20,051	$ 21,092

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

($ in millions)	Three months ended March 31,	
	2017	2016
Amortization of DAC before amortization relating to realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and changes in assumptions	$ 75	$ 71
Amortization relating to realized capital gains and losses [(1)] and valuation changes on embedded derivatives that are not hedged	4	2
Amortization acceleration for changes in assumptions ("DAC unlocking")	—	—
Total amortization of DAC	$ 79	$ 73
Allstate Life	$ 36	$ 33
Allstate Benefits	41	38
Allstate Annuities	2	2
Total amortization of DAC	$ 79	$ 73

(1) The impact of realized capital gains and losses on amortization of DAC is dependent upon the relationship between the assets that give rise to the gain or loss and the product liability supported by the assets. Fluctuations result from changes in the impact of realized capital gains and losses on actual and expected gross profits.

Amortization of DAC increased 8.2% or $6 million in the first quarter of 2017 compared to the first quarter of 2016.

Operating costs and expenses increased 9.8% or $12 million in the first quarter of 2017 compared to the first quarter of 2016. The following table summarizes operating costs and expenses.

($ in millions)	Three months ended March 31,	
	2017	2016
Non-deferrable commissions	$ 29	$ 28
General and administrative expenses	92	81
Taxes and licenses	14	14
Total operating costs and expenses	$ 135	$ 123
Allstate Life	$ 59	$ 56
Allstate Benefits	67	59
Allstate Annuities	9	8
Total operating costs and expenses	$ 135	$ 123

General and administrative expenses increased 13.6% or $11 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to increased employee-related costs and higher guaranty fund expenses.

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, would have an impact on the non-proprietary products provided by Allstate agencies and Allstate's broker-dealer, Allstate Financial Services, LLC, their sales processes and volumes, and producer compensation arrangements. Allstate does not currently sell proprietary annuities or proprietary variable life products in connection with IRAs or employee benefit plans covered under ERISA. Allstate Benefits offers universal life products which, when sold in an employee welfare benefit plan, may be considered subject to the fiduciary rule as an insurance product with an "investment component." Products that we previously offered and continue to have in force, such as indexed annuities, could also be impacted by the rule. These requirements may increase regulatory costs and litigation exposure. The financial impact to Allstate is expected to be immaterial. The April 10, 2017 applicability date of the rule was recently delayed. Compliance of certain components of the rule is now required by June 9, 2017, with full compliance still required by January 1, 2018. The delay follows from the February 3, 2017 memorandum from 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 and adversely affect the ability of Americans to gain access to retirement information and financial advice. 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.

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

Allstate Life

The financial results for Allstate Life are presented in the following table.

($ in millions)	Three months ended March 31,	
	2017	2016
Revenues		
Life and annuity premiums and contract charges	$ 321	$ 312
Net investment income	120	120
Realized capital gains and losses	1	(12)
Total revenues	442	420
Costs and expenses		
Life and annuity contract benefits	(195)	(180)
Interest credited to contractholder funds	(69)	(70)
Amortization of DAC	(36)	(33)
Operating costs and expenses	(59)	(56)
Total costs and expenses	(359)	(339)
Income tax expense	(26)	(24)
Net income applicable to common shareholders	$ 57	$ 57

Allstate Life net income applicable to common shareholders in the first quarter of 2017 was comparable to the first quarter of 2016.

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

Contract benefits increased 8.3% or $15 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to higher life insurance mortality experience.

Benefit spread decreased 8.0% to $69 million in the first quarter of 2017 compared to $75 million in the first quarter of 2016, primarily due to higher life insurance mortality experience, partially offset by higher life insurance premiums.

Operating costs and expenses increased 5.4% or $3 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to increased employee-related costs and higher guaranty fund expenses.

Allstate Benefits

The financial results for Allstate Benefits are presented in the following table.

($ in millions)	Three months ended March 31,	
	2017	2016
Revenues		
Life and annuity premiums and contract charges	$ 269	$ 251
Net investment income	17	18
Realized capital gains and losses	—	(5)
Total revenues	286	264
Costs and expenses		
Life and annuity contract benefits	(136)	(128)
Interest credited to contractholder funds	(9)	(9)
Amortization of DAC	(41)	(38)
Operating costs and expenses	(67)	(59)
Total costs and expenses	(253)	(234)
Income tax expense	(11)	(10)
Net income applicable to common shareholders	$ 22	$ 20

Allstate Benefits net income applicable to common shareholders was $22 million in the first quarter of 2017 compared to $20 million in the first quarter of 2016. The increase was primarily due to higher premiums, partially offset by higher contract benefits and operating costs and expenses.

