NAIC Group Code 0008
NAIC Company Code 00086
Employer's ID Number 36-07196665

Allstate Insurance Group
Combined Management Discussion and Analysis
For the Year Ended December 31, 2015

OVERVIEW

The Allstate Insurance Group (referred to as the "Group") consists of Allstate County Mutual Insurance Company, Allstate Fire and Casualty Insurance Company, Allstate Indemnity Company, Allstate Insurance Company ("AIC"), Allstate Northbrook Indemnity Company, Allstate North American Insurance Company, Allstate Property and Casualty Insurance Company, Allstate Texas Lloyd's, Allstate Vehicle and Property Insurance Company, Encompass Home and Auto Insurance Company, Encompass Indemnity Company, Encompass Independent Insurance Company, Encompass Insurance Company, Encompass Insurance Company of America, Encompass Insurance Company of Massachusetts, Encompass Property and Casualty Company, Esurance Insurance Company, Esurance Property and Casualty Insurance Company and North Light Specialty Insurance Company ("NLSIC"). Since these insurers are part of a consolidated group that utilize 100% intercompany reinsurance agreements, regulatory approval was obtained to prepare a combined Management Discussion and Analysis ("MD&A"). Accordingly, the combined results of the aforementioned companies have been analyzed in this MD&A.

In addition to the combined affiliated property-liability insurers listed above, the Group has several uncombined subsidiaries, the largest of which is the Allstate Life Insurance Company ("Allstate Life"). Allstate Life and its subsidiaries market a broad line of life insurance and investment products. There are also several uncombined property and casualty insurers, the two largest being Allstate New Jersey Insurance Company ("ANJ") and Castle Key Insurance Company ("CKIC"). ANJ writes auto and homeowners exclusively in New Jersey, while CKIC writes only homeowners in Florida. Separate MD&As were filed for Allstate Life and certain of its subsidiaries, ANJ and CKIC. Allstate Insurance Company of Canada is an affiliated foreign insurer, which has three subsidiary insurance companies and has regulatory filings with the Office of the Superintendent of Financial Institutions.

AIC is an Illinois domiciled insurer licensed to write property and casualty business in 49 states, the District of Columbia, and Puerto Rico and offers a broad range of personal and commercial insurance products. Allstate Insurance Holdings, LLC ("Allstate Holdings"), a Delaware Corporation, owns all of AIC's outstanding shares of common stock and is wholly-owned by The Allstate Corporation.

BUSINESS SEGMENTS

The Group's Property-Liability operations consist of two reporting segments: Allstate Protection and Discontinued Lines and Coverages. Allstate Protection comprises three brands where the Group accepts underwriting risk: Allstate®, Esurance® and Encompass®. Allstate Protection is principally engaged in the sale of personal property and casualty insurance, primarily private passenger auto and homeowners insurance, to individuals in the United States and Canada. Discontinued Lines and Coverages includes results from property-liability insurance coverage that the Group no longer writes 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.

The Allstate brand utilizes marketing delivered to target customers to promote the Group's strategic priorities, with messaging that communicates the value of the Group's "Good Hands®", the importance of having proper coverage by highlighting our comprehensive product and coverage options, and the ease of doing business with Allstate and Allstate Agencies.

The Allstate brand differentiates itself from competitors by offering a comprehensive range of innovative product options and features through a network primarily of Allstate exclusive agencies that provide local advice and service. Product features include Allstate Your Choice Auto® with options such as Accident Forgiveness, Deductible Rewards®, Safe Driving Bonus®, New Car Replacement, and Allstate House and Home® that provides options of coverage for roof damage including graduated coverage and pricing based on roof type and age. In addition, the Group offers a Claim Satisfaction Guarantee℠ that promises a return of premium to Allstate brand auto insurance customers dissatisfied with their claims experience. The

Group's Drivewise® program, available in 48 states and the District of Columbia as of December 31, 2015, uses a mobile application or an in-car device to capture driving behaviors and reward customers for driving safely. The Drivewise mobile application also provides customers with information and tools to encourage safer driving and incentivize through driving challenges. Beginning in 2015, Drivewise offers Allstate Rewards®, a program that provides reward points for safe driving. The Group will continue to focus on developing and introducing products and services that benefit today's consumers and further differentiate the Group and enhance the customer experience. The Group will deepen customer relationships through value-added customer interactions and expanding its presence in households with multiple products by providing financial protection for customer needs. In certain areas with higher risk of catastrophes or where customers do not meet our standard underwriting profile, the Group offers a homeowners product from NLSIC, our excess and surplus lines carrier that operates under different regulatory rules. When an Allstate product is not available, the Group may make available non-proprietary products for customers through brokering arrangements. For example, in certain hurricane exposed areas, Allstate agencies sell non-proprietary property insurance products to customers who prefer to use a single agent for all their insurance needs.

