ALLSTATE CORP
Form 10-Q
August 01, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______
Commission file number 1-11840
THE ALLSTATE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	36-3871531
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2775 Sanders Road, Northbrook, Illinois	60062
(Address of principal executive offices)	(Zip Code)

(847) 402-5000
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No ___
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes X No ___
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ____
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No X
As of July 17, 2018, the registrant had 346,232,355 common shares, $.01 par value, outstanding.

The Allstate Corporation
Index to Quarterly Report on Form 10-Q
June 30, 2018

Condensed Consolidated Financial Statements

Part I. Financial Information
Item 1. Financial Statements
The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Operations

($ in millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Revenues				
Property and casualty insurance premiums	$8,460	$8,018	$16,746	$15,977
Life premiums and contract charges	612	591	1,228	1,184
Other revenue	228	226	444	436
Net investment income	824	897	1,610	1,645
Realized capital gains and losses:				
Total other-than-temporary impairment (“OTTI”) losses	(4)	(47)	(4)	(109)
OTTI losses reclassified (from) to other comprehensive income	—	(3)	(1)	—
Net OTTI losses recognized in earnings	(4)	(50)	(5)	(109)
Sales and valuation changes on equity investments and derivatives	(21)	131	(154)	324
Total realized capital gains and losses	(25)	81	(159)	215
Total revenues	10,099	9,813	19,869	19,457
Costs and expenses				
Property and casualty insurance claims and claims expense	5,792	5,689	10,941	11,105
Life contract benefits	483	486	987	960
Interest credited to contractholder funds	165	175	326	348
Amortization of deferred policy acquisition costs	1,296	1,176	2,569	2,345
Operating costs and expenses	1,407	1,312	2,762	2,619
Restructuring and related charges	27	53	49	63
Interest expense	86	83	169	168
Total costs and expenses	9,256	8,974	17,803	17,608
Gain on disposition of operations	2	12	3	14
Income from operations before income tax expense	845	851	2,069	1,863
Income tax expense	169	272	418	589
Net income	676	579	1,651	1,274
Preferred stock dividends	39	29	68	58
Net income applicable to common shareholders	$637	$550	$1,583	$1,216
Earnings per common share:				
Net income applicable to common shareholders per common share - Basic	$1.82	$1.51	$4.50	$3.34
Weighted average common shares - Basic	349.2	363.6	351.6	364.6
Net income applicable to common shareholders per common share - Diluted	$1.80	$1.49	$4.43	$3.29
Weighted average common shares - Diluted	354.6	369.0	357.2	370.1
Cash dividends declared per common share	$0.46	$0.37	$0.92	$0.74

See notes to condensed consolidated financial statements.

Condensed Consolidated Financial Statements

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Net income	$676	$579	$1,651	$1,274
Other comprehensive (loss) income, after-tax				
Changes in:				
Unrealized net capital gains and losses	(133)	270	(698)	473
Unrealized foreign currency translation adjustments	(7)	11	(11)	8
Unrecognized pension and other postretirement benefit cost	22	18	45	37
Other comprehensive (loss) income, after-tax	(118)	299	(664)	518
Comprehensive income	$558	$878	$987	$1,792

See notes to condensed consolidated financial statements.

Condensed Consolidated Financial Statements

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Financial Position

($ in millions, except par value data)	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Investments		
Fixed income securities, at fair value (amortized cost $56,750 and $57,525)	$ 56,891	$ 58,992
Equity securities, at fair value (cost $5,846 and $5,461)	6,888	6,621
Mortgage loans	4,535	4,534
Limited partnership interests	7,679	6,740
Short-term, at fair value (amortized cost $3,123 and $1,944)	3,123	1,944
Other	4,125	3,972
Total investments	83,241	82,803
Cash	489	617
Premium installment receivables, net	5,953	5,786
Deferred policy acquisition costs	4,533	4,191
Reinsurance recoverables, net	8,910	8,921
Accrued investment income	589	569
Property and equipment, net	1,040	1,072
Goodwill	2,189	2,181
Other assets	3,154	2,838
Separate Accounts	3,271	3,444
Total assets	$ 113,369	$ 112,422
Liabilities		
Reserve for property and casualty insurance claims and claims expense	$ 26,623	$ 26,325
Reserve for life-contingent contract benefits	12,213	12,549
Contractholder funds	18,888	19,434
Unearned premiums	13,824	13,473
Claim payments outstanding	894	875
Deferred income taxes	723	782
Other liabilities and accrued expenses	7,363	6,639
Long-term debt	6,448	6,350
Separate Accounts	3,271	3,444
Total liabilities	90,247	89,871
Commitments and Contingent Liabilities (Note 12)		
Shareholders’ equity		
Preferred stock and additional capital paid-in, $1 par value, 25 million shares authorized, 95.2 thousand and 72.2 thousand shares issued and outstanding, $2,380 and $1,805 aggregate liquidation preference	2,303	1,746
Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 347 million and 355 million shares outstanding	9	9
Additional capital paid-in	3,391	3,313
Retained income	45,508	43,162
Deferred ESOP expense	(3)	(3)
Treasury stock, at cost (553 million and 545 million shares)	(26,818)	(25,982)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	83	85
Other unrealized net capital gains and losses	28	1,981

Unrealized adjustment to DAC, DSI and insurance reserves	(57)	(404)
Total unrealized net capital gains and losses	54	1,662
Unrealized foreign currency translation adjustments	(20)	(9)
Unrecognized pension and other postretirement benefit cost	(1,302)	(1,347)
Total accumulated other comprehensive income (“AOCI”)	(1,268)	306
Total shareholders’ equity	23,122	22,551
Total liabilities and shareholders’ equity	$ 113,369	$ 112,422

See notes to condensed consolidated financial statements.

Condensed Consolidated Financial Statements

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

($ in millions)	Six months ended June 30, 2018	2017
	(unaudited)	
Preferred stock par value	$—	$—
Preferred stock additional capital paid-in		
Balance, beginning of period	1,746	1,746
Preferred stock issuance	557	—
Preferred stock additional capital paid-in	2,303	1,746
Common stock	9	9
Additional capital paid-in		
Balance, beginning of period	3,313	3,303
Forward contract on accelerated share repurchase agreement	45	(38)
Equity incentive plans activity	33	4
Balance, end of period	3,391	3,269
Retained income		
Balance, beginning of period	43,162	40,678
Cumulative effect of change in accounting principle	1,088	—
Net income	1,651	1,274
Dividends on common stock	(325)	(272)
Dividends on preferred stock	(68)	(58)
Balance, end of period	45,508	41,622
Deferred ESOP expense	(3)	(6)
Treasury stock		
Balance, beginning of period	(25,982)	(24,741)
Shares acquired	(892)	(646)
Shares reissued under equity incentive plans, net	56	146
Balance, end of period	(26,818)	(25,241)
Accumulated other comprehensive income		
Balance, beginning of period	306	(416)
Cumulative effect of change in accounting principle	(910)	—
Change in unrealized net capital gains and losses	(698)	473
Change in unrealized foreign currency translation adjustments	(11)	8
Change in unrecognized pension and other postretirement benefit cost	45	37
Balance, end of period	(1,268)	102
Total shareholders' equity	$23,122	$21,501

See notes to condensed consolidated financial statements.