Premiums and contract charges increased 7.2% or $18 million in the first quarter of 2017 compared to the first quarter of 2016. The increase primarily relates to growth in critical illness, accident and hospital indemnity products. Policies in force increased 7.1% to 3,995 thousand as of March 31, 2017 compared to 3,729 thousand as of March 31, 2016.

Contract benefits increased 6.3% or $8 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to growth.

Benefit spread increased 9.1% to $120 million in the first quarter of 2017 compared to $110 million in the first quarter of 2016, primarily due to growth in business in force.

Operating costs and expenses increased 13.6% or $8 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to increased employee-related costs related to growth and higher guaranty fund expenses.

Allstate Annuities

The financial results for Allstate Annuities are presented in the following table.

($ in millions)	Three months ended March 31,	
	2017	2016
Revenues		
Life and annuity premiums and contract charges	$ 3	$ 3
Net investment income	289	281
Realized capital gains and losses	(2)	(32)
Total revenues	290	252
Costs and expenses		
Life and annuity contract benefits	(143)	(147)
Interest credited to contractholder funds	(95)	(111)
Amortization of DAC	(2)	(2)
Operating costs and expenses	(9)	(8)
Total costs and expenses	(249)	(268)
Gain on disposition of operations	2	2
Income tax (expense) benefit	(14)	5
Net income (loss) applicable to common shareholders	$ 29	$ (9)

Allstate Annuities net income applicable to common shareholders was $29 million in the first quarter of 2017 compared to a net loss of $9 million in the first quarter of 2016. The favorable change was primarily due to lower net realized capital losses, lower interest credited to contractholder funds, and higher net investment income.

Net realized capital losses in 2017 primarily related to impairment write-downs, partially offset by net gains on sales in connection with ongoing portfolio management.

Net investment income increased 2.8% or $8 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to higher yields on fixed income and equity securities, partially offset by lower average investment balances. 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.

Contract benefits decreased 2.7% or $4 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to favorable immediate annuity mortality experience.

Interest credited to contractholder funds decreased 14.4% or $16 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to lower average contractholder funds.

Investment spread before valuation changes on embedded derivatives that are not hedged increased 41.7% to $68 million in the first quarter of 2017 compared to $48 million in the first quarter of 2016, primarily due to lower credited interest and higher net investment income.

Operating costs and expenses increased 12.5% or $1 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to higher guaranty fund expenses.

CONSOLIDATED INVESTMENT HIGHLIGHTS

- Investments totaled $81.14 billion as of March 31, 2017, decreasing from $81.80 billion as of December 31, 2016.
- Unrealized net capital gains totaled $2.10 billion as of March 31, 2017, increasing from $1.77 billion as of December 31, 2016.
- Net investment income was $748 million in the first quarter of 2017, an increase of 2.3% from $731 million in the first quarter of 2016.
- Net realized capital gains were $134 million in the first quarter of 2017 compared to net realized capital losses of $149 million in the first quarter of 2016.

INVESTMENTS

Portfolio composition by reporting segment The composition of the investment portfolios by reporting segment as of March 31, 2017 is presented in the following table.

($ in millions)	Property-Liability [5]		Allstate Financial [5]		Corporate and Other [5]		Total	
		Percent to total		Percent to total		Percent to total		Percent to total
Fixed income securities [1]	$ 31,377	74.7%	$ 25,072	68.5%	$ 2,187	86.3%	$ 58,636	72.3%
Equity securities [2]	4,012	9.6	1,670	4.6	3	0.1	5,685	7.0
Mortgage loans	279	0.7	4,070	11.1	—	—	4,349	5.3
Limited partnership interests [3]	3,122	7.4	2,860	7.8	—	—	5,982	7.4
Short-term investments [4]	1,592	3.8	818	2.2	343	13.6	2,753	3.4
Other	1,618	3.8	2,120	5.8	—	—	3,738	4.6
Total	$ 42,000	100.0%	$ 36,610	100.0%	$ 2,533	100.0%	$ 81,143	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $31.16 billion, $23.86 billion, $2.17 billion and $57.19 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

(2) Equity securities are carried at fair value. Cost basis for these securities was $3.53 billion, $1.50 billion, $3 million and $5.03 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

(3) We have commitments to invest in additional limited partnership interests totaling $1.54 billion, $1.43 billion and $2.97 billion for Property-Liability, Allstate Financial, and in Total, respectively.