The Group is undergoing a focused effort to enhance effectiveness and efficiency by implementing processes and standards to elevate the level and consistency of the Group's customer experience. The Group continues to enhance technology to improve customer service, facilitate the introduction of new products and services, improve the handling of claims and reduce infrastructure costs related to supporting agencies. These actions and others are designed to optimize the effectiveness of our distribution and service channels by increasing the productivity of the Allstate brand's exclusive agencies.

Allstate brand auto and homeowners insurance products are sold primarily through Allstate exclusive agencies and serve customers who prefer local personalized advice and service and are brand-sensitive. The Allstate brand also sells specialty auto products including motorcycle, trailer, motor home and off-road vehicle insurance policies.

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

The Group's strategy for the Esurance brand focuses on self-directed consumers. To best serve these customers, Esurance develops its technology, website and mobile capabilities to continuously improve its hassle-free purchase and claims experience and offer innovative product options and features. Esurance continues to develop additional products to complement its auto line of business and provide a more comprehensive solution to its customers. Esurance also continues to invest in geographic expansion of its products. Esurance expanded its homeowners products in 2015 from 14 to 25 states and renters from 19 to 20 states. Esurance continues to focus on increasing its preferred driver mix, while raising marketing effectiveness to support growth and profitability. Esurance's DriveSense® program, available in 32 states as of December 31, 2015, enables participating customers to be eligible for discounts based on driving performance as measured by a device installed in the vehicle. Esurance Pay Per Mile® usage-based insurance product was piloted in September 2015 and gives customers flexibility to customize their insurance and pay based on the number of miles they drive.

The Group's strategy for the Encompass brand centers around offering broad coverage options specifically tailored to the mass affluent market while simplifying the insurance experience by packaging products into a single annual household ("package") policy with one premium, one bill, one policy deductible, one renewal date and one advisor - an independent insurance agent. These features appeal to the approximately 35 million mass affluent households in the U.S., with their higher average limits and preference for professional advice regarding coverage needs and risk solutions. Package policies represent over 85% of premiums written where they are offered, with concentrations in suburban and urban areas throughout the country. Package policies currently are not offered in Massachusetts, North Carolina and Texas. In pursuit of this strategy and to achieve its financial objectives, Encompass is partnering with dedicated independent agency professionals who understand the needs of our risk sensitive consumers. The Group is seeking to diversify through new business writings in states where the risk return opportunities meet its requirements, while aggressively executing pricing, underwriting, and other actions to manage risk and ensure adequate profitability.

The Group's pricing and underwriting strategies and decisions for all of its brands are primarily designed to achieve appropriate returns along with enhancing its competitive position. Sophisticated pricing methodology allows the Group to attract and retain customers in multiple risk segments. A combination of

underwriting information, pricing and discounts are also used to achieve a more competitive position. The Group's pricing strategy involves marketplace pricing and underwriting decisions that are based on these risk evaluation factors and an evaluation of competitors to the extent permissible by applicable law.

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

CATASTROPHE MANAGEMENT

Catastrophe losses are an inherent risk of the property-liability insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in the Group's results of operations and financial position. The Group defines 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. The Group is also exposed to man-made catastrophic events, such as certain types of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be reliably predicted.

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

Over time the Group has limited its aggregate insurance exposure to catastrophe losses in certain regions of the country that are subject to high levels of natural catastrophes. Limitations include participation in various state facilities, such as the California Earthquake Authority, which provides insurance for California earthquake losses; and other state facilities, such as wind pools. However, the impact of these actions may be diminished by the growth in insured values, and the effect of state insurance laws and regulations. In addition, in various states the Group is required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Because of the Group's participation in these and other state facilities such as wind pools, it may be exposed to losses that surpass the capitalization of these facilities and to assessments from these facilities.

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

The Group continues to take actions to maintain an appropriate level of exposure to catastrophic events while continuing to meet customer's needs, including the following:

- Continuing to limit or not offer new homeowners, manufactured home and landlord package policy business in certain coastal geographies.
- Increased capacity in the brokerage platform for customers not offered an Allstate policy.
- In 2015, NLSIC, the Groups surplus lines company that operates under different regulatory rules, expanded operations to 1 new state, bringing the total to 43 states.