Condensed Consolidated Financial Statements

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows

($ in millions)	Six months ended June 30,	
	2018	2017
Cash flows from operating activities	(unaudited)	
Net income	$1,651	$1,274
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	248	238
Realized capital gains and losses	159	(215)
Gain on disposition of operations	(3)	(14)
Interest credited to contractholder funds	326	348
Changes in:		
Policy benefits and other insurance reserves	(22)	228
Unearned premiums	211	34
Deferred policy acquisition costs	(80)	(65)
Premium installment receivables, net	(185)	(51)
Reinsurance recoverables, net	(9)	6
Income taxes	(257)	(42)
Other operating assets and liabilities	51	(393)
Net cash provided by operating activities	2,090	1,348
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	19,515	14,521
Equity securities	3,576	3,430
Limited partnership interests	182	481
Other investments	135	118
Investment collections		
Fixed income securities	1,442	2,063
Mortgage loans	315	305
Other investments	235	337
Investment purchases		
Fixed income securities	(20,401)	(17,214)
Equity securities	(3,901)	(3,473)
Limited partnership interests	(873)	(578)
Mortgage loans	(316)	(148)
Other investments	(535)	(532)
Change in short-term investments, net	(512)	2,142
Change in other investments, net	(35)	107
Purchases of property and equipment, net	(128)	(146)
Acquisition of operations	(10)	(1,356)
Net cash (used in) provided by investing activities	(1,311)	57
Cash flows from financing activities		
Proceeds from issuance of long-term debt	498	—
Redemption and repayment of long-term debt	(401)	—
Proceeds from issuance of preferred stock	557	—
Contractholder fund deposits	506	515
Contractholder fund withdrawals	(997)	(957)
Dividends paid on common stock	(295)	(257)

Dividends paid on preferred stock	(58)	(58)
Treasury stock purchases	(838)	(657)
Shares reissued under equity incentive plans, net	28	108
Other	93	(53)
Net cash used in financing activities	(907)	(1,359)
Net (decrease) increase in cash	(128)	46
Cash at beginning of period	617	436
Cash at end of period	$489	$482

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)
Note 1 General
Basis of presentation
The accompanying condensed consolidated financial statements include the accounts of The Allstate Corporation (the "Corporation") and its wholly owned subsidiaries, primarily Allstate Insurance Company ("AIC"), a property and casualty insurance company with various property and casualty and life and investment subsidiaries, including Allstate Life Insurance Company ("ALIC") (collectively referred to as the "Company" or "Allstate"). These condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").
The condensed consolidated financial statements and notes as of June 30, 2018 and for the three month and six month periods ended June 30, 2018 and 2017 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2017. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year. All significant intercompany accounts and transactions have been eliminated.
Adopted accounting standards
Recognition and Measurement of Financial Assets and Financial Liabilities
Effective January 1, 2018, the Company adopted new Financial Accounting Standards Board ("FASB") guidance requiring equity investments, including equity securities and limited partnership interests not accounted for under the equity method of accounting or that do not result in consolidation to be measured at fair value with changes in fair value recognized in net income. The guidance clarifies that an entity should evaluate the realizability of deferred tax assets related to available-for-sale fixed income securities in combination with the entity's other deferred tax assets. The Company's adoption of the new FASB guidance included adoption of the relevant elements of Technical Corrections and Improvements to Financial Instruments, issued in February 2018.
Upon adoption of the new guidance on January 1, 2018, $1.16 billion of pre-tax unrealized net capital gains for equity securities were reclassified from AOCI to retained income. The after-tax change in accounting for equity securities did not affect the Company's total shareholders' equity and the unrealized net capital

gains of $910 million, reclassified to retained income will never be recognized in net income.
Upon adoption of the new guidance on January 1, 2018, the carrying value of cost method limited partnership interests increased $224 million, pre-tax, to fair value. The after-tax cumulative-effect increase in retained income of $177 million increased the Company's shareholders' equity but will never be recognized in net income thereby negatively impacting calculations of returns on equity.
Revenue from Contracts with Customers
Effective January 1, 2018, the Company adopted new FASB guidance which revises the criteria for revenue recognition. Insurance contracts are excluded from the scope of the new guidance. The Company's principal activities impacted by the new guidance are those related to the issuance of protection plans for consumer products and automobiles and service contracts that provide roadside assistance. Under the guidance, the transaction price is attributed to underlying performance obligations in the contract and revenue is recognized as the entity satisfies performance obligations and transfers control of a good or service to the customer. Incremental costs of obtaining a contract may be capitalized to the extent the entity expects to recover those costs.
Adoption of the guidance on January 1, 2018 under the modified retrospective approach resulted in the recognition of an immaterial after-tax net cumulative effect increase to the beginning balance of retained income. In addition to the net cumulative effect, the Company also recorded in the statement of financial position an increase of approximately

$160 million pre-tax in unearned premiums with a corresponding $160 million pre-tax increase in DAC for protection plans sold directly to retailers for which SquareTrade Holding Company, Inc. (“SquareTrade”) is deemed to be the principal in the transaction. This impact offsets fully and did not impact retained income at the date of adoption.

Presentation of Net Periodic Pension and Postretirement Benefits Costs

Effective January 1, 2018, the Company adopted new FASB guidance requiring identification, on the statement of operations or in disclosures, the line items in which the components of net periodic pension and postretirement benefits costs are presented. The new guidance permits only the service cost component to be eligible for capitalization where applicable. The adoption had no impact on the Company’s results of operations or financial position.