(4) Short-term investments are carried at fair value. Amortized cost basis for these investments was $1.59 billion, $818 million, $343 million and $2.75 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

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

Investments totaled $81.14 billion as of March 31, 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, net reductions in contractholder funds and dividends paid to shareholders also contributed to the decline, which was partially offset by positive operating cash flows and higher fixed income and equity valuations.

The Property-Liability investment portfolio totaled $42.00 billion as of March 31, 2017, decreasing from $42.72 billion as of December 31, 2016, primarily due to the SquareTrade acquisition and dividends paid by Allstate Insurance Company (“AIC”) to The Allstate Corporation (the “Corporation”), partially offset by positive operating cash flows and higher fixed income and equity valuations.

The Allstate Financial investment portfolio totaled $36.61 billion as of March 31, 2017, decreasing from $36.84 billion as of December 31, 2016, primarily due to dividends paid by Allstate Life Insurance Company to AIC and net reductions in contractholder funds, partially offset by higher fixed income and equity valuations.

The Corporate and Other investment portfolio totaled $2.53 billion as of March 31, 2017, increasing from $2.24 billion as of December 31, 2016, primarily due to dividends paid by AIC to the Corporation, partially offset by common share repurchases and dividends paid to shareholders.

Portfolio composition by investment strategy

We utilize 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 to replace market risk with idiosyncratic risk. The return is a function of both general market conditions and the performance of the underlying assets or businesses. The portfolio, which primarily includes private equity, real estate, infrastructure, timber and agriculture-related assets, is diversified across a number of characteristics, including managers or partners, vintage years, strategies, geographies (including international) and industry sectors or property types. These investments are generally illiquid in nature, often require specialized expertise, typically involve a third party manager, and may offer the potential to add value through transformation at the company or property level. A portion of these investments seek returns through asset dislocations or special situations, primarily in private markets.

The following table presents the investment portfolio by strategy as of March 31, 2017.

($ in millions)	**Total**	**Market-Based Core**	**Market-Based Active**	**Performance-Based**
Fixed income securities	$ 58,636	$ 51,332	$ 7,236	$ 68
Equity securities	5,685	4,411	1,167	107
Mortgage loans	4,349	4,349	—	—
Limited partnership interests	5,982	518	—	5,464
Short-term investments	2,753	2,112	641	—
Other	3,738	3,035	168	535
Total	$ 81,143	$ 65,757	$ 9,212	$ 6,174
% of total		81%	11%	8%
Property-Liability	$ 42,000	$ 30,703	$ 8,018	$ 3,279
% of Property-Liability		73%	19%	8%
Allstate Financial	$ 36,610	$ 32,521	$ 1,194	$ 2,895
% of Allstate Financial		89%	3%	8%
Corporate & Other	$ 2,533	$ 2,533	$ —	$ —
% of Corporate & Other		100%	—%	—%
Unrealized net capital gains and losses				
Fixed income securities	$ 1,442	$ 1,388	$ 54	$ —
Equity securities	659	615	35	9
Total	$ 2,101	$ 2,003	$ 89	$ 9

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

($ in millions)	**Fair value as of March 31, 2017**	**Percent to total investments**	**Fair value as of December 31, 2016**	**Percent to total investments**
U.S. government and agencies	$ 4,395	5.4%	$ 3,637	4.5%
Municipal	7,507	9.2	7,333	9.0
Corporate	43,535	53.7	43,601	53.3
Foreign government	1,027	1.3	1,075	1.3
Asset-backed securities (“ABS”)	1,265	1.6	1,171	1.4
Residential mortgage-backed securities (“RMBS”)	672	0.8	728	0.9
Commercial mortgage-backed securities (“CMBS”)	211	0.3	270	0.3
Redeemable preferred stock	24	—	24	—
Total fixed income securities	$ 58,636	72.3%	$ 57,839	70.7%