- In certain states, the Group has been ceding wind exposure related to insured property located in wind pool eligible areas.
- The Group ceased writing new homeowners and landlord package policy business in California in 2007; however, later in 2016 the Group will start to write a limited number of homeowners policies in select areas of the state. Meanwhile, the Group will continue to renew current policyholders and allow replacement policies for existing customers who buy a new home, or change their residence to rental property. For landlord package policies the Group allows replacement policies on an exception basis, and offers a small number of new landlord package policies in order to accommodate current personal umbrella policy customers.
- NLSIC, began writing homeowners in California in February 2013. Any earthquake coverage provided under these writings (other than fire following earthquakes) is currently ceded via quota share reinsurance.
- Tropical cyclone deductibles are in place for a large portion of coastal insured properties.
- The Group has additional catastrophe exposure, beyond the property lines, for auto customers who have purchased physical damage coverage. Auto physical damage coverage generally includes coverage for flood-related loss. The Group manages this additional exposure through inclusion of auto losses in our nationwide reinsurance program (which excludes New Jersey and Florida). New Jersey auto losses are included in the Allstate New Jersey Insurance Company reinsurance program. Beginning in 2016, Florida auto losses will be included in our nationwide reinsurance program.
- Designed the Group's homeowners new business offering, Allstate House and Home, that provides options of coverage for roof damage including graduated coverage and pricing based on roof type and age. Allstate House and Home is currently available in 37 states.

The Group continues to seek appropriate returns for its risks. This may require further actions, similar to those already taken, in geographies where the Group is not getting appropriate returns. However, the Group may maintain or opportunistically increase its presence in areas where it achieves adequate returns and does not materially increase its hurricane risk.

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, to negotiate a Covered Agreement with one or more foreign governments, authorities, or regulatory entities. A Covered Agreement is a written bilateral or multilateral agreement that "relates to the recognition of prudential measures with respect to the business of insurance or reinsurance that achieves a level of protection for insurance or reinsurance consumers that is substantially equivalent to the level of protection achieved under State insurance or reinsurance regulation." A Covered Agreement would become effective 90 days after FIO and USTR jointly submit the final agreement to the House Financial Services, House Ways and Means, Senate Banking, and Senate Finance committees. The House and Senate committees are not required to vote on the Covered Agreement for it to become effective. As provided in Dodd-Frank, a Covered Agreement cannot preempt state insurance measures that govern an insurer's rates, premiums, underwriting or sales practices; any state insurance coverage requirements; the application of antitrust laws of any state to the business of insurance; or any state insurance measure governing insurer capital or solvency, except where a state insurance measure results in less favorable treatment of a non-U.S. insurer than a U.S. insurer.

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

In February of 2016, the Housing and Insurance Subcommittee of the House of Representative's Committee on Financial Services held a hearing to examine various international regulatory standards being considered by the G-20, the Financial Stability Board, the International Association of Insurance Supervisors, and other international supervisory authorities. The hearing discussed draft legislation to enhance Congressional

oversight of insurance-related international deliberations to which the U.S. is a party that would establish a series of requirements to be met before the FIO or Federal Reserve may agree to, accept, establish, enter into or consent to the adoption of a final international insurance standard.

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

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

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

FINANCIAL POSITION

Cash and invested assets

The Group's investment strategy emphasizes protection of principal and consistent income generation, within a total return framework. This approach has produced competitive returns over the long term and is designed to ensure financial strength and stability for paying claims, while maximizing economic value and surplus growth. The Group identifies a strategic asset allocation which considers both the nature of the liabilities and the risk and return characteristics of the various asset classes in which it invests. The model's recommended asset allocation, along with duration and liquidity considerations, guides the Group's initial asset allocation. This is further adjusted based on an analysis of other potential market opportunities available. Portfolio performance is measured against income targets, with absolute and relative returns a secondary consideration.

The Group utilizes four high level strategies to manage risks and returns and to position our portfolio to take advantage of market opportunities while attempting to mitigate adverse effects. As strategies and market conditions evolve, the asset allocation may change or assets may move between strategies.

Market-Based Core strategy seeks to deliver predictive earnings aligned to business needs through investments primarily in public fixed income and equity. Private fixed income assets, such as commercial mortgages, bank loans and privately placed debt are also included in this category.