Goodwill Impairment

In January 2017, the FASB issued guidance to simplify the accounting for goodwill impairment which removes the second step of the goodwill impairment test that requires a hypothetical purchase price allocation. Under the new guidance, goodwill impairment will be measured and recognized as the amount by which a reporting unit's carrying value, including goodwill, exceeds its fair value, not to exceed the carrying amount of goodwill allocated to the reporting unit. The revised guidance does not affect a reporting entity's ability to first assess qualitative factors by reporting unit to determine whether to perform the quantitative goodwill impairment test. The guidance is to be applied on a prospective basis, with the effects, if any, recognized in net income in the period of adoption. The Company elected to early adopt the new guidance as of January 1, 2018. The adoption had no impact on the Company's results of operations or financial position.

Changes to significant accounting policies

Investments

Changes were made to the Company's Significant Accounting Policies upon adoption of new FASB guidance related to the recognition and measurement of financial assets. Equity securities primarily include common stocks, exchange traded and mutual funds, non-redeemable preferred stocks and real estate investment trust equity investments. Equity securities are carried at fair value. Equity securities without readily determinable or estimable fair values are measured using the measurement alternative which is cost less impairment, if any, and adjustments resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The periodic change in fair value of equity securities is recognized within realized capital gains and losses on the Condensed Consolidated Statements of Operations effective January 1, 2018.

Investments in limited partnership interests include interests in private equity funds, real estate funds and other funds. Where the Company's interest is so minor that it exercises virtually no influence over operating and financial policies, investments in limited partnership interests purchased prior to January 1, 2018 are accounted for at fair value primarily utilizing the net asset value as a practical expedient ("NAV") to determine fair value. All other investments in limited partnership interests, including those purchased subsequent to January 1, 2018, are accounted for in accordance with the equity method of accounting ("EMA").

Investment income from limited partnership interests carried at fair value is recognized based upon the changes in fair value of the investee's equity primarily determined using NAV. Income from EMA limited partnership interests is recognized based on the Company's share of the partnerships' earnings. Income from EMA limited partnership interests is generally recognized on a three month delay due to the availability of the related financial statements.

Recognition of Revenue

Revenues related to protection plans, other contracts (primarily finance and insurance products) and roadside assistance are deferred and earned over the term of the contract in a manner that recognizes revenue as obligations under the contracts are performed. Revenues from these products are classified as premiums as the products are backed by insurance. Protection plans and finance and insurance premiums are recognized using a cost-based incurrence method. Roadside assistance premiums are recognized evenly over the term of the contract as performance obligations are fulfilled.

Tax Reform

On December 22, 2017, Public Law 115-97, known as the Tax Cuts and Jobs Act of 2017 ("Tax Legislation") became effective, permanently reducing the U.S. corporate income tax rate from 35% to 21% beginning January 1, 2018. As a result, the corporate tax rate is not comparable between periods. During 2017, the Company revalued its deferred tax assets and liabilities and recorded liabilities related to the transition to the modified territorial system for international taxation. The impact of the Tax Legislation may differ from the Company's preliminary estimates due to, among other things, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the Tax Legislation. During the period ended June 30, 2018, the Company has not recorded any material adjustments to these provisional amounts. The Company continues to refine the analysis and calculations, which could impact the provisional estimates previously recorded. Accordingly, as of June 30, 2018, the Company has not fully completed the accounting for the Tax Legislation.

Pending accounting standards

Accounting for Leases

In February 2016, the FASB issued guidance revising the accounting for leases. Under the new guidance, lessees will be required to recognize a right-of-use (“ROU”) asset and lease liability for all leases other than those that are less than one year. The lease liability will be equal to the present value of lease payments. A ROU asset will be based on the lease liability adjusted for qualifying initial direct costs. The Company currently estimates that the recognition of the ROU asset and lease liability will result in an increase in both total assets and liabilities in the Condensed Consolidated Statement of Financial Position of approximately $500 million. The new guidance requires sellers in a sale-leaseback transaction to recognize the entire gain from the sale of an underlying asset at the time the sale is recognized rather than over the leaseback term. The carrying value of unrecognized gains on sale-leaseback transactions prior to January 1, 2019 are approximately $20 million, after-tax, and will be recorded as an increase to retained income.

The expense of operating leases under the new guidance will be recognized in the income statement on a straight-line basis by adjusting the amortization of the ROU asset to produce a straight-line expense when combined with the interest expense on the lease liability. For finance leases, the expense components are computed separately and produce greater up-front expense compared to operating leases as interest expense on the lease liability is higher in early years and the ROU asset is amortized on a straight-line basis. Lease classification will be based on criteria similar to those currently applied. The accounting model for lessors will be similar to the current model with modifications to reflect definition changes for components such as initial direct costs. Lessors will continue to classify leases as operating, direct financing, or sales-type. The guidance is effective for reporting periods beginning after December 15, 2018, and will be implemented using the optional transition method that allows application of the transition provisions at the adoption date instead of the earliest date presented.

Measurement of Credit Losses on Financial Instruments

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

Accounting for Hedging Activities

In August 2017, the FASB issued amendments intended to better align hedge accounting with an organization’s risk management activities. The amendments expand hedge accounting for nonfinancial and financial risk components and revise the measurement methodologies to better align with an organization’s risk management activities. Separate presentation of hedge ineffectiveness is eliminated to provide greater transparency of the full impact of hedging by requiring presentation of the results of the hedged item and hedging instrument in a single financial statement line item. In addition, the amendments reduce complexity by simplifying the manner in which assessments of hedge effectiveness may be performed. The guidance is effective for reporting periods beginning after December 15, 2018. The presentation and disclosure guidance is effective on a prospective basis. The impact of adoption is not expected to be material to the Company’s results of operations or financial position.

Other revenue presentation

Concurrent with the adoption of new FASB guidance on revenue from contracts with customers and the Company’s objective of providing more information related to revenues for our Service Businesses, the Company revised the presentation of total revenue to include other revenue. Previously, components of other revenue were presented within operating costs and expenses and primarily represent fees collected from policyholders relating to premium installment payments, commissions on sales of non-proprietary products, fee-based services and other revenue transactions. Other revenue is recognized when performance obligations are fulfilled. Prior periods have been reclassified to conform to current separate presentation of other revenue.

Notes to Condensed Consolidated Financial Statements

Note 2 Earnings per Common Share

Basic earnings per common share is computed using the weighted average number of common shares outstanding, including vested unissued participating restricted stock units. Diluted earnings per common share is computed using the weighted average number

of common and dilutive potential common shares outstanding. For the Company, dilutive potential common shares consist of outstanding stock options and unvested non-participating restricted stock units and contingently issuable performance stock awards.

