BEFORE THE DIRECTOR OF INSURANCE FOR THE STATE OF ILLINOIS

PUBLIC HEARING FOR THE PLANS OF DIVISION AND RELATED STATEMENTS BY:

ALLSTATE INSURANCE COMPANY;
ALLSTATE INDEMNITY COMPANY;
ALLSTATE PROPERTY AND CASUALTY
INSURANCE COMPANY; ALLSTATE FIRE
AND CASUALTY INSURANCE COMPANY;
ENCOMPASS INDEMNITY COMPANY;
ENCOMPASS PROPERTY AND CASUALTY
COMPANY; ESURANCE INSURANCE
COMPANY; ESURANCE PROPERTY AND
CASUALTY INSURANCE COMPANY

Hearing No. 21-HR-0010

The Honorable Mary Anne Mason (Ret.), Hearing Officer

PRE-FILED WITNESS STATEMENT OF MICHAEL A. PEDRAJA

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EXECUTIVE SUMMARY

- I, Michael A. Pedraja, under penalty of perjury, provide the following Witness Statement (the "Statement"):
- 1. I am the Senior Vice President and Treasurer for The Allstate Corporation ("Allcorp" and together with its subsidiaries, "Allstate"). My Statement details the rationale and mechanics behind the Plans of Division (each, a "Plan" and collectively, the "Plans") submitted by eight insurance companies in the Allstate group to the Illinois Department of Insurance (the "IL DOI") on February 2, 2021, for approval by the Director of Insurance (the "Director"). The Statement further discusses how the divisions and subsequent mergers and related transactions (collectively, the "Proposed Restructuring"), as outlined in the Plans, satisfy the approval requirements listed in Section 35B-25(b) of the Illinois Domestic Stock Company Division Law, 215 ILCS 5/35B-1, et seq. (the "Division Law").
- 2. Allstate's rationale for pursuing the Proposed Restructuring is to allow for a more efficient allocation of its capital, thereby improving Allstate's competitiveness in the Michigan automobile insurance market, while maintaining sufficient reserves and capital and its high level of service for all policyholders and claimants. The Proposed Restructuring consists of three primary steps: commutation, division, and merger. After providing an overview of each primary step, I will highlight the financial conditions of the merger companies, explaining how these entities will be adequately capitalized and solvent and sufficiently reserved. My Statement will also address the impact of the Proposed Restructuring on policyholders, claimants, and the surviving companies, and how the merger companies will operate.

INTRODUCTION & BACKGROUND

3. I graduated from DePaul University, earning a Bachelor of Science in Accounting, and received my Certified Public Accountant ("CPA") designation in 1990.

- 4. I joined Allstate in April 2019. As Senior Vice President and Treasurer, I lead the corporate treasury functions, which entail corporate finance, financial planning and analysis, and cash management. I also oversee special assignments, including assessments of merger and acquisition ("M&A") opportunities and evaluations of potential restructuring projects, including projects like the Proposed Restructuring. In this role, I am intimately familiar with the financial status and condition of all the insurance companies that are part of the Allstate group.
- 5. I began my career in public accounting at Coopers & Lybrand in 1990, where I audited insurance companies, including American Family, Old Republic, and State Farm. One engagement involved the IL DOI, in which Coopers & Lybrand was tasked to help estimate the reinsurance recoverables of an insolvent insurer. While at Coopers & Lybrand, I was trained to analyze and scrutinize trends within insurance company financial statements. I have since utilized this detailed accounting and financial acumen throughout my career, ranging from performing financial due diligence on a target company in an M&A context to assessing a company's ability to raise and support new capital.
- 6. Following my tenure at Coopers & Lybrand, I transitioned to investment banking in 1997, focusing on M&A and capital raising for insurance companies. Over the next twenty-one years, I worked for several firms, including Credit Suisse, Barclays Capital, and Aon Securities. In total, I advised insurance companies on thirty-six successful M&A, capital-raising, and restructuring transactions. Two such restructuring transactions involved providing opinions to insurance companies' boards of directors regarding solvency. For these transactions, my role was to ensure that the restructurings met the requirements of the relevant insurance laws and regulations, including ensuring that the companies would be solvent. I also considered whether

the resulting restructurings were fair to policyholders, and those issues were included in my analysis.

- 7. Early in my career, I became familiar with Generally Accepted Accounting Principles ("GAAP") and statutory financial accounting principles, and I have continued to use these accounting standards. While at Allstate, I have followed Financial Accounting Standards Board's standards and practices to understand potential new principles that could develop into changes to GAAP.
- 8. Aside from my CPA, which has since lapsed, I obtained FINRA Series 6, 7, and 24 licenses, which required me to become conversant with a host of financial topics, including insurance products, variable annuities, securities, tax regulations, mutual funds, investment risk, debt instruments, packaged securities, customer accounts, and regulatory guidelines.
- 9. As a member of Allstate's senior management, I have been authorized to provide this Statement on behalf of the eight insurance companies in the Allstate group that have submitted Plans to the IL DOI. Through this Statement, I intend to: (1) explain why Allstate is pursuing the Proposed Restructuring; (2) discuss the step-by-step mechanics of the Proposed Restructuring; and (3) demonstrate that the Proposed Restructuring complies with the applicable statutes.
- 10. This Statement is based on my personal knowledge, my financial and accounting expertise, my knowledge and understanding of Allstate's financial and actuarial condition and its financial books and records, and my review of certain documents and exhibits referenced in this Statement.

OVERVIEW OF DEFINED TERMS & THE PROPOSED RESTRUCTURING

11. This Statement is made in support of the Plans that were filed with the IL DOI on February 2, 2021, by eight insurance companies in the Allstate group that transact automobile insurance business in Michigan. Pursuant to the Division Law, a plan of division describes how

certain assets and liabilities of a dividing company will be allocated to the companies, both surviving and new, that emerge from the division, if approved by the Director.

- 12. Here, the "Dividing Companies" are: (i) Allstate Insurance Company ("AIC"); (ii) Allstate Indemnity Company; (iii) Allstate Property and Casualty Insurance Company; (iv) Allstate Fire and Casualty Insurance Company ("AFCIC"); (v) Encompass Indemnity Company; (vi) Encompass Property and Casualty Company; (vii) Esurance Insurance Company; and (viii) Esurance Property and Casualty Insurance Company. Each Dividing Company is an Illinois domestic insurer, holding a license from the IL DOI, and is licensed as a foreign insurer in Michigan.
- 13. Under the Proposed Restructuring, there will be two entities that emerge following each division: the Dividing Company that survives the division (each, a "Surviving Company" and collectively, the "Surviving Companies") and the newly created entity (each, a "New Company" and collectively, the "New Companies"). The Surviving Company and the New Company collectively are referred to as the "Resulting Companies." Here, the Plans will create eight New Companies that will be allocated assets, liabilities, and contracts associated with certain inactive automobile insurance policies. These allocated policies are defined in the Plans as the "Specified Policies." Allstate and the Dividing Companies also will be allocating capital and surplus to the New Companies.
- 14. In general terms, the Specified Policies are inactive policies issued to Michigan policyholders that had an outstanding claim reserve as of December 31, 2019, on a personal injury claim covered under such policies for which a reserve remained as of June 30, 2020. Allstate compiled a list of policies matching this description, and it is that list of policies that became the

Specified Policies as used in the Plans. The Specified Policies that will be allocated to a particular New Company are identified on Schedule 1 to each Plan.

- 15. Immediately following the divisions, the eight New Companies will merge into one of three newly established Illinois domestic insurers (each, a "Merger Company" and collectively, the "Merger Companies"). Following completion of the mergers, the Merger Companies will hold the Specified Policies that were issued by the Dividing Companies under the Allstate, Encompass, or Esurance brands, respectively, and will be named: ASMI Auto Insurance Company ("ASMI"), ECMI Auto Insurance Company ("ECMI"), and ESMI Auto Insurance Company ("ESMI" and, together with ASMI and ECMI, "the ASMI Group").
- 16. Each Specified Policy will be associated with the Merger Company that corresponds to the brand under which the Specified Policy was issued. In other words, a Specified Policy issued under the Allstate brand will be associated with ASMI; a Specified Policy issued under the Encompass brand will be associated with ECMI, and a Specified Policy issued under the Esurance brand will be associated with ESMI. The Merger Companies are currently licensed in Illinois. They have also applied for licenses to transact business in Michigan and expect to be licensed in Michigan before the anticipated effective date of the Proposed Restructuring, which is April 1, 2021. While the Merger Companies are not expected to underwrite new insurance business, the Surviving Companies will continue to operate and transact automobile insurance business in Michigan in addition to their other businesses.
- 17. At the close of the Proposed Restructuring, there will be eight Surviving Companies and three Merger Companies, all of which will be adequately capitalized and solvent, and will carry sufficient reserves, as discussed in greater detail below.

RATIONALE BEHIND THE PROPOSED RESTRUCTURING

- 18. In 2018, the Illinois General Assembly passed the Division Law. The Division Law permits insurers to divide and legally separate specified businesses into newly formed insurers with the assets and liabilities associated with that specified business becoming the property and legal obligations, respectively, of the new companies by operation of law. Such a division enables insurers to allocate assets and liabilities for a host of purposes, including exiting one line of business to focus on another, promoting efficiency and effectiveness in managing run-off blocks of in-force policies, and enabling more efficient capital allocation within an insurance group. Illinois is one of a number of states to have passed a division law.
- 19. Allstate commenced working on the Proposed Restructuring as soon as the Division Law was passed. Pursuant to the Division Law, Allstate will implement the Proposed Restructuring by allocating certain assets, liabilities, contracts, and surplus to the New Companies to achieve a more effective capital allocation. This more efficient use of capital will provide Allstate with a number of strategic benefits, which should translate into a more competitive and comprehensive insurance product. Also, it will allow Allstate to continue providing its high-quality service to ongoing claims and new policyholders and to better allocate its personnel and technological resources.
- 20. If the Proposed Restructuring is approved, the Surviving Companies will become more focused and nimble, allowing for greater investment in the Michigan automobile insurance market, which will make the Surviving Companies more competitive in that market. All the while, Allstate will continue providing the same high level of servicing of claims that its policyholders and claimants have come to expect. Greater flexibility with the allocation of capital further allows Allstate to continue to invest in the Michigan automobile insurance market through Allstate's Transformative Growth Plan, which is designed to expand customer access, improve customer

value propositions through competitively priced products and enhanced policyholder features, and increase investments in growth and technology.