Market-Based Active strategy seeks to outperform within the public markets through tactical positioning and by taking advantage of short-term opportunities. This strategy may generate results that meaningfully deviate from those achieved by market indices, both favorably and unfavorably.

Performance-Based Long-Term strategy seeks to deliver attractive risk-adjusted returns over a longer horizon. The achieved return is a function of both general market conditions and the performance of the underlying assets or businesses. The portfolio, which primarily includes private equity, real estate, infrastructure, timber and agriculture-related assets, is diversified across a number of characteristics, including managers or partners, vintage years, strategies, geographies (including international) and industry sectors or property types. These investments are generally illiquid in nature, often require specialized expertise, typically involve a third party manager, and may offer the potential to add value through transformation at the company or property level.

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

Portfolio composition by investment strategy

The following table presents the investment portfolio by strategy as of December 31, 2015:

($ in millions)	Total	Market-Based Core	Market-Based Active	Performance-Based Long-Term	Performance-Based Opportunistic
Bonds	$ 25,937	$ 19,846	$ 5,993	$ 73	$ 25
Preferred stocks	68	39	13	16	-
Common stocks	7,394	6,709	640	24	21
Mortgage loans on real estate	296	296	-	-	-
Real estate	344	-	-	344	-
Cash and cash equivalents	51	51	-	-	-
Short-term investments	231	118	113	-	-
Other invested assets	3,338	1,016	4	2,318	-
Total	$ 37,659	$ 28,075	$ 6,763	$ 2,775	$ 46
% of total		75%	18%	7%	-%

The Group continues to focus on shifting the portfolio mix to include more performance- based investments, primarily private equity, real estate, infrastructure and agriculture related assets and a greater proportion of return on these investments is derived from idiosyncratic asset or operating performance.

The Group has a comprehensive portfolio monitoring process to identify and evaluate each security whose carrying value may be other than temporarily impaired. The Group'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 bonds) or cost (for stocks) is below established thresholds. The process also includes the monitoring of other impairment indicators such as ratings, ratings downgrades and payment defaults.

The composition of the investment portfolio as of December 31 was:

(in millions)	2015	2014
Bonds	$ 25,937	$ 26,880
Preferred stocks	68	81
Common stocks	7,394	6,898
Mortgage loans on real estate	296	370
Real estate	344	299
Cash and cash equivalents	51	(206)
Short-term investments	231	168
Other invested assets	3,338	3,264
Total	$ 37,659	$ 37,754

Total invested assets decreased $95 million, or 0.25%, compared to prior year. Explanations for the more significant items follow.

Bonds

The Group's bond portfolio consists of publicly traded and privately placed corporate obligations, municipal bonds, U.S. government bonds, asset-backed securities ("ABS"), mortgage-backed securities ("MBS") and foreign government bonds.

As of December 31, 2015, 77.5% of the consolidated bond portfolio was rated investment grade, which is defined as having a National Association of Insurance Commissioners ("NAIC") Securities Valuation Office designation of 1 or 2, a Moody's rating of Aaa, Aa, A or Baa, a rating of AAA, AA, A or BBB from Standard & Poor's, Fitch, Dominion, Kroll, Realpoint or Egan Jones, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. The investment grade percentage for each individual bond category ranged from 48.9% to 100%. There was no significant change in the bond portfolio quality distribution from the prior year.
Bonds with an NAIC designation 1 or 2, including loan-backed and structured securities, are reported at

amortized cost using the effective yield method. Bonds with an NAIC designation of 3 through 6 are reported at the lower of amortized cost or fair value, with the difference reflected in unassigned surplus as unrealized capital loss.
Publicly traded corporate bonds totaled $13.78 billion as of December 31, 2015 compared to $12.88 billion as of December 31, 2014. As of December 31, 2015, the portfolio also contained $5.61 billion of privately placed corporate obligations, compared with $4.71 billion as of December 31, 2014. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form. Privately placed corporate obligations may contain structural security features such as financial covenants and call protections that provide investors greater protection against credit deterioration, reinvestment risk or fluctuations in interest rates than those typically found in publicly registered debt securities. As of December 31, 2015, 49% of the privately placed securities were rated investment grade.

Municipal bonds totaled $3.65 billion as of December 31, 2015 compared to $3.48 billion as of December 31, 2014. The municipal bond portfolio as of December 31, 2015 consisted of 1,268 issues from 551 issuers. The largest exposure to a single issuer was 2% of the municipal bond portfolio. Corporate entities were the ultimate obligors of 1% of the municipal bond portfolio.