Computation of basic and diluted earnings per common share

($ in millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income	$676	$579	$1,651	$1,274
Less: Preferred stock dividends	39	29	68	58
Net income applicable to common shareholders [1]	$637	$550	$1,583	$1,216
Denominator:				
Weighted average common shares outstanding	349.2	363.6	351.6	364.6
Effect of dilutive potential common shares:				
Stock options	3.8	4.3	3.9	4.2
Restricted stock units (non-participating) and performance stock awards	1.6	1.1	1.7	1.3
Weighted average common and dilutive potential common shares outstanding	354.6	369.0	357.2	370.1
Earnings per common share - Basic	$1.82	$1.51	$4.50	$3.34
Earnings per common share - Diluted	$1.80	$1.49	$4.43	$3.29

[1] Net income applicable to common shareholders is net income less preferred stock dividends.

The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per common share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect.

Options to purchase 2.3 million and 2.5 million Allstate common shares, with exercise prices ranging from $81.42 to $102.84 and $74.03 to $86.61, were

outstanding for the three month periods ended June 30, 2018 and 2017, respectively, but were not included in the computation of diluted earnings per common share in those periods. Options to purchase 1.7 million and 2.6 million Allstate common shares, with exercise prices ranging from $81.42 to $102.84 and $69.95 to $86.61, were outstanding for the six month periods ended June 30, 2018 and 2017, respectively, but were not included in the computation of diluted earnings per common share in those periods.

Note 3 Acquisition

On January 3, 2017, the Company acquired SquareTrade, a consumer product protection plan provider that distributes through many of America’s major retailers and Europe’s mobile operators, for $1.4 billion in cash. SquareTrade provides protection plans covering a variety of consumer electronics and appliances. This acquisition broadens Allstate’s unique product offerings to better meet consumers’ needs.

In connection with the acquisition, the Company recorded goodwill of $1.10 billion, commissions paid to retailers (reported in deferred policy acquisition costs) of $66 million, other intangible assets (reported in other assets) of $555 million, contractual liability insurance policy premium expenses (reported in other assets) of $205 million, unearned premiums of $389

million and net deferred income tax liability of $138 million. These amounts reflect re-measurement adjustments to the fair value of the opening balance sheet assets and liabilities.
Of the $555 million assigned to other intangible assets, $465 million was attributable to acquired customer relationships and $69 million was assigned to the SquareTrade trade name which is considered to have an indefinite useful life. The amortization expense of intangible assets was $20 million and $23 million for the three months ended June 30, 2018 and 2017, respectively, and was $41 million and $46 million for the six months ended June 30, 2018 and 2017, respectively.

Notes to Condensed Consolidated Financial Statements

Note 4 Reportable Segments
Reportable segments revenue information

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Property-Liability				
Insurance premiums				
Auto	$5,705	$5,438	$11,296	$10,826
Homeowners	1,864	1,815	3,712	3,630
Other personal lines	455	436	899	867
Commercial lines	165	118	301	243
Allstate Protection	8,189	7,807	16,208	15,566
Discontinued Lines and Coverages	—	—	—	—
Total property-liability insurance premiums	8,189	7,807	16,208	15,566
Other revenue	184	181	358	348
Net investment income	353	387	690	695
Realized capital gains and losses	(15)	85	(110)	220
Total Property-Liability	8,711	8,460	17,146	16,829
Service Businesses				
Consumer product protection plans	121	70	244	129
Roadside assistance	68	67	132	135
Finance and insurance products	82	74	162	147
Intersegment premiums and service fees [1]	29	28	58	56
Other revenue	16	17	32	33
Net investment income	6	4	11	7
Realized capital gains and losses	(2)	—	(6)	—
Total Service Businesses	320	260	633	507
Allstate Life				
Traditional life insurance premiums	148	139	294	279
Accident and health insurance premiums	1	1	1	1
Interest-sensitive life insurance contract charges	177	179	358	360
Other revenue	28	28	54	55
Net investment income	130	123	252	243
Realized capital gains and losses	(3)	1	(6)	2
Total Allstate Life	481	471	953	940
Allstate Benefits				
Traditional life insurance premiums	10	9	19	18
Accident and health insurance premiums	245	232	493	464
Interest-sensitive life insurance contract charges	28	28	57	56
Net investment income	19	19	38	36
Realized capital gains and losses	—	—	(2)	—
Total Allstate Benefits	302	288	605	574
Allstate Annuities				
Fixed annuities contract charges	3	3	6	6

Net investment income	293	354	583	643
Realized capital gains and losses	6	(5)	(23)	(7)
Total Allstate Annuities	302	352	566	642
Corporate and Other				
Net investment income	23	10	36	21
Realized capital gains and losses	(11)	—	(12)	—
Total Corporate and Other	12	10	24	21
Intersegment eliminations [1]	(29)	(28)	(58)	(56)
Consolidated revenues	$10,099	$9,813	$19,869	$19,457

[1] Intersegment insurance premiums and service fees are primarily related to Arity and Allstate Roadside Services and are eliminated in the condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

Reportable segments financial performance

($ in millions)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Property-Liability				
Allstate Protection	$419	$270	$1,381	$820
Discontinued Lines and Coverages	(3)	(5)	(6)	(7)
Total underwriting income	416	265	1,375	813
Net investment income	353	387	690	695
Income tax expense on operations	(157)	(207)	(425)	(475)
Realized capital gains and losses, after-tax	(12)	56	(87)	145
Gain on disposition of operations, after-tax	—	6	—	6
Property-Liability net income applicable to common shareholders	600	507	1,553	1,184
Service Businesses				
Adjusted net income (loss)	1	(8)	(4)	(18)
Realized capital gains and losses, after-tax	(1)	—	(4)	—
Amortization of purchased intangible assets, after-tax	(16)	(15)	(32)	(30)
Service Businesses net loss applicable to common shareholders	(16)	(23)	(40)	(48)
Allstate Life				
Adjusted net income	78	63	147	122
Realized capital gains and losses, after-tax	(2)	—	(4)	1
DAC and DSI amortization related to realized capital gains and losses, after-tax	(3)	(3)	(5)	(6)
Allstate Life net income applicable to common shareholders	73	60	138	117
Allstate Benefits				
Adjusted net income	34	25	62	47
Realized capital gains and losses, after-tax	—	—	(2)	—
Allstate Benefits net income applicable to common shareholders	34	25	60	47
Allstate Annuities				
Adjusted net income	44	65	79	94
Realized capital gains and losses, after-tax	5	(3)	(18)	(5)
Valuation changes on embedded derivatives not hedged, after-tax	—	(1)	4	(1)
Gain on disposition of operations, after-tax	1	—	2	2
Allstate Annuities net income applicable to common shareholders	50	61	67	90
Corporate and Other				
Adjusted net loss	(95)	(80)	(185)	(161)
Realized capital gains and losses, after-tax	(9)	—	(10)	—
Business combination expenses, after-tax	—	—	—	(13)
Corporate and Other net loss applicable to common shareholders	(104)	(80)	(195)	(174)
Consolidated net income applicable to common shareholders	$637	$550	$1,583	$1,216