THE MCCA & PIP REFORM

- 21. To achieve Allstate's goal of more efficient allocation of capital, the Proposed Restructuring focuses on the unique aspects of the Michigan automobile insurance market, including the recently enacted personal injury protection ("PIP") reform, the Michigan Catastrophic Claims Association ("MCCA"), and historical underwriting results.
- 22. For more than forty years, Michigan's no-fault insurance law had required automobile drivers to purchase PIP medical benefits, which would cover any and all car accident-related medical care and treatment for as long as they were "reasonably necessary" for the injured person's care, recovery, or rehabilitation. As a result, consumers had no choice but to accept unlimited PIP coverage, and insurers had no choice but to provide that protection. However, in May 2019, the Michigan legislature passed a no-fault automobile insurance reform bill (effective July 2020), eliminating the state's mandate for insurers to provide unlimited PIP coverage and allowing policyholders to select PIP coverage at various levels, ranging from unlimited PIP coverage to no PIP coverage for consumers with adequate health insurance coverage. This reform promises to significantly lower consumers' automobile insurance costs (which before the reform were among the highest in the nation) with the expectation that consumers will select lower levels of PIP coverage.
- Allstate planned to pursue the Proposed Restructuring regardless of the change in Michigan law. However, the timing of the Proposed Restructuring corresponds well with the PIP reform. By removing the state-mandated, unlimited PIP coverage, the Michigan reform created a natural bifurcation, enabling the Dividing Companies to properly allocate capital between two distinct businesses: (i) the inactive Specified Policies with unlimited PIP coverage and associated

claims, and (ii) the active Michigan automobile insurance policies with expected lower levels of PIP exposure. By completing the Proposed Restructuring now, including carrying out the divisions, Allstate will be able to separate inactive policies that were effective before the PIP reform from the prospective active Michigan automobile policies. Eliminating the capital return burden from Allstate's insurance companies with active policies, *i.e.*, the Surviving Companies, enables Allstate to continue investing in the Michigan market. The Proposed Restructuring will also reduce the Surviving Companies' reliance on the MCCA.

- 24. Established in 1978, the MCCA is a statutory indemnification mechanism similar to a reinsurance entity that provides reimbursement coverage to Michigan automobile insurers for all PIP claims above a threshold amount. Any entity that is licensed to write automobile insurance in Michigan—including the eight Dividing Companies—is automatically a member of the MCCA and is therefore covered by the MCCA's indemnification mechanism. The MCCA indemnifies member companies, like the Dividing Companies, for PIP losses in excess of the amount each member is required by the MCCA to retain (the "MCCA retention amount"). Over the years, the MCCA retention amount has gradually increased. As of June 30, 2020, right before the PIP reform took effect, the MCCA retention amount was \$580,000 per occurrence.
- 25. Statutory financial reporting principles require insurers to report their loss reserves net of any reinsurance recoverable or reimbursement (such as the MCCA). As a result, Allstate and all other insurers do not report their MCCA receivable amount in their statutory balance sheet statements. (On a GAAP basis, insurers are required to record their reserves gross of any recoverables and record a recoverable or reimbursement asset as the offset, so the MCCA receivable amount is recorded on Allstate's GAAP financial statements.) The duration of many MCCA claims, which are frequently for continuing long-term care, can last for a claimant's

lifetime. As a result, Allstate's total reimbursement from the MCCA is quite significant: \$5.6 billion as of June 30, 2020. The amount that Allstate has ceded to the MCCA is referred to as the "MCCA Receivable."

- 26. Of Allstate's total MCCA Receivable, \$4.6 billion is associated with the Specified Policies and thus will be allocated to the New Companies, and subsequently, to the Merger Companies, under the Plans and merger agreements. Such an allocation will relieve the Surviving Companies and their active policyholders from the burdens of the capital required to support the MCCA Receivable and from the exposure associated with the unlimited PIP inactive policies.
- 27. Nevertheless, the interests of the inactive policyholders and claimants under the Specified Policies will continue to be protected. The same Allstate customer support and claims staff will be managing the claims under the Specified Policies once they are allocated to the Merger Companies. Therefore, the inactive policyholders and claimants will continue to be provided with the historically high-quality service and support they have come to expect. Under the Proposed Restructuring, their claims and policies will be handled by the Merger Companies, whose sole business will be to maintain and process such claims and policies. Moreover, the Merger Companies will receive operational support through the Services Agreement (as hereinafter defined) that the Merger Companies will enter into with AIC and its affiliates, in order to assist them in executing their business objective.

THE PROPOSED RESTRUCTURING

Overview

28. Having explained the "why" behind the Proposed Restructuring, I will now detail its mechanics. To guide this portion of my Statement, I will refer to the Plan submitted by AFCIC

to the IL DOI on February 2, 2021 (the "AFCIC Plan").¹ The Plans submitted by the other Dividing Companies are substantively similar to the AFCIC Plan, although there are some differences among the Plans, as I will note later.

- 29. I will first cover some technical aspects. Article II of the AFCIC Plan, which begins on page 8, is entitled "The Division" and explains the basic process for the allocation of assets, liabilities, and contracts associated with the Specified Policies by AFCIC, the Dividing Company, to Michigan AFCIC Auto Insurance Company, the New Company. At Section 2 of Article II on page 8, the AFCIC Plan notes that AFCIC's board of directors approved the Plan. Indeed, the boards of all the Dividing Companies have unanimously approved their respective Plans. Moreover, the Dividing Companies' respective shareholders have approved the Plans, as exemplified in Section 3 of Article II on page 9 of the AFCIC Plan.
- 30. Section 6 of Article II on page 9 notes that the Dividing Companies have requested that the Director hold a public hearing, as permitted by the Division Law. Allstate requested a public hearing because of the significance of the Proposed Restructuring as the first division transaction undertaken in the United States and Allstate's desire for transparency. Having requested a public hearing, the Dividing Companies proceeded to provide notice of the Proposed Restructuring and hearing to several stakeholders, including the relevant policyholders and claimants under the Specified Policies, certain guaranty associations, the IL DOI's Michigan counterpart (the Michigan Department of Insurance and Financial Services (the "MI DIFS")), and the MCCA. In addition, the Dividing Companies provided broad public notice through ads published twice in each of *The Chicago Tribune* and *The Detroit Free Press*.² The steps the

¹ Exhibit 2. I understand that the Plans will be entered into the record as Exhibits 2–9.

² I understand that the Affidavits of Publication for *The Chicago Tribune* and *The Detroit Free Press* will be entered into the record as Exhibits 20 and 21, respectively.

Dividing Companies implemented to provide notice of the Proposed Restructuring and hearing are detailed in the "Communication Plan," which is Annex B to the Plans. Moreover, the IL DOI reviewed and approved the notice of hearing that was provided to the inactive policyholders and claimants, as well as to the organizations I mentioned.³ It is my understanding that the Hearing Officer, Justice Mason, had an opportunity to review and provide comments on the notice of hearing.

- 31. The notice of hearing explained how the inactive policyholders and claimants, as well as the public, could request the opportunity to speak at the hearing. Allstate and the IL DOI established procedures to track comments and questions received about the Proposed Restructuring or the hearing via telephone or email.
- 32. The IL DOI retained the law firm DLA Piper as its outside counsel, Luann Petrellis as its project manager, and Risk & Regulatory Consulting ("RRC") as its independent reserve analyst.
- 33. In terms of my role, I was Allstate's overall executive sponsor for the Plans. As such, my core responsibilities included: (1) strategizing goals and objectives with Allstate's management; (2) supervising the Treasury team in assessing and ensuring that the Surviving Companies and Merger Companies would be adequately capitalized and solvent; and (3) working with other teams at Allstate in developing contributions to the Plans, including claim reserves and implementing technology requirements. I also was involved in drafting and revising parts of the Plans. Additionally, I regularly interacted with representatives from the IL DOI and its outside advisors, and I monitored the Allstate team that interfaced with RRC. Lastly, I oversaw the

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³ I understand the notice of hearing will be entered into the record as Exhibit 15.

drafting of the pro forma statutory balance sheets for the New Companies and the Merger Companies, as well as the five-year statutory financial projections for the Merger Companies.

- 34. In total, I have spent approximately eighteen months collaborating with my colleagues on preparing these Plans and the related financial projections. This was truly a company-wide effort and involved expertise from a host of departments, including Accounting, Actuarial and Claim Reserves, Claims, IT, Legal, and Treasury. Actuarial and Claim Reserves was tasked with developing the claim reserves associated with the Specified Policies. Legal held numerous responsibilities, including overall project leadership; drafting and reviewing the Plans and their associated agreements; managing intercompany structural changes, such as the formation of the New Companies; developing ancillary documents and agreements, including board resolutions and reinsurance agreements; and leading Allstate's interactions with the IL DOI and other regulators such as the MI DIFS.
- 35. Alongside Legal, the Treasury team assisted in the overall project leadership and was responsible for assessing the Merger Companies' capital and preparing financial projections. The Treasury team liaised with Allstate's independent consultant, Lazard Frères & Co. LLC ("Lazard"), and with A.M. Best, and also communicated with Allstate's senior management. As for IT, that team was charged with developing the required system programming to establish the Merger Companies and assisted in identifying the Specified Policies as part of a joint effort with the Product and the Claims teams. The Accounting and Investments teams identified the associated assets, liabilities, contracts, and surplus to be allocated to the Merger Companies. Moreover, Accounting reviewed the pro forma financial statements for the Merger Companies and Surviving Companies and coordinated the reviews of the pro forma financial statements by the IL DOI's actuarial advisor, RRC. Finally, the Claims team provided assistance to the Actuarial and

Claim Reserves and the IT teams. Through the course of this work, many of my colleagues and I have had productive interactions with members of the IL DOI and its consultants.