U.S. government bonds totaled $1.23 billion as of December 31, 2015 compared to $1.66 billion as of December 31, 2014.

ABS totaled $1.19 billion as of December 31, 2015 compared to $3.47 billion as of December 31, 2014. 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.

MBS totaled $395 million as of December 31, 2015 compared to $475 million as of December 31, 2014. The MBS portfolio is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to prepayment risk from the underlying mortgages.

Foreign government bonds totaled $79 million as of December 31, 2015 compared to $196 million as of December 31, 2014.

The fair value of all bonds was $26.06 billion and $27.31 billion as of December 31, 2015 and 2014, respectively. As of December 31, 2015, unrealized net capital gains on the bond portfolio, which are calculated as the difference between statement value and fair value, were $124 million compared to $428 million as of December 31, 2014.

Equity securities

Equity securities include $7.39 billion of common and $68 million of non-redeemable preferred stocks, and investments in affiliates as of December 31, 2015 compared to $6.90 billion of common and $81 million of non-redeemable preferred stocks, and investments in affiliates as of December 31, 2014. The net increase was due to increased investments in equity markets.

Cash and cash equivalents

The $257M increase in cash and cash equivalents was primarily due to a decrease in outstanding claim checks.

Limited partnership interests

Limited partnership interests include interests in private equity funds and co-investments, real estate funds and joint ventures, and other funds.

Reserves for losses and loss adjustment expenses

Incurred losses and loss adjustment expenses represent the sum of paid losses and reserve changes in the calendar year. This expense included net losses from catastrophes of $1.70 billion and $1.95 billion for the years ended December 31, 2015 and 2014, respectively. Activity in the reserve for losses and loss adjustment expenses is summarized as follows:

(in millions)	2015	2014
Balance at January 1	$ 14,665	$ 14,553
Incurred related to		
Current year	19,097	17,682
Prior years	139	(12)
Total incurred	19,236	17,670
Paid related to:		
Current year	12,436	11,777
Prior years	5,960	5,781
Total paid	18,396	17,558
Balance as of December 31	$ 15,505	$ 14,665

Incurred losses and loss adjustment expenses attributable to insured events of prior years were $139 million and $(12) million as a result of the reestimation of unpaid losses and loss adjustment expenses for years ended December 31, 2015 and 2014, respectively. These changes were generally the result of ongoing analyses of recent loss development trends. Initial estimates were revised as additional information regarding claims became known.

Unsecured reinsurance recoverables

The Group has unsecured reinsurance recoverables that exceeded 3% of policyholder surplus as of December 31 as follows:

($ in millions) Reinsurer	NAIC Group Code	FEIN	2015	2014
Michigan Catastrophic Claim Association ("MCCA")	0000	AA-9991159	$ 4,661	$ 4,423
New Jersey Unsatisfied Claim and Judgment Fund	0000	AA-9991160	$ 489	$ 500

The MCCA is a mandatory insurance coverage and reinsurance indemnification mechanism for personal injury protection losses that provides indemnification for losses over a retention level that increases every other MCCA fiscal year. The retention level is $545 thousand per claim for the fiscal two-years ending June 30, 2017 compared to $530 thousand per claim for the fiscal two-years ending June 30, 2015. The MCCA is obligated to fund the ultimate liability for participating member companies qualifying claims and claims expenses. The MCCA operates similar to a reinsurance program and is funded by participating member companies through a per vehicle annual assessment. The MCCA has been legally authorized to assess participating member companies pursuant to enabling legislation that provides for annual determination and assessment. This assessment is included in the premiums charged to the Group's customers and when collected, the Group remits the assessment to the MCCA. These assessments provide funds for the indemnification for losses described above. The MCCA is required to assess an amount each year sufficient to cover lifetime claims of all persons catastrophically injured in that year, its operating expenses, and adjustments for the amount of excesses or deficiencies in prior assessments. The MCCA prepares statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the State of Michigan Department of Insurance and Financial Services ("MI DOI"). The MI DOI has granted the MCCA a statutory permitted practice that expires in June of 2016 to discount its liabilities for loss and loss adjustment expense. As of June 30, 2015, the date of its most recent annual financial report, the permitted practice reduced the MCCA's accumulated deficit by $50.64 billion to $691 million. The permitted practice substantiates the valuation of the statutory reserves. The MCCA's economic assessment capability and its obligation to its members for the ultimate reimbursement of qualifying loss and loss expenses is not impacted by the permitted practice.