Notes to Condensed Consolidated Financial Statements

Note 5 Investments

Amortized cost, gross unrealized gains and losses and fair value for fixed income securities

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
June 30, 2018				
U.S. government and agencies	$ 3,182	$40	$(16)	$3,206
Municipal	9,454	245	(71)	9,628
Corporate	41,584	590	(759)	41,415
Foreign government	917	18	(9)	926
Asset-backed securities (“ABS”)	1,084	9	(8)	1,085
Residential mortgage-backed securities (“RMBS”)	424	98	(2)	520
Commercial mortgage-backed securities (“CMBS”)	84	6	(2)	88
Redeemable preferred stock	21	2	—	23
Total fixed income securities	$ 56,750	$1,008	$(867)	$56,891
December 31, 2017				
U.S. government and agencies	$ 3,580	$56	$(20)	$3,616
Municipal	8,053	311	(36)	8,328
Corporate	42,996	1,234	(204)	44,026
Foreign government	1,005	27	(11)	1,021
ABS	1,266	13	(7)	1,272
RMBS	480	101	(3)	578
CMBS	124	6	(2)	128
Redeemable preferred stock	21	2	—	23
Total fixed income securities	$ 57,525	$1,750	$(283)	$58,992

Scheduled maturities for fixed income securities

($ in millions)	As of June 30, 2018 Amortized cost	Fair value
Due in one year or less	$4,289	$4,293
Due after one year through five years	28,481	28,384
Due after five years through ten years	15,933	15,673
Due after ten years	6,455	6,848
	55,158	55,198
ABS, RMBS and CMBS	1,592	1,693
Total	$56,750	$56,891

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

Net investment income

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Fixed income securities	$509	$527	$1,017	$1,045

Equity securities	61	49	95	93
Mortgage loans	60	50	111	105
Limited partnership interests [1][2]	173	253	353	373
Short-term investments	19	6	31	12
Other	68	60	134	116
Investment income, before expense	890	945	1,741	1,744
Investment expense	(66)	(48)	(131)	(99)
Net investment income	$824	$897	$1,610	$1,645

(1) Due to the adoption of the recognition and measurement accounting standard, limited partnerships previously reported using the cost method are now reported at fair value with changes in fair value recognized in net investment income.

(2) Includes net investment income of $143 million and $246 million for EMA limited partnership interests and $30 million and $107 million for limited partnership interests carried at fair value for the three and six months ended June 30, 2018, respectively.

Notes to Condensed Consolidated Financial Statements

Realized capital gains and losses by asset type

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Fixed income securities	$(80)	$32	$(123)	$37
Equity securities	74	19	(19)	125
Mortgage loans	2	—	2	—
Limited partnership interests	(43)	31	(33)	71
Derivatives	23	(8)	15	(23)
Other	(1)	7	(1)	5
Realized capital gains and losses	$(25)	$81	$(159)	$215

Realized capital gains and losses by transaction type

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Impairment write-downs [1]	$(4)	$(28)	$(5)	$(71)
Change in intent write-downs [1]	—	(22)	—	(38)
Net OTTI losses recognized in earnings	(4)	(50)	(5)	(109)
Sales [1]	(75)	139	(117)	347
Valuation of equity investments [1]	34	—	(49)	—
Valuation and settlements of derivative instruments	20	(8)	12	(23)
Realized capital gains and losses	$(25)	$81	$(159)	$215

(1) Due to the adoption of the recognition and measurement accounting standard, equity securities are reported at fair value with changes in fair value recognized in valuation of equity investments and are no longer included in impairment write-downs, change in intent write-downs and sales.

Gross gains of $29 million and gross losses of $107 million were realized on sales of fixed income securities during the three months ended June 30, 2018. Gross gains of $141 million and gross losses of $50 million were realized on sales of fixed income and equity securities during the three months ended June 30, 2017.

Gross gains of $74 million and gross losses of $194 million were realized on sales of fixed income securities during the six months ended June 30, 2018. Gross gains of $376 million and gross losses of $125 million were realized on sales of fixed income and equity securities during the six months ended June 30, 2017.

Valuation changes included in net income for investments still held as of June 30, 2018

($ in millions)	Three months ended June 30, 2018	Six months ended June 30, 2018
Equity securities [1]	$ 94	$ 71
Limited partnership interests carried at fair value [1]	28	106
Total valuation changes	$ 122	$ 177

(1)

Investments held at the end of a prior quarter that were sold in the current quarter are not included in the year-to-date amounts shown in the table above; therefore, the sum of the quarterly amounts may not equal the year-to-date amount.

Notes to Condensed Consolidated Financial Statements

OTTI losses by asset type

($ in millions)	Three months ended June 30, 2018			Three months ended June 30, 2017		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$—	$ —	$—	$(1)	$ (2)	$(3)
ABS	(1)	—	(1)	(1)	—	(1)
RMBS	(1)	—	(1)	—	—	—
CMBS	—	—	—	(2)	(1)	(3)
Total fixed income securities	(2)	—	(2)	(4)	(3)	(7)
Equity securities [(1)]	—	—	—	(32)	—	(32)
Limited partnership interests [(1)]	(1)	—	(1)	(9)	—	(9)
Other	(1)	—	(1)	(2)	—	(2)
OTTI losses	$(4)	$ —	$(4)	$(47)	$ (3)	$(50)

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$—	$ —	$—	$(1)	$ (2)	$(3)
Corporate	—	—	—	(9)	3	(6)
ABS	(1)	—	(1)	(1)	—	(1)
RMBS	(1)	—	(1)	(1)	(3)	(4)
CMBS	—	(1)	(1)	(8)	2	(6)
Total fixed income securities	(2)	(1)	(3)	(20)	—	(20)
Equity securities [(1)]	—	—	—	(68)	—	(68)
Limited partnership interests [(1)]	(1)	—	(1)	(16)	—	(16)
Other	(1)	—	(1)	(5)	—	(5)
OTTI losses	$(4)	$ (1)	$(5)	$(109)	$ —	$(109)

(1) Due to the adoption of the recognition and measurement accounting standard, equity securities and limited partnerships previously reported using the cost method are now reported at fair value with changes in fair value recognized in net income and are no longer included in the table above.