36. I will now describe how the Proposed Restructuring will be executed. To aid in my explanation, I will again utilize the AFCIC Plan, as well as Figure 1 below, which depicts the Proposed Restructuring's three primary steps.

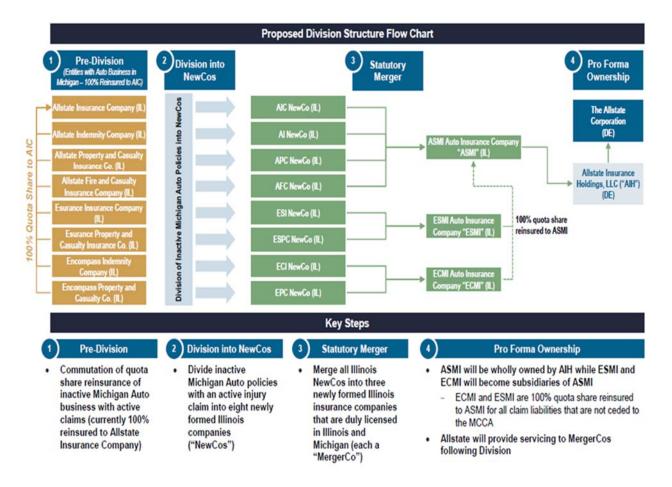


Figure 1: Proposed Division Structure Flow Chart⁴

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⁴ Exhibit 24B, Slide 4. Please note that the defined terms for the companies' names in Figure 1 differ slightly from the defined terms included in the Plans. Additionally, the Merger Companies have not yet received their licenses to transact insurance business in Michigan, but they are expected to receive their licenses before the anticipated effective date of the Proposed Restructuring.

Commutation

- 37. Commutation is the first step in the Proposed Restructuring, and it is referenced at the far left-hand side of Figure 1 as well as in Section 4 of Article II of the AFCIC Plan. Commutation is the process by which all liabilities associated with the Specified Policies are returned from the reinsurer, AIC, to the original respective insurance companies that underwrote the business (in this case, the other seven Dividing Companies).
- 38. As with many insurance groups, Allstate utilizes an internal quota share arrangement that aggregates all of the insurance group's exposure into one insurer to gain capital and financial reporting efficiencies. For the Allstate group, the quota share recipient is AIC, which is the reinsurer of 100% of the insurance liabilities of the other seven Dividing Companies, as noted in Schedule 3 to the Plans. Immediately prior to the divisions, AIC and the Dividing Companies plan to commute this reinsurance for the Specified Policies, pursuant to partial termination and commutation amendments to be entered into between AIC and each Dividing Company (each, a "Commutation Amendment").
- 39. Under each Commutation Amendment, AIC will return assets equal to the commuted loss reserves (the "Commutation Amount"), which is equal to the reserves for the Specified Policies carried on the statutory financial statements of AIC as of the effective date of the divisions. In exchange for this Commutation Amount, AIC will be discharged and released from its assumed reinsurance liabilities and obligations with respect to the Specified Policies.
- 40. Allstate believes that the approach described above with respect to the commutation is consistent with the requirements of Article X of the existing quota share agreements between AIC and each of the other Dividing Companies, which, in each case, states that consideration should be "commensurate with the commuted quota share participation of the incurred liabilities."

Moreover, Allstate believes that the Commutation Amount, which is equal to reserves, is for fair value and on customary terms.

41. Allstate can effectuate the commutations independent of the divisions under the existing quota share reinsurance agreements. Although the commutations are not conditional on the divisions, I describe them here because they are a related aspect of Allstate's capital planning in pursuing the divisions.

Division

- 42. The second primary step of the Proposed Restructuring is the divisions. As depicted in Figure 1, each Dividing Company will divide into a New Company and a Surviving Company. The Dividing Companies effectively become the Surviving Companies once the Specified Policies have been allocated to the New Companies. Therefore, the gold-shaded companies included in Figure 1 are, after the divisions, the Surviving Companies, and the green-shaded companies are the New Companies.
- 43. In order to determine what should be allocated to the New Companies, Allstate first established the parameters for the policies that would be included in the divisions, which is consistent for each of the Dividing Companies and which I detailed earlier in paragraph 14. Allstate then conducted a careful accounting to identify the individual Specified Policies within those parameters and their associated assets, liabilities, and contracts. Through this detailed audit, Allstate ensured that it captured the assets, liabilities, and contracts associated with the Specified Policies. Any assets, liabilities, and contracts not associated with the Specified Policies were allocated to the Surviving Companies. I will describe later the precise steps taken to identify and account for the assets, liabilities, and contracts associated with the Specified Policies.
- 44. A full breakdown of what is allocated to the Surviving Companies versus what is allocated to the New Companies is detailed in the Plans. Schedule 4 specifies the assets allocated

to the New Company. Schedule 5 specifies the assets allocated to the Surviving Company. Schedule 6 specifies the liabilities allocated to the New Company. Finally, Schedule 7 specifies the liabilities allocated to the Surviving Company. The numerical allocations of these assets and liabilities as of June 30, 2020, are also depicted on a pro forma basis in the Resulting Companies' balance sheets (which I will discuss in more detail later) and are part of Exhibit 13, Allstate's Michigan Auto Division Capital Assessment (the "Capital Assessment Plan"). Additionally, the Plans contain a detailed description of the methodology used by Allstate to prepare these pro forma statutory balance sheets, which is included in Schedule 3 to the Plans.

Merger

- 45. The third primary component of the Proposed Restructuring, which is identified as Step 3 in Figure 1, is the mergers. The divisions and mergers will occur as simultaneously as possible, so the eight New Companies will only be in existence briefly. During this step, the eight New Companies will merge into one of three newly established Illinois domestic insurers, pursuant to Article X of the Illinois Insurance Code, 215 ILCS 5/156 *et seq.* (the "Merger Law"). There will be one Merger Company per Allstate brand.
- 46. The Merger Companies received the requisite board and shareholder approvals for these transactions on February 24, 2021. They are incorporated in Illinois and are licensed to do insurance business in Illinois. The Merger Companies are also expected to be licensed to do business in Michigan, prior to the effectiveness of the Proposed Restructuring, and have submitted applications for licensure to the MI DIFS, which are in the process of being reviewed.
- 47. As explained in greater detail under "Step 4" in Figure 1, following the mergers, ECMI and ESMI will become subsidiaries of ASMI, and ASMI will continue to be a wholly owned subsidiary of Allstate Insurance Holdings, LLC ("AIH"), which is a wholly owned subsidiary of Allcorp. ASMI will hold all of the shares of both ECMI and ESMI. In addition to becoming

subsidiaries of ASMI, ECMI and ESMI plan to cede 100% of all claims liabilities allocated to them as a result of the divisions and mergers that are not ceded to the MCCA to ASMI, pursuant to reinsurance agreements to be entered into between ASMI and each of ECMI and ESMI, subject to the IL DOI's regulatory approval. Consolidating the Merger Companies into one group (*i.e.*, the ASMI Group) is a common tool utilized by many insurance companies. Such a group structure allows for greater capital efficiencies, as ASMI will be able to include the surplus of ECMI and ESMI as assets of ASMI once ECMI and ESMI become ASMI's subsidiaries.

- 48. Lastly, as Figure 1 notes, the three Merger Companies will be serviced through Allstate pursuant to the Services Agreement that each Merger Company will become party to, providing the Merger Companies with such operational necessities as claim adjudication, customer service, risk management, payment of claims, and more. These services will be provided at cost, with no margin to Allstate.
- 49. While these three primary steps (commutation, division, and merger) are common to all of the Plans, I should briefly touch upon some of the distinguishing features across the Plans. Schedules 1 and 2, which contain the list of Specified Policies and the pro forma statutory balance sheets, respectively, are different for each Plan. Under Schedule 3, the reserve methodology for Esurance is different compared to Allstate and Encompass. The Encompass and Esurance Plans include dividend and contribution steps that are not applicable to the Allstate-brand Dividing Companies. Finally, the investment asset criteria, included in Annex H, and discussed in greater detail later, includes more conservative allocations of investments for the Encompass and Esurance Dividing Companies, given their smaller size, as compared to the Allstate-brand Dividing Companies. A summary chart outlining the various differences among the Plans was prepared, and I believe it will be entered into the record as Exhibit 10.

THE SPECIFIED POLICIES

- 50. Now that I have discussed the primary components of the Proposed Restructuring, I would like to focus on what is being allocated to the New Companies and ultimately to the Merger Companies.
- 51. I previously noted that the assets, liabilities, and contracts associated with the Specified Policies will be allocated to the New Companies. To identify these items, Allstate first established the parameters of what constituted such policies, which I provided in paragraph 14. Next, Allstate's IT team identified the policies and the associated claims that fit those parameters. The Actuarial and Claim Reserves team took the list compiled by the IT team and (i) provided the outstanding case loss reserve and unpaid loss adjustment expense on each individual claim, which was previously established by Allstate claim adjusters and (ii) developed an allocation of supplemental and incurred but not reported ("IBNR") reserves based on historical Allstate methodologies. This analysis estimated the total unpaid losses and unpaid loss adjustment expenses (collectively, the "Loss Reserves") related to the Specified Policies. Treasury then worked with the Investments team to identify invested assets that would support the liabilities associated with the Specified Policies. Finally, the Accounting team performed an analysis to assess any non-reserve liabilities that should be allocated.
- 52. All of the assets allocated to a particular New Company are described in Schedule 4 to each Plan. The methodology for allocating investment assets to the New Companies is described in Annex H to each Plan. While the quantity of the assets may differ among the New Companies, the general categories remain the same.