Fixed income securities are rated by third party credit rating agencies and/or are internally rated. As of March 31, 2017, 85.1% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P 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 March 31, 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	$ 4,395	$ 66	$ —	$ —	$ 4,395	$ 66
Municipal						
Tax exempt	5,126	3	38	(4)	5,164	(1)
Taxable	2,290	261	53	(2)	2,343	259
Corporate						
Public	26,667	581	4,655	88	31,322	669
Privately placed	8,953	257	3,260	66	12,213	323
Foreign government	1,026	32	1	—	1,027	32
ABS						
Collateralized debt obligations ("CDO")	628	(3)	52	3	680	—
Consumer and other asset-backed securities ("Consumer and other ABS")	584	2	1	1	585	3
RMBS						
U.S. government sponsored entities ("U.S. Agency")	132	4	—	—	132	4
Non-agency	25	—	515	79	540	79
CMBS	56	1	155	4	211	5
Redeemable preferred stock	24	3	—	—	24	3
Total fixed income securities	$ 49,906	$ 1,207	$ 8,730	$ 235	$ 58,636	$ 1,442
Property-Liability	$ 25,962	$ 87	$ 5,415	$ 126	$ 31,377	$ 213
Allstate Financial	21,847	1,104	3,225	107	25,072	1,211
Corporate & Other	2,097	16	90	2	2,187	18
Total fixed income securities	$ 49,906	$ 1,207	$ 8,730	$ 235	$ 58,636	$ 1,442

Municipal bonds, including tax exempt and taxable securities, totaled $7.51 billion as of March 31, 2017 with an unrealized net capital gain of $258 million. The municipal bond portfolio includes general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest).

Corporate bonds, including publicly traded and privately placed, totaled $43.54 billion as of March 31, 2017, with an unrealized net capital gain of $992 million. 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 $1.27 billion as of March 31, 2017, with 95.8% rated investment grade and an unrealized net capital gain of $3 million. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance.

CDO totaled $680 million as of March 31, 2017, with 92.4% 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 $585 million as of March 31, 2017, with 99.8% rated investment grade. Consumer and other ABS consists of $239 million of consumer auto, $122 million of credit card and $224 million of other ABS with unrealized net capital gains of zero, zero and $3 million, respectively.

RMBS totaled $672 million as of March 31, 2017, with 23.4% rated investment grade and an unrealized net capital gain of $83 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 $540 million as of March 31, 2017, with 4.6% rated investment grade and an unrealized net capital gain of $79 million.

CMBS totaled $211 million as of March 31, 2017, with 26.5% rated investment grade and an unrealized net capital gain of $5 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 $5.69 billion as of March 31, 2017, with an unrealized net capital gain of $659 million.

Mortgage loans, which are primarily held in the Allstate Financial portfolio, totaled $4.35 billion as of March 31, 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 March 31, 2017.

($ in millions)	Private equity	Real estate	Other	Total
Cost method of accounting (“Cost”)	$ 1,126	$ 122	$ 45	$ 1,293
Equity method of accounting (“EMA”)	3,198	1,018	473	4,689
Total	$ 4,324	$ 1,140	$ 518	$ 5,982
Number of managers	124	39	14	177
Number of individual investments	231	82	19	332
Largest exposure to single investment	$ 179	$ 72	$ 204	$ 204

Unrealized net capital gains totaled $2.10 billion as of March 31, 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 a decrease in long-term risk-free interest rates. The increase for equity securities was primarily due to favorable equity market performance.

The following table presents unrealized net capital gains and losses.

($ in millions)	March 31, 2017	December 31, 2016
U.S. government and agencies	$ 66	$ 65
Municipal	258	217
Corporate	992	859
Foreign government	32	32
ABS	3	2
RMBS	83	77
CMBS	5	8
Redeemable preferred stock	3	3
Fixed income securities	1,442	1,263
Equity securities	659	509
Derivatives	—	2
EMA limited partnerships	—	(4)
Unrealized net capital gains and losses, pre-tax	$ 2,101	$ 1,770
Property-Liability	$ 700	$ 500
Allstate Financial	1,387	1,263
Corporate & Other	14	7
Unrealized net capital gains and losses, pre-tax	$ 2,101	$ 1,770

The unrealized net capital gain for the fixed income portfolio totaled $1.44 billion, comprised of $1.77 billion of gross unrealized gains and $332 million of gross unrealized losses as of March 31, 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 March 31, 2017 are provided in the following table.