The total amount of OTTI losses included in AOCI at the time of impairment for fixed income securities, which were not included in earnings, are presented in the following table. The amounts exclude $197 million

and $208 million as of June 30, 2018 and December 31, 2017, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

OTTI losses included in AOCI at the time of impairment for fixed income securities

($ in millions)	June 30, 2018	December 31, 2017
Municipal	$ (5)	$ (5)
ABS	(12)	(15)
RMBS	(71)	(77)

CMBS	(4)	(4)
Total	$ (92)	$ (101)

Rollforward of the cumulative credit losses recognized in earnings for fixed income securities held as of June 30,

($ in millions)	Three months ended		Six months ended June 30,	
	2018	2017	2018	2017
Beginning balance	$(212)	$(294)	$(226)	$(318)
Additional credit loss for securities previously other-than-temporarily impaired	(1)	(6)	(2)	(13)
Additional credit loss for securities not previously other-than-temporarily impaired	(1)	(1)	(1)	(7)
Reduction in credit loss for securities disposed or collected	7	19	22	56
Change in credit loss due to accretion of increase in cash flows	1	1	1	1
Ending balance	$(206)	$(281)	$(206)	$(281)

The Company uses its best estimate of future cash flows expected to be collected from the fixed income

security, discounted at the security’s original or current effective rate, as appropriate, to calculate a recovery

Notes to Condensed Consolidated Financial Statements

value and determine whether a credit loss exists. The determination of cash flow estimates is inherently subjective and methodologies may vary depending on facts and circumstances specific to the security. All reasonably available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable assumptions and forecasts, are considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, foreign exchange rates, the financial condition and future earnings potential of the issue or issuer, expected defaults, expected recoveries, the value of underlying collateral, vintage, geographic concentration of underlying collateral, available reserves or escrows, current subordination levels, third party guarantees and other credit enhancements. Other information, such as industry analyst reports and forecasts, sector credit ratings,

financial condition of the bond insurer for insured fixed income securities, and other market data relevant to the realizability of contractual cash flows, may also be considered. The estimated fair value of collateral will be used to estimate recovery value if the Company determines that the security is dependent on the liquidation of collateral for ultimate settlement. If the estimated recovery value is less than the amortized cost of the security, a credit loss exists and an OTTI for the difference between the estimated recovery value and amortized cost is recorded in earnings. The portion of the unrealized loss related to factors other than credit remains classified in AOCI. If the Company determines that the fixed income security does not have sufficient cash flow or other information to estimate a recovery value for the security, the Company may conclude that the entire decline in fair value is deemed to be credit related and the loss is recorded in earnings.

Unrealized net capital gains and losses included in AOCI

($ in millions)	Fair	Gross unrealized		Unrealized net
June 30, 2018	value	Gains	Losses	gains (losses)
Fixed income securities	$56,891	$1,008	$(867)	$ 141
Short-term investments	3,123	—	—	—
Derivative instruments	—	—	(3)	(3)
EMA limited partnerships [1]				3
Unrealized net capital gains and losses, pre-tax				141
Amounts recognized for:				
Insurance reserves [2]				—
DAC and DSI [3]				(72)
Amounts recognized				(72)
Deferred income taxes				(15)
Unrealized net capital gains and losses, after-tax				$ 54

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

(2) The insurance reserves adjustment represents the amount by which the reserve balance would increase if the net unrealized gains in the applicable product portfolios were realized and reinvested at lower interest rates, resulting in a premium deficiency. This adjustment primarily relates to structured settlement annuities with life contingencies (a type of immediate fixed annuities).

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

Unrealized net capital gains and losses included in AOCI

($ in millions)	Fair	Gross unrealized		Unrealized net
December 31, 2017	value	Gains	Losses	gains (losses)
Fixed income securities	$58,992	$1,750	$(283)	$ 1,467
Equity securities	6,621	1,172	(12)	1,160
Short-term investments	1,944	—	—	—

Derivative instruments [1]	2	2	(3)	(1)
EMA limited partnerships				1
Unrealized net capital gains and losses, pre-tax				2,627
Amounts recognized for:				
Insurance reserves				(315)
DAC and DSI				(196)
Amounts recognized				(511)
Deferred income taxes				(454)
Unrealized net capital gains and losses, after-tax				$ 1,662

(1) Included in the fair value of derivative instruments is $2 million classified as liabilities.

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Change in unrealized net capital gains and losses

($ in millions)	Six months ended June 30, 2018
Fixed income securities	$(1,326)
Equity securities [1]	—
Derivative instruments	(2)
EMA limited partnerships	2
Total	(1,326)
Amounts recognized for:	
Insurance reserves	315
DAC and DSI	124
Amounts recognized	439
Deferred income taxes	189
Decrease in unrealized net capital gains and losses, after-tax	$(698)

[1] Upon adoption of the recognition and measurement accounting standard on January 1, 2018, $1.16 billion of pre-tax unrealized net capital gains for equity securities were reclassified from AOCI to retained income. See Note 1 of the condensed consolidated financial statements.

Portfolio monitoring

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

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

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

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

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

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Gross unrealized losses and fair value by type and length of time held in a continuous unrealized loss position