PRO FORMA STATUTORY BALANCE SHEETS⁵

53. To better grasp the assets, liabilities, contracts, and capital and surplus allocated to the New Companies, and to understand the New Companies' overall financial condition, I will walk through one of the pro forma statutory balance sheets developed by Allstate. Schedule 2 to the AFCIC Plan contains the pro forma statutory balance sheet, depicting the assets, liabilities, and capital and surplus for AFCIC's Surviving Company and New Company. A copy of the AFCIC pro forma statutory balance sheet is included below as Figure 2.

⁵ All references to the financial data herein are as of June 30, 2020.

Figure 2: AFCIC Pro Forma Statutory Balance Sheet⁶

	Allstate Fire and Casualty Insurance Company	Total	Commute Specified	AFCIC Pre-Division	Michigan AFCIC	AFCIC Surviving
	Q2 2020 as Reported	Total	Business	AFCIC Pre-Division	NewCo	Company
	Assets (Page 2) - Net Admitted Assets Data displayed in \$000 unless otherwise noted					
1	Bonds	242,160	32,286	274,446	40,482	233,964
5	Cash, Cash Equivalents, and Short Term Assets	3,005	999	4,003	1,252	2,751
12	Subtotals, Cash & Invested Assets	245,668	33,284	278,952	41,734	237,218
14	Investment Income Due & Accrued	1,820	336	2,156	422	1,734
16.1	Recoverable from Reinsurance	3,371	-	3,371	530	2,841
18.2	Deferred Tax Asset	5	-	5	-	5
23	Receivables from parent, subsidiaries, affiliates	-	-	-	-	-
25	Write-Ins for Non Invested Assets	2,578	-	2,578	-	2,578
28	Total Assets	<u>253,441</u>	33,621	287,062	42,686	244,376
		_				
	Liabilities (Page 3)					
1	Unpaid Losses	-	21,357	21,357	21,357	-
3	Unpaid Loss Adj Expenses	-	12,263	12,263	12,263	-
7.1	Unpaid Federal & Foreign Income Taxes	2,370	-	2,370	-	2,370
12	Ceded Reinsurance Premiums Payable	4,551	-	4,551	-	4,551
19	Payable to Parent, Subs & Affiliates	1,629	-	1,629	-	1,629
21	Payable for Securities	994	-	994	-	994
28	Total Liabilities	<u>9,545</u>	33,621	43,165	33,621	9,545
	Capital and Surplus					
30	Common Capital Stock	7,000		7,000	1,000	7,000
34	Gross Paid In & Contributed Surplus	231,516		231,516	7,874	222,643
35	Unassigned Funds	5,380		5,380	191	5,189
37	Surplus as Regards Policyholders	243,897	-	243,897	9,065	234,832
38	Liabilities and Capital & Surplus	253,441	33,621	287,062	42,686	244,376
	Memo: MCCA Recoverable on Reserves	530,201	6,545	536,746	161,647	375,099

⁶ Exhibit 2 at Schedule 2.

- 54. The construction of the pro forma statutory balance sheets for all of the Plans was a joint effort involving Allstate's Accounting, Actuarial and Claim Reserves, Claims Technology, and Treasury teams. Allstate created a pro forma statutory balance sheet reflecting the division for each of the eight New Companies. As noted in Figure 2 above, the AFCIC New Company pro forma statutory balance sheet was developed by starting with the AFCIC Dividing Company's June 30, 2020, statutory financial statements and then allocating identifiable or estimated assets and liabilities associated with the Specified Policies.
- 55. Specifically, as listed in Figure 2, in the column labeled "Commute Specified Business," the estimated Specified Policies' Loss Reserves totaling \$33,621,000 are commuted from AIC back to AFCIC. In addition, the Commutation Amount, which is equal to the Loss Reserves, is transferred to AFCIC in the form of Bonds, Cash, and Investment Income Due and Accrued. The column labeled "Michigan AFCIC NewCo" summarizes the assets, liabilities, and surplus allocated to the New Company as a result of the division. As listed in this column, the \$33,621,000 of Loss Reserves are allocated as Total Liabilities, while the invested assets allocated (\$42,686,000) will support the Loss Reserves plus the \$9,065,000 of surplus allocated.
- 56. Because the New Companies will be merged shortly after the completed divisions, Allstate combined the pro forma statutory balance sheets for each of the New Companies to reflect how the entities will be combined in the mergers, resulting in pro forma statutory balance sheets for ASMI, ECMI, ESMI, and the ASMI Group.
- 57. For example, the pro forma statutory balance sheet for the ASMI Group, which can be found at Slide 26 of Exhibit 13, shows an allocation of \$627 million in assets, compared to \$410 million of liabilities, with the difference equal to the \$217 million of surplus allocated to the Merger Companies.

- 58. Such an allocation of assets to liabilities indicates that the New Companies and subsequently the Merger Companies will remain solvent following the closing of the Proposed Restructuring. It is my understanding that solvency, under the Illinois Insurance Code, 215 ILCS 5/34, occurs where the assets are not less than a company's capital, minimum required surplus, and all liabilities. Based on this definition, and as seen with the pro forma statutory balance sheets for each Merger Company, as depicted in the Capital Assessment Plan, the Merger Companies will be solvent under Illinois law.
- 59. Based on the foregoing, it is my opinion that these pro forma statutory balance sheets have been prepared in good faith and on a reasonable basis to reflect the Proposed Restructuring's transactions as if they had occurred on June 30, 2020.

MCCA RECEIVABLE

- 60. The New Companies, and subsequently the Merger Companies, will also be allocated the MCCA Receivable associated with the Specified Policies. As mentioned previously, \$4.6 billion of the MCCA Receivable amount is associated with the Specified Policies.
- 61. Allstate's quarterly statutory financial statements as of June 30, 2020, do not include the reimbursement amounts from the MCCA. These amounts are only reported in annual statutory filings. However, as noted in the pro forma statutory balance sheets that Allstate prepared for each New Company, a memo line is included, indicating the portion of the MCCA Receivable that will be allocated to each individual New Company.
- 62. For example, on AFCIC's pro forma statutory balance sheet (Figure 2), the MCCA Receivable to be allocated to the AFCIC New Company is listed at the bottom row of the table as "Memo: MCCA Recoverable on Reserves." Here, the AFCIC New Company will be allocated approximately \$162 million of the MCCA Receivable, which is based on the Specified Policies allocated to the AFCIC New Company. As demonstrated in the statutory financial projections for

the ASMI Group at Slide 26 of Exhibit 13, the MCCA Receivable allocated to the Merger Companies is expected to decline over the next five years.

ALLOCATION OF CAPITAL & SURPLUS

- 63. In addition to the identified assets and liabilities and the MCCA Receivable associated with the Specified Policies, Allstate allocated capital and surplus and associated invested assets to the Merger Companies, which amounts were determined based on an assessment of capital needed to support the Merger Companies.
- 64. In total, Allstate allocated \$217 million of surplus to the Merger Companies. This surplus contribution will occur in two steps: (i) prior to the closing of the Proposed Restructuring, AIH will have contributed \$7.5 million to each of the Merger Companies (\$22.5 million in total) in support of their formation and licensure in Illinois and Michigan and (ii) at the closing of the Proposed Restructuring, the Dividing Companies will collectively contribute the remaining portion: \$194.5 million. Surplus for an insurance company essentially represents the excess of a company's assets over its liabilities, including reserves, under statutory accounting principles.
- 65. This surplus contribution is depicted in the pro forma statutory balance sheets. Again, at Figure 2, the bottom portion of the AFCIC pro forma statutory balance sheet shows approximately \$9 million of surplus allocated to AFCIC's New Company, which is Allstate's estimate of the surplus required to support the allocated assets and liabilities of the AFCIC New Company. The other pro forma statutory balance sheets similarly show surplus amounts being allocated to the New Companies.
- 66. As I will discuss in greater detail later, Allstate determined that \$217 million was the reasonable, prudent level of surplus for the Merger Companies based on three analyses: (1) Allstate's estimate of required capital using its understanding of A.M. Best's BCAR framework; (2) an NAIC Risk Based Capital ("RBC") ratio analysis; and (3) a peer company analysis.