The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including changes in market conditions, whether insured losses meet the qualifying conditions of the reinsurance contract and whether reinsurers, or their affiliates, have the financial capacity and willingness to

make payments under the terms of a reinsurance treaty or contract. There have been no significant uncollectible balances from the MCCA.

Capital and surplus

The following table summarizes the Group's capital position as of December 31:

(in millions)	2015	2014
Common capital stock	$ 22	$ 22
Gross paid in and contributed surplus	4,003	3,922
Unassigned funds (surplus)	11,975	12,979
Aggregate write-ins for special surplus funds	52	54
Total surplus as regards policyholders	$ 16,052	$ 16,977

Total surplus as regards policyholders decreased 5%, or $925 million, and was mainly comprised of the following items:

- $2.34 billion - Dividends paid to Allstate Holdings in 2015 compared to $2.47 billion in 2014
- $1.71 billion - Net income in 2015 compared to $2.32 billion in 2014
- $298 million - Change in non-admitted assets in 2015 compared to $15 million in 2014

RESULTS OF OPERATIONS

(in millions)	2015	2014
Premiums earned	$ 27,445	$ 25,976
Losses incurred	16,319	14,831
Loss expenses incurred	2,918	2,839
Other underwriting expenses incurred	7,075	7,009
Total underwriting deductions	26,312	24,679
Net underwriting gain	1,133	1,297
Net investment income earned	1,424	1,233
Net realized capital gains (losses)	(229)	426
Net investment gain	1,195	1,659
Total other income	111	139
Net income, after dividends to policyholders but before all other federal and foreign income taxes	2,439	3,095
Federal and foreign income taxes incurred	725	772
Net income	$ 1,714	$ 2,323

Net underwriting gain

The $164 million decrease in underwriting gain was primarily due to decreases in underwriting income in auto and commercial lines, partially offset by increases in underwriting income in homeowners and other personal lines and lower catastrophe losses.

Net investment gains

Net investment gain decreased $464 million, primarily due to higher realized capital losses. Realized capital losses were $229 million in 2015 compared to realized capital gains of $426 million in 2014. The change was primarily driven from a decrease in trading activity in unaffiliated common stocks. Partially offsetting the decrease was an increase in net investment income earned of $191 million to $1,424 million in 2015 from $1,233 million in 2014, mostly as a result of the increase in investment yield.

CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

(in millions)		2015		2014
Net cash from operations	$	2,770	$	2,169
Net cash from investments		(161)		1,153
Net cash from financing and miscellaneous sources		(2,289)		(3,678)
Net change in cash, cash equivalents and short-term investments	$	320	$	(356)

The Group's operations typically generate substantial cash flows from operations as most premiums are received in advance of the time claim payments are made. Cash provided from operations increased in 2015 as a result of an increase in premiums collected net of reinsurance, partially offset by an increase in benefits and loss related payments, and federal income taxes. Cash from investments decreased in 2015 due to purchase and sale activity during the year. Negative cash flows from financing decreased mainly due to the $1.20 billion share retirement in 2014.

Financial strength ratings and outlook

The Company's most recent financial strength ratings and outlook were A+ (exceptional), Aa3 (excellent) and AA- (excellent) from A.M. Best, Moody's and Standard & Poor's, respectively; all with a stable outlook.

Risk-based capital

The NAIC has a uniform capital adequacy standard, referred to as the risk-based capital ("RBC"), that serves as one of the solvency monitoring regulatory tools to measure and assess the amount of capital that is appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The standard utilizes a formula to calculate a company's minimum capital requirement ("company action level RBC") based on the insurance, business, asset, interest rate, market, credit, underwriting and reserving risk associated with its business. There is no regulatory action required if a company maintains an actual capital level greater than the company action level RBC. A RBC model law does, however, mandate four levels of regulatory action based on a company's degree of capital impairment. As of December 31, 2015, the total adjusted capital of each insurer comprising the Group was significantly above the company action level RBC.

IRIS ratios

The NAIC has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or action. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with a defined usual range. Additional regulatory scrutiny may occur if a company's ratio results fall outside the usual range for four or more of the thirteen ratios. As of December 31, 2015, one insurer comprising the Group had more than three ratio results outside the usual range. One insurer, Allstate Indemnity Company, had four ratio results fall outside of the usual range which was due to an extraordinary dividend paid to its shareholder in 2015 that was approved by the Director of Insurance from the insurer's state of domicile.