($ in millions)	Amortized cost	Gross unrealized		Fair value
		Gains	Losses	
Corporate:				
Consumer goods (cyclical and non-cyclical)	$ 13,320	$ 276	$ (71)	$ 13,525
Utilities	5,180	329	(40)	5,469
Capital goods	4,565	116	(24)	4,657
Banking	3,257	40	(23)	3,274
Transportation	1,697	78	(21)	1,754
Communications	3,641	84	(19)	3,706
Energy	2,186	91	(14)	2,263
Technology	3,599	55	(13)	3,641
Financial services	2,771	79	(10)	2,840
Basic industry	2,021	76	(7)	2,090
Other	306	10	—	316
Total corporate fixed income portfolio	42,543	1,234	(242)	43,535
U.S. government and agencies	4,329	70	(4)	4,395
Municipal	7,249	315	(57)	7,507
Foreign government	995	34	(2)	1,027
ABS	1,262	15	(12)	1,265
RMBS	589	89	(6)	672
CMBS	206	14	(9)	211
Redeemable preferred stock	21	3	—	24
Total fixed income securities	$ 57,194	$ 1,774	$ (332)	$ 58,636

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 March 31, 2017. The consumer goods, utilities and capital goods sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of March 31, 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 unrealized net capital gain for the equity portfolio totaled $659 million, comprised of $714 million of gross unrealized gains and $55 million of gross unrealized losses as of March 31, 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 ended March 31,	
	2017	2016
Fixed income securities	$ 518	$ 518
Equity securities	44	28
Mortgage loans	55	53
Limited partnership interests	120	121
Short-term investments	6	4
Other	56	51
Investment income, before expense	799	775
Investment expense	(51)	(44)
Net investment income	$ 748	$ 731
Property-Liability	$ 311	$ 302
Allstate Financial	426	419
Corporate & Other	11	10
Net investment income	$ 748	$ 731
Market-Based Core	$ 585	$ 581
Market-Based Active	74	61
Performance-Based	140	133
Investment income, before expense	$ 799	$ 775

Net investment income increased 2.3% or $17 million in the first quarter of 2017 compared to the first quarter of 2016, primarily due to higher equity income.

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 March 31,	
	2017	2016
Impairment write-downs	$ (43)	$ (59)
Change in intent write-downs	(16)	(22)
Net other-than-temporary impairment losses recognized in earnings	(59)	(81)
Sales and other	208	(59)
Valuation and settlements of derivative instruments	(15)	(9)
Realized capital gains and losses, pre-tax	134	(149)
Income tax (expense) benefit	(46)	53
Realized capital gains and losses, after-tax	$ 88	$ (96)
Property-Liability	$ 89	$ (64)
Allstate Financial	(1)	(32)
Realized capital gains and losses, after-tax	$ 88	$ (96)
Market-Based Core	$ 87	$ (91)
Market-Based Active	59	(47)
Performance-Based	(12)	(11)
Realized capital gains and losses, pre-tax	$ 134	$ (149)

Impairment write-downs are presented in the following table.

($ in millions)	**Three months ended March 31,**	
	2017	**2016**
Fixed income securities	$ (13)	$ (16)
Equity securities	(20)	(55)
Limited partnership interests	(7)	13
Other investments	(3)	(1)
Impairment write-downs	$ (43)	$ (59)

Impairment write-downs on fixed income securities for the three months ended March 31, 2017 were primarily driven by corporate fixed income securities impacted by issuer specific circumstances. Equity securities were written down primarily due to the length of time and extent to which fair value was below cost, considering our assessment of the financial condition and near-term and long-term prospects of the issuer, including relevant industry conditions and trends. Limited partnership write-downs primarily related to private equity investments.

Change in intent write-downs totaled $16 million in the three months ended March 31, 2017 and primarily relate to $1.7 billion of equity securities as of March 31, 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. For certain equity securities managed by third parties, we do not retain decision making authority as it pertains to selling securities that are in an unrealized loss position and therefore we recognize any unrealized loss at the end of the period through a charge to earnings. As of March 31, 2017, these holdings totaled $51 million and we recognized change in intent write-downs of zero for the three months ended March 31, 2017.