FINANCIAL PROJECTIONS

- 67. Allstate developed statutory financial projections for the ASMI Group and the individual Merger Companies, which included the \$217 million surplus contribution. developing these financial projections, Allstate utilized a number of assumptions. assumptions included, among others, that the capital and surplus and associated invested assets were allocated based on an assessment of the capital needed to support the Merger Companies. Additionally, excluding ASMI's ownership of ECMI and ESMI, ASMI's projections assumed an invested asset allocation of 58% investment grade corporate fixed income, 39% long-term government securities, and 3% short-term government securities. As reinsured entities, ECMI and ESMI are assumed to invest 100% in government securities. Next, given the nature of the Merger Companies' books of business (i.e., the inactive Specified Policies), the financial projections did not include items such as premium-earned, incurred losses, etc., but instead provided an estimate of paid losses on the Loss Reserves based on Allstate's historically paid loss payment pattern. The allocated invested assets and Loss Reserves balances are projected to decline based on the projected paid losses. Accordingly, the projected investment income declines over time as the invested assets are reduced. In addition, as noted below, the projections assume that no dividends will be paid to stockholders over the five-year projection period.
- 68. As seen at Slide 29 of Exhibit 13, Allstate included the financial projections for ASMI over the next five years. As the projections demonstrate, over time, the surplus amount for ASMI is expected to increase from \$217 million to \$243 million due to the estimated investment income and assumption of no dividends.
- 69. Moreover, the financial projections demonstrate that each Merger Company is expected to generate positive net income throughout the five-year projection period. Despite this projection, Allstate does not intend to pay dividends from any of the Merger Companies over the

five-year period. In fact, Allstate has agreed, as part of the Plans, that it will not declare dividends over this period of time without the consent of the IL DOI. As a result of not paying dividends, assets will be preserved, the policyholder surplus is expected to grow over time, and certain capital adequacy ratios are also expected to improve.

- 70. A capital adequacy ratio, which is discussed in greater detail at Slide 24 of Exhibit 24B, is a measurement of a company's available capital relative to its risk. In other words, the ratio demonstrates a company's capacity to meet liabilities and other risks such as credit risk and operational risk. ASMI's capital adequacy ratios, which are strong to begin with, are only expected to improve throughout the projection period, similarly to the capital adequacy ratios for ECMI and ESMI. As a result, Allstate's estimated BCAR ratio for the ASMI Group, developed based on Allstate's understanding of A.M. Best's BCAR framework, is expected to improve and surpass its initial baseline score of 17.5%.
- 71. Over the projection period, the Merger Companies' reserves are expected to decrease as losses are paid. Such a decline is due to the run-off nature of the Merger Companies' business. This subsequent decline in reserves is projected to occur across all three Merger Companies.
- 72. Given the run-off nature of this business and the limited number of variables that are required to be estimated, Allstate believes that these projections are reasonable. In the next section I will go into more detail as to how Allstate became confident that the Merger Companies were adequately capitalized and had sufficient reserves.

CAPITAL ADEQUACY & RESERVES

73. In determining the capital adequacy of the Merger Companies, Allstate utilized several tools and methodologies, including: (1) Allstate's estimate of required capital using its understanding of A.M. Best's BCAR framework; (2) the NAIC RBC ratio; and (3) a peer company

review. These are tools and methodologies that the Treasury team and I frequently use in the course of our responsibilities and duties. Based on Allstate's analysis, as well as the analysis conducted by Allstate's independent consultants, I am confident that the Merger Companies will be sufficiently capitalized.

Allstate Analysis: BCAR

- As part of its internal analysis, Allstate calculated an estimated BCAR score. BCAR stands for "Best's Capital Adequacy Ratio," which is a rating of the strength of an insurance company's balance sheet. The BCAR methodology was developed by the rating agency A.M. Best and is widely accepted as the leading property and casualty insurance capital tool. BCAR assigns risk charges across seven (7) insurance company categories (*e.g.*, premium, reserves, credit, *etc.*), which results in an estimate of the required capital or surplus needed to support the insurer's operations. This required capital is then compared to the insurer's actual capital to determine the BCAR score. A positive BCAR score represents the percentage cushion of the actual capital that is in excess of the required capital.
- 75. Allstate developed an estimated BCAR ratio for each of the three Merger Companies. Based on its analysis, Allstate made minor adjustments to each Merger Company's capital allocation to ensure that each Merger Company's standalone estimated BCAR score was at or above 17.5%, which aligns with the "Very Strong" capital category. For the ASMI Group to reach a minimum BCAR score of 17.5%, Allstate calculated that a capital contribution of \$217 million was appropriate.
- 76. A minimum BCAR score of 10% is needed to obtain a "Very Strong" capital rating from A.M. Best. Here, according to Allstate's BCAR analysis, located at Slide 9 of Exhibit 13, the overall estimated BCAR score for the ASMI Group was 18.2%, which is well above the minimum score required for a "Very Strong" capital rating from A.M. Best.

Allstate Analysis: NAIC Company Action Level RBC Ratio

- 77. In addition to the BCAR analysis, Allstate also conducted an NAIC Company Action Level ("CAL") RBC ratio analysis. The NAIC is the National Association of Insurance Commissioners, and the CAL RBC ratio is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The CAL RBC ratio is based on statutory financial statements and assesses the capital level needed to support operations. Unlike the BCAR analysis, the CAL RBC ratio does not consider state-sponsored reimbursement structures, like the MCCA, as posing credit risk that must be factored into the calculation.
- 78. Based on Allstate's NAIC CAL RBC ratio analysis, with the \$217 million surplus, the ASMI Group's CAL RBC ratio sits at 542%, which is well above industry peer levels of 344%, as depicted at Slide 7 of Exhibit 13. As I noted previously, the CAL RBC ratio and BCAR score are both expected to improve over time. For example, as shown at Slide 7 of Exhibit 13, the CAL RBC ratio is expected to increase from 640% in 2021 to 859% in 2025 as the projected Loss Reserves decline and surplus increases.

Allstate Analysis: Peer Company Comparison

79. In addition to the BCAR and CAL RBC analyses, Allstate performed a peer company comparison. Initially, Allstate analyzed over 250 U.S.-based insurers, with 21 entities considered comparable peers. To identify the peer companies, Allstate utilized the S&P Global Market Intelligence database to screen and select companies that we believed most closely emulated the Merger Companies. Allstate focused on the capitalization of other stock automobile insurance companies, including MetLife (specifically its property and casualty business), Safeway Insurance, and Home State Insurance Group. Because the Merger Companies will be conducting run-off business as opposed to actively writing new business like the peer companies, it was

reasonable to make certain adjustments to the peer companies' statistics in order for them to serve as meaningful points of comparison for the Merger Companies.

80. An executive summary of the results from the peer analysis is included at Slide 8 of Exhibit 13. As Slide 8 notes, the ASMI Group's initial capitalization is above peer company comparables and above the median, after adjusting the peer companies' capital to exclude the estimated capital held to support written premiums. The exclusion of the capital required to support the written premiums puts the peer companies on a comparable basis to a run-off insurer like the ASMI Group. The results further show that the estimated surplus redundancy is strong at \$25 million and is projected to increase quickly as the ASMI Group losses are paid out of the reserves.

Allstate Analysis: Other Considerations & Conclusions

- 81. For its internal analysis, Allstate considered the risks associated with the MCCA Receivable. As Slide 38 of Exhibit 13 notes, Allstate has a strong track record of ceded paid loss collectability from the MCCA and is well positioned to continue recoveries going forward.
- 82. Allstate is cognizant that MCCA's predictions of future liabilities could prove to be incorrect, that MCCA may become underfunded, or that other entities that participate in the MCCA could become insolvent. However, the estimated BCAR score takes the MCCA Receivable into consideration and applies a significant capital charge on account of it. Even factoring in this meaningful credit charge, Allstate's projected capital and surplus levels still yielded a "Very Strong" rating under the estimated BCAR analysis.
- 83. Based on the results of Allstate's internal analyses, I am confident that Allstate has estimated an adequate surplus of \$217 million that will function as a cushion, providing sufficient support for the Merger Companies' allocated liabilities. In total, there is approximately \$627 million of liquid assets to support the Merger Companies' \$410 million of net liabilities.

- 84. My confidence in the adequacy of the Merger Companies' capital is further reinforced by the fact that the Merger Companies will not be underwriting any new insurance business. Rather, the Merger Companies' sole purpose will be to satisfy their obligations to the inactive Michigan policyholders and claimants under the allocated Specified Policies. These are run-off companies that will handle legacy policies. Therefore, 100% of the allocated capital and surplus will be directed to already known and estimated liabilities.
- 85. In addition to Allstate's internal analyses, Allstate retained outside consultants, whose conclusions further bolster my confidence that the Merger Companies are adequately capitalized. Allstate sought a preliminary credit assessment ("PCA") from A.M. Best, a rating agency, to perform an independent review of the ASMI Group. Allstate also retained Lazard, a financial advisory and asset management firm, to analyze the capital adequacy of the Merger Companies. Lazard further made observations relating to certain financial requirements of the Division Law. I discuss both sets of findings below.

A.M. Best

- 86. Allstate retained A.M. Best to complete an independent rating analysis and provide a PCA for the ASMI Group. A.M. Best is the preeminent insurance rating agency in the United States. The BCAR methodology, developed by A.M. Best, is regarded as a transparent and effective measure of an insurance company's required capital. A.M. Best has a great amount of knowledge and insight in assessing insurance companies' capital adequacy. The experience, reputation, and independence of A.M. Best's ratings service were some of the main reasons why Allstate retained A.M. Best's services.
- 87. Allstate's mandate to A.M. Best was to perform its independent rating analysis and issue a PCA for the ASMI Group. A PCA provides a point-in-time credit assessment of a new

entity based on an interactive quantitative and qualitative analysis of data points, including business plans, financial projections, and other related financial information.

- 88. The PCA assessed the ASMI Group across a variety of categories including, among others, balance sheet, operating performance, and enterprise risk management. A.M. Best also provided its outlook on the ASMI Group's five-year business plan. In addition, A.M. Best prepared individualized assessments for ASMI, ECMI, and ESMI.
- 89. The PCA summary released by A.M. Best, and dated February 19, 2021, made a number of findings. A.M. Best provided each Merger Company a financial strength assessment of "A-pca (Excellent)" and a long-term issuer credit assessment of "a-pca."
- 90. A.M. Best also prepared an analysis for the ASMI Group. It determined that the balance sheet strength of the ASMI Group is within the "Very Strong" category, which aligns with Allstate's internal assessment using the BCAR framework. A.M. Best provided the ASMI Group a financial strength assessment of "A- pca (Excellent)" and a long-term issuer credit assessment of "a- pca" with a stable outlook. As A.M. Best noted, the PCA considered the ASMI Group's projected risk-adjusted capital to be at the level of "Very Strong." Furthermore, A.M. Best anticipates that the ASMI Group's operating performance will be primarily driven by net investment income and will be consistently and modestly profitable. A.M. Best also observed that risk management for the ASMI Group is integrated with Allstate under the corporate-wide enterprise risk management framework.⁸
- 91. Overall, A.M. Best's findings provided Allstate and me with further confidence in the capital adequacy of the Merger Companies.