($ in millions)	Less than 12 months			12 months or more			Total
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	Total unrealized losses
June 30, 2018							
Fixed income securities							
U.S. government and agencies	67	$2,022	$ (15)	11	$55	$ (1)	$ (16)
Municipal	2,456	4,039	(57)	151	268	(14)	(71)
Corporate	1,888	24,450	(603)	240	2,878	(156)	(759)
Foreign government	15	84	—	27	448	(9)	(9)
ABS	76	505	(5)	8	13	(3)	(8)
RMBS	143	35	(1)	181	40	(1)	(2)
CMBS	2	11	—	5	10	(2)	(2)
Redeemable preferred stock	1	—	—	—	—	—	—
Total fixed income securities	4,648	$31,146	$ (681)	623	$3,712	$ (186)	$ (867)
Investment grade fixed income securities	4,218	$27,970	$ (573)	575	$3,537	$ (168)	$ (741)
Below investment grade fixed income securities	430	3,176	(108)	48	175	(18)	(126)
Total fixed income securities	4,648	$31,146	$ (681)	623	$3,712	$ (186)	$ (867)
December 31, 2017							
Fixed income securities							
U.S. government and agencies	66	$2,829	$ (18)	18	$182	$ (2)	$ (20)
Municipal	1,756	3,143	(24)	165	349	(12)	(36)
Corporate	781	11,616	(102)	208	3,289	(102)	(204)
Foreign government	45	580	(10)	5	44	(1)	(11)
ABS	57	476	(3)	9	34	(4)	(7)
RMBS	118	35	(1)	181	50	(2)	(3)
CMBS	2	1	—	6	23	(2)	(2)
Redeemable preferred stock	1	—	—	—	—	—	—
Total fixed income securities	2,826	18,680	(158)	592	3,971	(125)	(283)
Equity securities	127	369	(12)	2	—	—	(12)
Total fixed income and equity securities	2,953	$19,049	$ (170)	594	$3,971	$ (125)	$ (295)
Investment grade fixed income securities	2,706	$17,668	$ (134)	535	$3,751	$ (98)	$ (232)
Below investment grade fixed income securities	120	1,012	(24)	57	220	(27)	(51)
Total fixed income securities	2,826	$18,680	$ (158)	592	$3,971	$ (125)	$ (283)

As of June 30, 2018, $851 million of the $867 million unrealized losses are related to securities with an unrealized loss position less than 20% of amortized cost, the degree of which suggests that these securities do not pose a high risk of being other-than-temporarily impaired. Of the $851 million, $730 million are related to unrealized losses on investment grade fixed income securities. Of the remaining $121 million, $107 million have been in an unrealized loss position for less than 12 months. Investment grade is defined as a security having a rating of Aaa, Aa, A or Baa from Moody’s, a rating of AAA, AA, A or BBB from S&P Global Ratings (“S&P”), a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third party rating. Unrealized losses on investment grade securities are principally related to an increase in market yields which may include increased risk-free interest rates and/or wider credit spreads since the time of initial purchase. The unrealized losses are expected to reverse as the securities approach maturity.

As of June 30, 2018, the remaining $16 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost. Investment grade fixed income securities comprising $11 million of these unrealized losses were evaluated based on factors such as discounted cash flows and the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations. Of the $16 million, $5 million are related to below investment grade fixed income securities. Of these amounts, $3 million are related to below investment grade fixed income securities that had been in an unrealized loss position greater than or equal to 20% of amortized cost for a period of twelve or more consecutive months as of June 30, 2018.

ABS, RMBS and CMBS in an unrealized loss position were evaluated based on actual and projected collateral losses relative to the securities' positions in the respective securitization trusts, security specific expectations of cash flows, and credit ratings. This evaluation also takes into consideration credit enhancement, measured in terms of (i) subordination

Notes to Condensed Consolidated Financial Statements

from other classes of securities in the trust that are contractually obligated to absorb losses before the class of security the Company owns, and (ii) the expected impact of other structural features embedded in the securitization trust beneficial to the class of securities the Company owns, such as overcollateralization and excess spread. Municipal bonds in an unrealized loss position were evaluated based on the underlying credit quality of the primary obligor, obligation type and quality of the underlying assets.

As of June 30, 2018, the Company has not made the decision to sell and it is not more likely than not the Company will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis.

Limited partnerships

Investments in limited partnership interests include interests in private equity funds, real estate funds and other funds. As of June 30, 2018 and December 31, 2017, the carrying value of EMA limited partnerships totaled $6.03 billion and $5.41 billion, respectively, and limited partnerships carried at fair value as of June 30, 2018, while at cost method as of December 31, 2017, totaled $1.65 billion and $1.33 billion, respectively.

Mortgage loans

Mortgage loans are evaluated for impairment on a specific loan basis through a quarterly credit monitoring process and review of key credit quality indicators. Mortgage loans are considered impaired when it is probable that the Company will not collect the contractual principal and interest. Valuation allowances are established for impaired loans to

reduce the carrying value to the fair value of the collateral less costs to sell or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate. Impaired mortgage loans may not have a valuation allowance when the fair value of the collateral less costs to sell is higher than the carrying value. Valuation allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell or present value of the loan's expected future repayment cash flows. Mortgage loans are charged off against their corresponding valuation allowances when there is no reasonable expectation of recovery. The impairment evaluation is non-statistical in respect to the aggregate portfolio but considers facts and circumstances attributable to each loan. It is not considered probable that additional impairment losses, beyond those identified on a specific loan basis, have been incurred as of June 30, 2018.

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

Debt service coverage ratio is considered a key credit quality indicator when mortgage loans are evaluated for impairment. Debt service coverage ratio represents the amount of estimated cash flows from the property available to the borrower to meet principal and interest payment obligations. Debt service coverage ratio estimates are updated annually or more frequently if conditions are warranted based on the Company's credit monitoring process.

Carrying value of non-impaired mortgage loans summarized by debt service coverage ratio distribution

($ in millions)	June 30, 2018			December 31, 2017		
Debt service coverage ratio distribution	Fixed rate mortgage loans	Variable rate mortgage loans	Total	Fixed rate mortgage loans	Variable rate mortgage loans	Total
Below 1.0	$3	$ 30	$33	$3	$ —	$3
1.0 - 1.25	324	—	324	345	—	345
1.26 - 1.50	1,164	—	1,164	1,141	30	1,171
Above 1.50	2,909	101	3,010	2,949	62	3,011
Total non-impaired mortgage loans	$4,400	$ 131	$4,531	$4,438	$ 92	$4,530

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

Net carrying value of impaired mortgage loans

($ in millions)	June 30, 2018	December 31, 2017
Impaired mortgage loans with a valuation allowance	$ 4	$ 4
Impaired mortgage loans without a valuation allowance	—	—
Total impaired mortgage loans	$ 4	$ 4
Valuation allowance on impaired mortgage loans	$ 3	$ 3

The valuation allowance on impaired loans had no activity for the three months and six months ended

June 30, 2018 and 2017. The average balance of impaired loans was $4 million and $5 million for the six months ended June 30, 2018 and 2017, respectively.

Payments on all mortgage loans were current as of June 30, 2018 and December 31, 2017.

Short-term investments

Short-term investments, including commercial paper, U.S. Treasury bills, money market funds and other short-term investments, are carried at fair value. As of June 30, 2018 and December 31, 2017, the fair value of short-term investments totaled $3.12 billion and $1.94 billion, respectively.