Sales and other generated $208 million of net realized capital gains in the three months ended March 31, 2017. 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 $15 million for the three months ended March 31, 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.

Performance-based investments primarily include private equity, real estate, infrastructure, timber and agriculture-related assets and a majority are limited partnerships.

The following table presents investment income for performance-based investments.

($ in millions)	Three months ended March 31,	
	2017	2016
Limited partnerships		
Private equity [(1)]	$ 114	$ 85
Real estate	4	33
Timber and agriculture-related	2	3
Performance-based - limited partnerships [(2)]	120	121
Non-limited partnerships		
Private equity	9	2
Real estate	10	8
Timber and agriculture-related	1	2
Performance-based - non-limited partnerships	20	12
Total		
Private equity	123	87
Real estate	14	41
Timber and agriculture-related	3	5
Total performance-based	$ 140	$ 133
Investee level expenses [(3)]	$ (9)	$ (8)
Property-Liability	$ 67	$ 66
Allstate Financial	73	67
Total performance-based	$ 140	$ 133

(1) Includes infrastructure.

(2) Other limited partnership interests are located in market-based core and are not included in the table above. Investment income was zero in both the first quarter of 2017 and 2016, respectively, for these limited partnership interests.

(3) Investee level expenses include depreciation and asset level operating expenses reported in investment expense. 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 investments produced investment income of $140 million in the first quarter of 2017 compared to $133 million in the first quarter of 2016. The increase was primarily related to higher valuations on private equity investments, partially offset by lower real estate investment valuations.

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

($ in millions)	Three months ended March 31,	
	2017	2016
Limited partnerships		
Private equity	$ (10)	$ 12
Real estate	1	1
Timber and agriculture-related	—	—
Performance-based - limited partnerships [1]	(9)	13
Non-limited partnerships		
Private equity	(4)	(25)
Real estate	—	1
Timber and agriculture-related	1	—
Performance-based - non-limited partnerships	(3)	(24)
Total		
Private equity	(14)	(13)
Real estate	1	2
Timber and agriculture-related	1	—
Total performance-based	$ (12)	$ (11)
Property-Liability	$ (6)	$ (8)
Allstate Financial	(6)	(3)
Total performance-based	$ (12)	$ (11)

[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 $49 million and $13 million in the first quarter of 2017 and 2016, respectively, for these limited partnership interests.

Net realized capital losses on performance-based investments were $12 million and $11 million in the first quarter of 2017 and 2016, respectively. The first three months of 2017 included impairment write-downs on private equity investments. Economic conditions and equity market performance are reflected in performance-based investment results and income could vary significantly between periods.

CAPITAL RESOURCES AND LIQUIDITY HIGHLIGHTS

- Shareholders’ equity as of March 31, 2017 was $21.16 billion, an increase of 2.8% from $20.57 billion as of December 31, 2016.
- On January 3, 2017, we paid common shareholder dividends of $0.33. On February 10, 2017, we declared a common shareholder dividend of $0.37 payable on April 3, 2017.
- As of March 31, 2017, there was $442 million remaining on the $1.5 billion common share repurchase program.

CAPITAL RESOURCES AND LIQUIDITY

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

($ in millions)	March 31, 2017	December 31, 2016
Preferred stock, common stock, treasury stock, retained income and other shareholders’ equity items	$ 21,355	$ 20,989
Accumulated other comprehensive loss	(197)	(416)
Total shareholders’ equity	21,158	20,573
Debt	6,346	6,347
Total capital resources	$ 27,504	$ 26,920
Ratio of debt to shareholders’ equity	30.0%	30.9%
Ratio of debt to capital resources	23.1%	23.6%

Shareholders’ equity increased in the first three 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 three months ended March 31, 2017, we paid dividends of $122 million and $29 million related to our common and preferred shares, respectively.

Common share repurchases As of March 31, 2017, there was $442 million remaining on the $1.5 billion common share repurchase program that is expected to be completed by November 2017. During the first three months of 2017, we repurchased 3.2 million common shares for $249 million in the market.

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. There have been no changes to any of our ratings 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.