⁷ Exhibits 26–28.

⁸ Exhibit 25.

Lazard

- 92. In addition to A.M. Best, Allstate retained Lazard, which is a preeminent financial advisor. Lazard has extensive background and experience in insurance and restructuring transactions.
- 93. As part of its mandate, Lazard was charged with preparing a report, a copy of which is reflected at Exhibit 24B (the "Lazard Report"). Slide 1 of the Lazard Report outlines the scope of Lazard's responsibilities, which included analyzing the business and financial condition of the Merger Companies and assessing this information against certain financial aspects of the Division Law's requirements. Specifically, Lazard analyzed pro forma financial metrics as provided by Allstate. Lazard also performed a peer benchmarking analysis, comparing key pro forma financial metrics of the Merger Companies to public information regarding selected comparable companies.
- 94. To support Lazard in completing its report, Allstate provided pro forma financial statements, including pro forma statutory balance sheets, income statements, and cash flows. Lazard further reviewed the capital adequacy metrics for the Merger Companies as provided by Allstate. There were also frequent communications and discussions between the Lazard and Allstate teams, many of which I participated in.
- 95. Lazard's observations are summarized at Slide 9 of Exhibit 24B. Subject to the assumptions, qualifications, and limitations set forth in the Lazard Report, Lazard believes that (i) based upon the Merger Companies' pro forma financials as provided by Allstate and Lazard's peer benchmarking analysis, the assets of each of the Merger Companies at the date of the proposed divisions are not unreasonably small in relation to the business in which each Merger Company will be engaged; (ii) upon consummation of the proposed divisions and based upon the Merger Companies' pro forma financials as provided by Allstate and Lazard's peer benchmarking analysis, the admitted assets of each Merger Company are not less than each Merger Company's

capital, minimum required surplus, and all liabilities, and the most relevant capital ratios of each of the Merger Companies are in line with or in excess of the selected Merger Companies' peers; and (iii) each Merger Company would meet the required capital and surplus eligibility thresholds for insurance company licensing in Illinois and Michigan as set forth under 215 ILCS 5/13 and Section 500.410 of the Michigan Insurance Code of 1956, respectively.

96. As did the A.M. Best findings, Lazard's conclusions afforded Allstate and me further confidence that the Merger Companies are adequately capitalized.

Reserves & RRC

- 97. Allstate, specifically its Actuarial and Claim Reserves team, spent considerable time ensuring that the Loss Reserves associated with the claims allocated to the Merger Companies are sufficient. As described in greater detail at Schedule 3 to the Plans, the allocated Loss Reserves comprise the following: (i) the case loss reserves and unpaid loss adjustment expense reserves, which were developed by Allstate's claims adjusters, associated with the claims related to the Specified Policies, and (ii) an allocation of the supplemental and IBNR reserves, which were developed on a total company-wide basis, to the Specified Policies based on Allstate's historical allocation methods. While there are slight differences in the estimation of the supplemental and IBNR reserves between Allstate and Encompass compared to Esurance, none of these differences in methodology affect the robustness or accuracy of the reserve estimates performed.
- 98. Allstate's Actuarial and Claim Reserves team has been assessing, analyzing, and evaluating the reserves associated with Allstate's Michigan automobile insurance business for over forty years. Each year, once the reserves are determined by the Actuarial and Claim Reserves team, the reserves are reviewed and approved by Allstate's outside actuary and auditor, KPMG US LLP ("KPMG") and Deloitte Touche Tohmatsu Limited ("Deloitte"), respectively.

- 99. For its review of the reserves, the IL DOI retained RRC as its independent actuarial consultant. RRC has a long history of advising insurance companies and insurance regulators on restructuring transactions; it focuses specifically on reserves and capital. Allstate does not have any material relationship with RRC.
- 100. Allstate provided RRC with its claims data to enable RRC to carry out an independent, bottom-up analysis and review of the Loss Reserves associated with the Specified Policies. RRC reviewed the list of claims and the Loss Reserves associated with those claims. Allstate also provided RRC with loss reserve triangles, which show the development of the claims and the loss reserve activity over time. Additionally, Allstate shared with RRC its Capital Assessment Plan and the pro forma financial statements that Allstate had provided to A.M. Best and Lazard. Allstate cooperated closely with RRC in its independent evaluation of Allstate's loss reserve levels. Meetings were held between RRC and Allstate's team, including with Allstate's Vice President of Reserving, during which the Loss Reserves, methodologies, and any questions posed by RRC were addressed.
- 101. Based on its independent analysis, RRC calculated its own estimate of allocated loss reserves. RRC then compared its findings to the range of Loss Reserves calculated by Allstate. Based on its review, RRC concluded that Allstate's Loss Reserves were reasonable compared to RRC's estimated loss reserve range. Allstate ultimately received an examination report from the IL DOI, which Allstate was able to review in advance of the public hearing (the "2020 Target Exam"). I believe the 2020 Target Exam will be entered into the record as Exhibit 32.
- 102. Based on RRC's findings and frequent interactions with Allstate, coupled with Allstate's historical loss reserve methodologies, as well as the annual approval Allstate has received from Deloitte and KPMG on the reasonableness of its loss reserve process and estimated

amounts, I believe and am confident that the Loss Reserves for the Merger Companies are adequate.

Concluding Thoughts on Capital Adequacy

- 103. Based on Allstate's internal analyses, as well as the analyses received from A.M. Best, Lazard, and RRC, I am confident that the Merger Companies will be adequately capitalized. Before submitting the Plans, Allstate shared with the IL DOI its Capital Assessment Plan and the Lazard Report. There were numerous calls and email communications discussing aspects of the Capital Assessment Plan with the IL DOI.
- 104. In my opinion the conclusions reached by Lazard, A.M. Best, and RRC, coupled with Allstate's and my analysis, demonstrate that the Merger Companies will be solvent and retain sufficient assets to pay all claimants' claims under the Specified Policies and will be sufficiently strong to service their debts.
- 105. I do not expect the Proposed Restructuring to have any adverse impact on the solvency or financial stability of any of the Merger Companies.
- 106. The Merger Companies have no intention of incurring debts beyond their ability to pay them. Indeed, as mentioned, the Merger Companies will not be underwriting new or renewal insurance policies and will not, therefore, be expected to incur any new liabilities.
- 107. The total loss carried reserves calculations completed by Allstate and then independently analyzed by RRC confirm for me that, upon the completion of the Proposed Restructuring, the Merger Companies' Loss Reserves will be adequate to fulfill their future obligations regarding the allocated Specified Policies.

THE SURVIVING COMPANIES

- 108. As part of its analysis into the financial stability and solvency of the Merger Companies, Allstate also reviewed the solvency and capital adequacy of the eight Surviving Companies.
- 109. At the close of the Proposed Restructuring, the assets of the Surviving Companies will be sufficient to cover their allocated liabilities going forward. Collectively, all of the Surviving Companies will continue to be supported by AIC through Allstate's quota share arrangement. Under this mechanism, most, if not all, of the business underwritten by the Surviving Companies is passed through to AIC, which will remain the largest of the Surviving Companies. As shown at Slide 13 of Exhibit 13, following the Proposed Restructuring, AIC is expected to have approximately \$52.2 billion in total assets and \$18.2 billion in total capital and surplus, providing it the wherewithal to support the financial stability of the other Surviving Companies if necessary. In addition, the Allstate group has sufficient access to reserves and capital resources with total capital of \$38.04 billion, as of December 31, 2020, and a common equity market valuation of \$31.7 billion, as of February 18, 2021, to support its business.
- and surplus for all of the Surviving Companies in the pro forma statutory balance sheets for the New Companies. The pro forma statutory balance sheet at Figure 2 above depicts the assets, liabilities, and capital and surplus remaining with the AFCIC Surviving Company at the far right-hand side of the statement. For example, according to the pro forma statutory balance sheet in AFCIC's Plan, AFCIC, the Surviving Company, will have post-division assets of \$244,376,000 compared to post-division liabilities of \$9,545,000 for a surplus of \$234,832,000.
- 111. The figures for the Surviving Companies (other than AIC) were calculated by taking the Dividing Companies' June 30, 2020, statutory assets, liabilities, and capital and surplus,

plus the Commutation Amount transferred by AIC, less the assets, liabilities, and capital and surplus allocated to the New Companies. For AIC, the calculation is slightly different due to the commutation. As an example, AIC Surviving Company's assets are the AIC Dividing Company's June 30, 2020, statutory assets, less the AIC New Company's assets, less the assets associated with the Specified Policies that were commuted back to each of the original insurers.

- 112. Based on the pro forma statutory balance sheets, the Surviving Companies will be adequately capitalized and solvent following the Proposed Restructuring. Moreover, the Surviving Companies will maintain their licenses with Illinois and Michigan and will continue to transact automobile insurance in Michigan.
- 113. Finally, the active Michigan policyholders and claimants, who will remain with the Surviving Companies, will continue to receive the high-quality service to which they are accustomed. The more efficient allocation of capital resulting from the Proposed Restructuring will enhance Allstate's ability to innovate and offer improved insurance products.

OPERATION OF THE MERGER COMPANIES

Overview

- 114. While the Merger Companies will be licensed in Illinois and are expected to be licensed in Michigan before the anticipated effective date of the Proposed Restructuring, they do not intend to transact new business. Rather, their focus will be on handling legacy policies. The operation of the Merger Companies is described in more detail in the Narrative Business Plan, located at Annex G to the Plans (the "Business Plan"). Pursuant to the Business Plan, the Merger Companies will enter into several intercompany agreements with other entities in the Allstate group.
- 115. Upon receiving their licenses in Michigan, the Merger Companies will process claims in a manner consistent with the applicable laws, regulations, and reporting requirements of

all relevant regulatory agencies. Claims will be serviced by AIC under the Services Agreement to which the Merger Companies will become parties. A dedicated team of Allstate personnel will continue to handle the Specified Policies after they have been allocated to the Merger Companies. Claim payments will continue to be paid under applicable law and will not be affected by the Proposed Restructuring. Moreover, the terms of the Specified Policies, including with respect to claims thereunder, will not change. As a result, policyholders and claimants under the Specified Policies will continue to receive the high-quality service they currently enjoy.

Investment Policy of the Merger Companies

- 116. The Merger Companies will invest their assets in accordance with the requirements established by the applicable insurance laws regarding the nature and quality of investments and quantitative limits. Each Merger Company will become a party to the Investment Management Agreement among Allstate Investments, LLC, AIC, and certain insurance subsidiaries of Allstate (the "Investment Agreement").
- 117. Under the Investment Agreement, the Merger Companies' boards of directors will establish investment limits and strategic allocations that reflect each company's risk tolerance and that are calibrated to achieve long-term risk and return objectives.
- 118. The Merger Companies plan to invest their assets under the Investment Agreement in stable and secure investment securities, including U.S. Treasury bonds and investment grade corporate bonds. At the time of the hearing, Allstate will not know the mark-to-market value of the investment assets allocated to the Merger Companies. Rather, 15 business days prior to the effective date of the Proposed Restructuring, Allstate will identify the investment securities that will be allocated to the Merger Companies, and 10 business days prior to the effective date of the Proposed Restructuring, Allstate will provide a detailed investment portfolio to the IL DOI. The market value of this allocated investment portfolio is required to be above par.

Other Intercompany Agreements

119. In addition to the Investment Agreement, the Merger Companies will enter into a series of intercompany agreements, subject to the IL DOI's regulatory approval. First, ECMI and ESMI plan to cede 100% of their insurance liabilities to ASMI, pursuant to reinsurance agreements entered into by ASMI with each of ECMI and ESMI. Also, the Merger Companies will become parties to the Amended and Restated Service and Expense Agreement (the "Services Agreement"), under which Allstate will provide accounting, claims adjudication, customer service, legal, and technology services, among others, to the Merger Companies. Finally, the Merger Companies will become parties to a tax sharing and a tax credit agreement.

Corporate Governance

- 120. In addition to entering into intercompany agreements and abiding by certain investment criteria, the Merger Companies will adhere to the same corporate governance principles as every other Allstate company. Upon the closing of the Proposed Restructuring, the Merger Companies will continue to be wholly owned, indirect subsidiaries of Allcorp, which will be the ultimate controlling person of each of the Merger Companies.
- 121. In accordance with Allstate's corporate governance practices, the Merger Companies will have boards of directors that comprise current members of Allstate management. Such a practice is in conformance with 215 ILCS 5/10(2), which provides that only those companies that are not ultimately controlled by a corporation whose equity securities are listed on the New York Stock Exchange are required to have independent directors. This practice is also in conformance with 215 ILCS 5/131.20b(4), which provides that a company that is a member of an insurance holding company system that is ultimately controlled by a company that meets the board independence described therein may have a board of directors comprised solely of members of the company's management. Allstate is a publicly traded company with a board of directors, 11 of

whose 12 members are independent, and therefore, the exemptions under 215 ILCS 5/10(2) and 215 ILCS 5/131.20b(4) apply.

- 122. In furtherance of Allstate's corporate governance policies, Allcorp's Board of Directors exercises oversight and supervision over all Allstate subsidiary companies, including their respective boards of directors. Similarly, Allcorp's audit committee—which is made up entirely of independent directors—exercises oversight over all Allstate subsidiary companies.
- 123. The Merger Companies will be managed by qualified directors and officers. The directors of each of the Merger Companies are: David Hewitt, Mark Simmonds, W. Guy Hill, Kevin Van Prooyen, Cheryl Bendtsen, and Michael W. Demetre. The executive officers are: Mark Simmonds (Chairman of the Board), Kevin Van Prooyen (President and Chief Executive Officer), Rhonda S. Ferguson (Executive Vice President and Secretary), Michael W. Demetre (Senior Vice President and Chief Financial Officer), John C. Pintozzi (Senior Vice President and Controller) and myself (Senior Vice President and Treasurer). NAIC biographical affidavits and third-party verification reports for these individuals and myself are on file with the IL DOI.
- 124. Although Allcorp will function as the ultimate controlling person of each Merger Company, there will be no parental guarantee or keep well arrangements as to any of the Merger Companies. Allstate's corporate philosophy is to not provide parental guarantees in favor of its subsidiaries. In fact, if a guarantee were included, the amount of capital allocated to the Merger Companies would be much lower. Ultimately, Allstate is confident that the Merger Companies will have sufficient reserves and capital to satisfy their allocated obligations upon the closing of the Proposed Restructuring and thereafter, thus obviating the need for such parental guarantees.

The MPCGA Act

- 125. Allstate believes that the Merger Companies will be covered under the Michigan Property and Casualty Guaranty Association Act (the "MPCGA Act").
- Association ("MPCGA") to protect the public against financial losses to policyholders and claimants as a result of property and casualty insurance company insolvencies. The MPCGA Act requires all insurers authorized to transact insurance, other than life or disability insurance, in Michigan, to be members of the MPCGA. When a member insurer becomes insolvent, the MPCGA has a duty to pay certain obligations of the insolvent insurer that come within the MPCGA Act's definition of "covered claims." Under Article V, Section 8 and Article VI, Section 8 of the Plans, and Section 35B-35(6) of the Division Law, the New Companies will be successors of the Dividing Companies with respect to any obligations related to the MPCGA to the extent arising out of, resulting from, or relating to the Specified Policies by operation of law. Under Section 166 of the Merger Law, such obligations will become the obligations of the Merger Companies upon the effectiveness of the mergers.
- 127. The Merger Companies' claimants will retain the benefit of guaranty fund coverage for the following reasons, among others: (1) the Merger Companies will be licensed in Michigan; (2) the MPCGA Act lacks a temporal component; in other words, the MPCGA Act does not define when an insurer needs to have been licensed in Michigan to be considered a member insurer; and (3) including the Merger Companies under the purview of the MPCGA Act would satisfy the policy goals contemplated by the MPCGA Act and Michigan insurance laws, whose main objective is to protect insureds and third-party beneficiaries. Because the Merger Companies will be licensed in Michigan and hold Specified Policies by operation of law, they will satisfy the requirements needed to be considered a member insurer of the MPCGA, and claims under the

Specified Policies will satisfy the definition of "covered claim." Therefore, in the unlikely event that a Merger Company becomes insolvent, the MPCGA can step in and provide coverage for affected claimants, ensuring that claimants will have seamless protection under the MPCGA Act.

128. Because the Merger Companies will be member insurers of the MPCGA, the Proposed Restructuring will not affect guaranty fund coverage for claimants under the Specified Policies, nor will it increase, in any way, the MPCGA's guaranty exposure.

THE MCCA'S RESPONSE TO THE PROPOSED RESTRUCTURING

- 129. Once the Plans were filed with the IL DOI, Allstate provided formal written notice to Executive Director Kevin Clinton of the MCCA, informing him of the Proposed Restructuring. In or around the week of February 8, 2021, I participated in a call with the MCCA to further discuss the Proposed Restructuring and the Merger Companies' applications to obtain Michigan licenses to transact automobile insurance business.
- 130. To my knowledge, the MCCA has not raised any concerns about the Proposed Restructuring. It is my understanding that the MCCA has acknowledged the Proposed Restructuring, has commenced working with Allstate to establish the Merger Companies as members of the MCCA, and stands ready to fulfill its obligation to the Merger Companies, who will be new members of the MCCA.
- 131. In fact, it is my understanding that on February 19, 2021, the Executive Director of the MCCA submitted a letter to Kevin Fry, Chief Operating Officer for the IL DOI, confirming that there will be no reduction in reimbursements from the MCCA with respect to the Specified Policies as a result of the Proposed Restructuring (the "MCCA Letter"). The MCCA Letter further stated that the MCCA will continue to process and reimburse claims under the Specified Policies,

which will become the policies of the Merger Companies, as the MCCA did prior to the Proposed Restructuring.⁹

- 132. Once the Merger Companies obtain their licenses and become new members, the MCCA will issue them member numbers and claim numbers will be assigned. Relatedly, the Surviving Companies will maintain their MCCA memberships and will continue to have obligations to the MCCA based on the business they have in force and for future policies they underwrite.
- 133. While the Merger Companies will become members of the MCCA, interactions between the Merger Companies and the MCCA will be handled through Allstate. Allstate, in its role as the servicing company for the Merger Companies, will continue its historical relationship and processes with the MCCA, thus ensuring continuity. Indeed, Allstate anticipates that one group of personnel will handle interactions with the MCCA across all three Merger Companies, which is the same group of personnel who currently handle claims under the Specified Policies pursuant to the Services Agreement.
- Restructuring, in the Merger Companies' ability to receive reimbursement payments from the MCCA. The MCCA and Allstate have already begun collaborating on a smooth transition to ensure no interruption in the timely distribution of payments. In fact, Allstate currently pays MCCA claimants directly, and will continue to do so without any modification. As such, Allstate does not anticipate any interruption in processing claimants' payments. The Merger Companies will be fully prepared and able to handle the claims under the Specified Policies allocated to them.