Allstate Life Insurance Company (“ALIC”), AIC, Allstate Assurance Company (“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 $2.74 billion as of March 31, 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 three 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 March 31, 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 three months of 2017, we did not defer interest payments on the subordinated debentures.

Additional borrowings to support liquidity are as follows:

- The Corporation has access to a commercial paper facility with a borrowing limit of $1.00 billion to cover short-term cash needs. As of March 31, 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 15.6% as of March 31, 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 the first quarter 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 535 million shares of treasury stock as of March 31, 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.

Liquidity exposure Contractholder funds were $20.05 billion as of March 31, 2017. The following table summarizes contractholder funds by their contractual withdrawal provisions as of March 31, 2017.

($ in millions)			**Percent to total**
Not subject to discretionary withdrawal	$	3,090	15.4%
Subject to discretionary withdrawal with adjustments:			
Specified surrender charges [(1)]		5,052	25.2
Market value adjustments [(2)]		1,576	7.9
Subject to discretionary withdrawal without adjustments [(3)]		10,333	51.5
Total contractholder funds [(4)]	$	20,051	100.0%

(1) Includes $1.22 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2) $1.00 billion of the contracts with market value adjusted surrenders have a 30-45 day period at the end of their initial and subsequent interest rate guarantee periods (which are typically 1, 5, 7 or 10 years) during which there is no surrender charge or market value adjustment.

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

(4) Includes $764 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 6.2% and 5.7% in the first three 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.

Our asset-liability management practices enable us to manage the differences between the cash flows generated by our investment portfolio and the expected cash flow requirements of our life insurance and annuity product obligations.

The following table summarizes consolidated cash flow activities by segment for the three months ended March 31.

($ in millions)	Property-Liability [1]		Allstate Financial [1]		Corporate and Other [1]		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Net cash provided by (used in):								
Operating activities	$ 806	$ 547	$ 114	$ 196	$ (63)	$ (29)	$ 857	$ 714
Investing activities	(391)	76	401	66	(290)	(46)	(280)	96
Financing activities	—	30	(222)	(218)	(349)	(586)	(571)	(774)
Net increase in consolidated cash							$ 6	$ 36

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

Property-Liability Higher cash provided by operating activities in the first three months of 2017 compared to the first three months of 2016 was primarily due to lower claim and tax payments and increased premiums, partially offset by higher operating expenses.

Cash used in investing activities in the first three months of 2017 compared to cash provided in investing activities in the first three months of 2016 was primarily the result of increased purchases of fixed income securities and cash paid for the SquareTrade acquisition, partially offset by a reduction in short-term investments and increased sales of equity securities.

Allstate Financial Lower cash provided by operating activities in the first three months of 2017 compared to the first three months of 2016 was primarily due to a decrease in payables and higher payments for operating expenses, partially offset by higher premiums on accident and health and traditional life insurance products.

Higher cash provided by investing activities in the first three months of 2017 compared to the first three months of 2016 was the result of a reduction in short-term investments to fund the dividends paid by ALIC to AIC.

Cash used in financing activities in the first three months of 2017 was comparable to the first three months of 2016.

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

RECENT DEVELOPMENTS

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, which occurred on April 13, 2017, the U.S. Treasury Secretary and USTR must sign the agreement and provide the final written notification to the European Union (“EU”) for the Covered Agreement to become effective. As provided in Dodd-Frank, a Covered Agreement cannot preempt (i.e. displace) state insurance measures that govern an insurer’s rates, premiums, underwriting or sales practices; any state insurance coverage requirements; the application of antitrust laws of any state to the business of insurance; or any state insurance measure governing insurer capital or solvency, except where a state insurance measure results in less favorable treatment of a non-U.S. insurer than a U.S. insurer.

In November 2015, pursuant to Dodd-Frank, Treasury and USTR notified Congress that they were formally initiating negotiations on a Covered Agreement with the EU (the “Covered Agreement”) addressing: permanent equivalence treatment of the U.S. regulatory system by the EU; confidential sharing of information across jurisdictions; and uniform treatment of EU-based reinsurers operating in the U.S., including with respect to reinsurance collateral. On January 13, 2017, the Secretary of the Treasury and USTR jointly submitted a Covered Agreement consistent with their November 2015 notification to Congress. Once effective, the Covered Agreement is designed to secure equivalence treatment of the U.S. regulatory system by the EU, addresses the confidential sharing of information by regulators across jurisdictions, and eliminate reinsurance collateral requirements for EU-based foreign reinsurers in all States that meet certain conditions. In accordance with authorities provided in Dodd-Frank, the Covered Agreement may preempt (i.e., displace) state laws after 60 months from its effective date if then existing State insurance measures affected by the Covered Agreement result in less favorable treatment of an EU insurer or reinsurer subject to the Covered Agreement than a U.S. insurer domiciled, licensed, or otherwise admitted in a U.S. State.