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⁹ Exhibit 31.

Claims under the Specified Policies will continue to be paid as they would have been paid had the Proposed Restructuring not occurred.

DIVISION LAW REQUIREMENTS

Compliance under 215 ILCS 5/35B-25(b)

- 135. Based on my understanding of the Division Law, it is my opinion that the Proposed Restructuring satisfies the requirements of the Division Law under 215 ILCS 5/35B-25(b)(1)–(6).
- 136. First, as I previously discussed, the interests of all classes of policyholders will be properly protected. The Merger Companies will join the Services Agreement, integrating the Merger Companies into the greater Allstate group and providing the Merger Companies access to requisite operational resources, which will enable the Merger Companies to seamlessly continue the administration and processing of claims under the Specified Policies. As a result, the relevant policyholders and claimants will continue to receive the same high-quality level of service.
- 137. The contractual rights of any claimants or policyholders will not, in any way, be impaired if the Proposed Restructuring is approved and implemented. Neither claimants nor policyholders will be materially adversely affected if the Proposed Restructuring is approved.
- that are non-surviving parties to a merger, to be eligible to receive a license to transact insurance business in Illinois, 215 ILCS 5/35B-25(b)(2). Here, because the New Companies will be non-surviving parties to the mergers pursuant to Section 156(b) of the Merger Law, the New Companies do not need to satisfy the minimum capital and surplus requirements under Illinois law. Rather, the New Companies will be merging with and into the Merger Companies, which have already received licenses to transact insurance business in Illinois.

- 139. Moreover, as demonstrated in the Lazard Report, at Slide 50 of Exhibit 24B, all three Merger Companies are well above the statutory minimum to qualify for and maintain a license to transact insurance business in Illinois.
- Next, the Plans do not violate the Uniform Fraudulent Transfer Act. To my 140. knowledge, no one has come forward with any evidence, or even suggested, that, following the effectiveness of the Proposed Restructuring, the Merger Companies (or the Surviving Companies) will be insolvent or left with unreasonably small assets. Moreover, as demonstrated through the financial statements and capital adequacy discussion, the Merger Companies and the Surviving Companies will remain solvent following the Proposed Restructuring, and their assets will exceed their liabilities. This assessment is supported through the findings of Allstate's internal analyses as well as the capital adequacy analyses provided by Lazard, and the "A- pca (Excellent)" rating received by A.M. Best. The Proposed Restructuring was not made with actual intent to hinder, delay, or defraud any creditor. Rather, as I previously stated, the objective of the Proposed Restructuring is to achieve a more efficient allocation of capital. The assets of the Merger Companies are not unreasonably small in relation to the business in which the Merger Companies are about to engage, which is a run-off business maintaining legacy policies. Moreover, neither the Surviving Companies nor the Merger Companies intend to incur any debts beyond their ability to pay such debts as they become due.

Compliance with All Aspects of the Division Law

- 141. Not only does the Proposed Restructuring satisfy the elements under Section 35B-25(b) of the Division Law, but also the Proposed Restructuring satisfies all aspects of the Division Law.
- 142. Before the hearing, Allstate submitted to the IL DOI a Legal Compliance Chart (the "Compliance Chart"), which I believe will be entered into the record as Exhibit 30. The

Compliance Chart identified sections within the Plans and noted how those sections comported and complied with different parts of the Division Law.

- 143. For example, pursuant to Section 35B-15(b), each Plan contains all of the required content, including, among other things, the manner of allocating assets between or among the Resulting Companies (Art. V, §§ 2, 7 and Schedules 4 & 5); the manner of allocating liabilities of the Dividing Companies (Art. VI, §§ 3, 7 and Schedules 6 & 7); the manner of distributing shares in the New Companies to the Dividing Companies or their shareholders (Art. V, § 2); a reasonable description of the liabilities and items of capital, surplus, or other assets that the Dividing Company proposes to allocate to each Resulting Company (Art. VI, §§ 2, 3 and Schedules 4–7); and evidence demonstrating that the interests of all classes of policyholders of the Dividing Companies will be properly protected (Art. VI, § 1 and Schedule 2).
- 144. Article IV of each Plan confirms that there will be no changes to the articles of incorporation or the bylaws of the Surviving Companies and that the authorized capital stock of the Dividing Companies will not be affected by the divisions.
- 145. As another example, Annexes D and E to each Plan, which include the articles of incorporation and the bylaws of the New Companies, respectively, comply with the laws of Illinois, pursuant to Section 35B-30(c) of the Division Law.
- 146. Article VI of each Plan describes the effects of the divisions on the Dividing Companies and Resulting Companies, consistent with Section 35B-35(a) (*i.e.*, the assets and liabilities allocated to the New Companies by the Plans become solely assets and liabilities of the New Companies by operation of law). That same Article also addresses the effects of the divisions on the liabilities of the Dividing Companies, which is consistent with Section 35B-40.

NOTICE & INTERACTIONS WITH OTHER REGULATORS

- 147. Allstate further complied with the notice provisions pursuant to 215 ILCS 5/35B-25(a) and 50 Ill. Admin. Code Sections 2402.80 and 2402.90.
- 148. As stated previously, Allstate, with the review and approval of the IL DOI, prepared the Communication Plan, outlining how notice would be effected not only to the relevant policyholders and claimants under the Specified Policies, but also to other regulators. Allstate's notice of hearing was affixed to cover letters that were sent, via U.S. mail, to all relevant policyholders and claimants under the Specified Policies, whom Allstate had identified within its claims database. Each cover letter informed the recipient of the pending public hearing and provided instructions as to how to obtain additional information. Where appropriate, the cover letter and notice of hearing were sent to the attorney or guardian representing the policyholder or claimant.
- 149. Once the Plans were submitted to the IL DOI on February 2, 2021, Allstate issued letters to insurance-related organizations, notifying them of the Proposed Restructuring and the pending hearing. Such organizations included the MI DIFS, which, pursuant to the Communication Plan, received a copy of each Plan, the MCCA, the MPCGA, the Illinois Insurance Guaranty Fund, and the National Conference of Insurance Guaranty Funds.

COMPLIANCE WITH THE MERGER LAW

- 150. Having discussed the Proposed Restructuring's compliance with the Division Law and notice requirements, I briefly turn to discuss the Proposed Restructuring's compliance with the Merger Law.
- 151. The merger of the eight New Companies into the three Merger Companies complies with all aspects of the Merger Law, as laid out in the Compliance Chart (Exhibit 30).

- 152. For example, each Plan follows the procedures included in the Merger Law for approval of the merger agreements. Article V of each Plan states that each Merger Company must file the required items (*i.e.*, the certified copy of the merger agreement, the certificate of merger, and approval by the Director) with the applicable recorder within 15 days after the merger. This is in accordance with Section 165 of the Merger Law.
- shareholders of the respective Dividing Companies approved the merger agreements on behalf of the New Companies in connection with their approval of the Plans. The mergers further comport with Sections 158 and 159 of the Merger Law, which govern the approval of the merger by the affected boards and shareholders, respectively. As previously noted, approvals of the merger agreements were received on February 24, 2021. Furthermore, Articles III and IV of each Plan note that the merger agreements contain all provisions with respect to the mergers as deemed necessary or advisable.

CONCLUSION

- 154. Overall, the Proposed Restructuring should be approved by the Director as it will ultimately benefit active claimants and policyholders by enabling Allstate to be more effective through a more precise allocation of capital. The interests of policyholders and claimants associated with the Specified Policies will be protected, and they will continue to receive the same high-quality level of service they currently enjoy.
- 155. It is Allstate's position that the Division Law is good for Illinois, which has shown itself to be at the forefront of insurance legislation and policy. Moreover, Allstate is cognizant that, if approved, these will be the first divisions of their kind. As such, Allstate has dedicated significant resources and the better part of two years in close collaboration with the IL DOI to

ensure that the Proposed Restructuring works and complies with all aspects of Illinois law, including the Division Law and Merger Law.

- 156. To that end, I would like to thank the IL DOI, particularly Chief Operating Officer Kevin Fry and Acting General Counsel Robert Planthold for their efforts in connection with the Proposed Restructuring. I also want to thank and recognize Chief Deputy Director Shannon Whalen for leading the IL DOI's internal review of the Proposed Restructuring, as well as for her expected testimony at the hearing. Additionally, I would like to thank the IL DOI's advisors, specifically Luann Petrellis, the project manager; DLA Piper, the IL DOI's outside counsel; and RRC, the IL DOI's actuarial consultant, for their attention and diligence in reviewing the Plans.
- 157. I would also like to thank, Justice Mason, the Hearing Officer, for her time, consideration, and attention to this matter.
- 158. Lastly, Allstate hopes that this process can function as a successful model upon which other Illinois insurance companies can rely.
- 159. For all of the reasons explained above, in my opinion, the Proposed Restructuring satisfies the elements of the Division Law and the Merger Law. I would respectfully request that the Hearing Officer recommend that the Director of the IL DOI approve the Proposed Restructuring.
- 160. I, Michael A. Pedraja, certify, under penalties as provided by Section 1-109 of the Illinois Code of Civil Procedure, that the foregoing statements are true and correct, except as to matters stated to be on information and belief and as to such matters I certify that I verily believe the same to be true.



Michael A. Pedraja Senior Vice President and Treasurer The Allstate Corporation 2775 Sanders Road Northbrook, IL 60062

Dated: February 25, 2021

SIGNATURE PAGE TO PRE-FILED WITNESS STATEMENT OF MICHAEL A. PEDRAJA