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

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

On June 23, 2016, the U.K. held a referendum in which they voted to leave the EU. The U.K. Prime Minister notified the European Council on March 29, 2017 of its intention to withdraw from the EU under Article 50 of the Lisbon Treaty. Once notification is given, Article 50 provides two years, unless the parties agree to extend the withdrawal period, to reach an agreement on the terms of the withdrawal. If no extensions are agreed to, the withdrawal would be expected to be completed in March 2019. Article 50 provides only for the negotiation of a withdrawal arrangement but does not address future relationships between the U.K. and EU. Upon exiting the EU, the U.K. insurance market will no longer be in the scope of the Covered Agreement.

Federal Reserve Board. In June 2016, the Federal Reserve Board ("FRB") issued an Advanced Notice of Proposed Rulemaking soliciting comments on two separate capital framework proposals developed for insurance groups designated as systemically important financial institutions ("SIFI") and insurance companies that own insured depository institutions ("IDIs"). As of December 31, 2016, we are not designated as a SIFI and do not own an IDI. The proposals at a very high level describe how capital and financial risk could be measured. The capital proposal applicable to insurance IDIs uses a Building Block Approach ("BBA"). The BBA uses, as a starting point, available and required capital obtained from existing regulatory frameworks, such as the National Association of Insurance Commissioners Risk-Based Capital, developed from financial statements constructed using Statutory Accounting Principles ("SAP") and applies a Basel-like approach to remaining assets not covered by a specific regulatory framework. The proposed capital framework applicable to SIFI's would be a Consolidated Approach, which would rely on a new risk-based framework to be applied to consolidated U.S. GAAP based financial measures.

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

On April 21, 2017, the President signed an Executive Order directing the Secretary of the Treasury to conduct a review of the 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 related to its authority to make SIFI designations and determine whether that authority is consistent 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.

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 March 31, 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.

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 [1]	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs [2]
January 1, 2017 - January 31, 2017				
Open Market Purchases	1,140,727	$74.4309	1,140,600	
February 1, 2017 - February 28, 2017				
Open Market Purchases	1,149,411	$79.5116	847,900	
March 1, 2017 - March 31, 2017				
Open Market Purchases	1,187,137	$81.8482	1,187,100	
Total	3,477,275	$78.6426	3,175,600	$442 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.
January: 127
February: 301,511
March: 37

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

Item 6. Exhibits

(a) Exhibits

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

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

May 2, 2017	By	/s/ Samuel H. Pilch
		Samuel H. Pilch (chief accounting officer and duly authorized officer of Registrant)

EXHIBIT 15

The Allstate Corporation
2775 Sanders Road
Northbrook, IL 60062

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of The Allstate Corporation and subsidiaries for the periods ended March 31, 2017 and 2016, as indicated in our report dated May 2, 2017; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, is incorporated by reference in the following Registration Statements:

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

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

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
May 2, 2017

CERTIFICATIONS **EXHIBIT 31 (i)**

I, Thomas J. Wilson, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 2, 2017

/s/ Thomas J. Wilson

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

CERTIFICATIONS **EXHIBIT 31 (i)**

I, Steven E. Shebik, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2017

/s/ Steven E. Shebik

Steven E. Shebik

Executive Vice President and Chief Financial Officer

EXHIBIT 32

SECTION 1350 CERTIFICATIONS

Each of the undersigned hereby certifies that to his knowledge the quarterly report on Form 10-Q for the fiscal period ended March 31, 2017 of The Allstate Corporation filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and result of operations of The Allstate Corporation.

Date: May 2, 2017

/s/ Thomas J. Wilson

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

/s/ Steven E. Shebik

Steven E. Shebik
Executive Vice President and Chief Financial Officer