Other investments

Other investments primarily consist of bank loans, policy loans, real estate, agent loans and derivatives. Bank loans are primarily senior secured corporate loans and are carried at amortized cost. Policy loans are carried at unpaid principal balances. Real estate is carried at cost less accumulated depreciation. Agent loans are loans issued to exclusive Allstate agents and are carried at unpaid principal balances, net of valuation allowances and unamortized deferred fees or costs. Derivatives are carried at fair value.

Other investments by asset type

($ in millions)	June 30, 2018	December 31, 2017
Bank loans	$ 1,702	$ 1,702
Policy loans	894	905
Real estate	769	632
Agent loans	570	538
Other	190	195
Total	$ 4,125	$ 3,972

Note 6 Fair Value of Assets and Liabilities

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

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

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

(a) Quoted prices for similar assets or liabilities in active markets;

(b) Quoted prices for identical or similar assets or liabilities in markets that are not active; or

(c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

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

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

current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments.
The Company is responsible for the determination of fair value and the supporting assumptions and methodologies. The Company gains assurance that assets and liabilities are appropriately valued through the execution of various processes and controls designed to ensure the overall reasonableness and consistent application of valuation methodologies, including inputs and assumptions, and compliance with accounting standards. For fair values received from third parties or internally estimated, the Company's processes and controls are designed to ensure that the valuation methodologies are appropriate and consistently applied, the inputs and assumptions are reasonable and consistent with the objective of determining fair value, and the fair values are accurately recorded. For example, on a continuing basis, the Company assesses the reasonableness of individual fair values that have stale security prices or

that exceed certain thresholds as compared to previous fair values received from valuation service providers or brokers or derived from internal models. The Company performs procedures to understand and assess the methodologies, processes and controls of valuation service providers. In addition, the Company may validate the reasonableness of fair values by comparing information obtained from valuation service providers or brokers to other third party valuation sources for selected securities. The Company performs ongoing price validation procedures such as back-testing of actual sales, which corroborate the various inputs used in internal models to market observable data. When fair value determinations are expected to be more variable, the Company validates them through reviews by members of management who have relevant expertise and who are independent of those charged with executing investment transactions.

The Company has two types of situations where investments are classified as Level 3 in the fair value hierarchy. The first is where specific inputs significant to the fair value estimation models are not market observable. This primarily occurs in the Company's use of broker quotes to value certain securities where the inputs have not been corroborated to be market observable, and the use of valuation models that use significant non-market observable inputs. The second situation where the Company classifies securities in Level 3 is where quotes continue to be received from independent third-party valuation service providers and all significant inputs are market observable; however, there has been a significant decrease in the volume and level of activity for the asset when compared to normal market activity such that the degree of market observability has declined to a point where categorization as a Level 3 measurement is considered appropriate. The indicators considered in determining whether a significant decrease in the volume and level of activity for a specific asset has occurred include the level of new issuances in the primary market, trading volume in the secondary market, the level of credit spreads over historical levels, applicable bid-ask spreads, and price consensus among market participants and other pricing sources.

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

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

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

Level 1 measurements

- Fixed income securities: Comprise certain U.S. Treasury fixed income securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.
- Equity securities: Comprise actively traded, exchange-listed equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.
- Short-term: Comprise U.S. Treasury bills valued based on unadjusted quoted prices for identical assets in active markets that the Company can access and actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access.
- Separate account assets: Comprise actively traded mutual funds that have daily quoted net asset values that are readily determinable for identical assets that the Company can access. Net asset values for the actively traded mutual funds in which the separate account assets are invested are obtained daily from the fund managers.

Level 2 measurements

- Fixed income securities:

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

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

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

Notes to Condensed Consolidated Financial Statements

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

- Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that are not active.
- Short-term: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. For certain short-term investments, amortized cost is used as the best estimate of fair value.
- Other investments: Free-standing exchange listed derivatives that are not actively traded are valued based on quoted prices for identical instruments in markets that are not active.

Over-the-counter ("OTC") derivatives, including interest rate swaps, foreign currency swaps, total return swaps, foreign exchange forward contracts, certain options and certain credit default swaps, are valued using models that rely on inputs such as interest rate yield curves, implied volatilities, index price levels, currency rates, and credit spreads that are observable for substantially the full term of the contract. The valuation techniques underlying the models are widely accepted in the financial services industry and do not involve significant judgment.
Level 3 measurements

- Fixed income securities:

Municipal: Comprise municipal bonds that are not rated by third party credit rating agencies. The primary inputs to the valuation of these municipal bonds include quoted prices for identical or similar

assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements, contractual cash flows, benchmark yields and credit spreads. Also included are municipal bonds valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and municipal bonds in default valued based on the present value of expected cash flows.
Corporate - public and Corporate - privately placed: Primarily valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. Other inputs include an interest rate yield curve, as well as published credit spreads for similar assets that incorporate the credit quality and industry sector of the issuer.
ABS - CDO, ABS - consumer and other, RMBS and CMBS: Valued based on non-binding broker quotes received from brokers who are familiar with the investments and where the inputs have not been corroborated to be market observable.

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

based on the contractual elements of embedded derivatives, projected option cost and applicable market data, such as interest rate yield curves and equity index volatility assumptions. These are categorized as Level 3 as a result of the significance of non-market observable inputs.

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

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

Notes to Condensed Consolidated Financial Statements

Investments excluded from the fair value hierarchy

Limited partnerships carried at fair value, which do not have readily determinable fair values, use NAV provided by the investees and are excluded from the fair value hierarchy. These investments are generally not redeemable by the investees and generally cannot

be sold without approval of the general partner. We receive distributions of income and from liquidation of the underlying assets of the investees over the life of these investments, typically 10-12 years. As of June 30, 2018, the Company has commitments to invest $866 million in these limited partnership interests.

Assets and liabilities measured at fair value

($ in millions)	As of June 30, 2018 Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Total
Assets					
Fixed income securities:					
U.S. government and agencies	$2,725	$481	$ —		$3,206
Municipal	—	9,522	106		9,628
Corporate - public	—	30,594	76		30,670
Corporate - privately placed	—	10,550	195		10,745
Foreign government	—	926	—		926
ABS - CDO	—	378	9		387
ABS - consumer and other	—	625	73		698
RMBS	—	520	—		520
CMBS	—	62	26		88
Redeemable preferred stock	—	23	—		23
Total fixed income securities	2,725	53,681	485		56,891
Equity securities	6,240	357	291		6,888
Short-term investments	1,276	1,847	—		3,123
Other investments: Free-standing derivatives	—	126	1	$ (23)	104
Separate account assets	3,271	—	—		3,271
Total recurring basis assets	13,512	56,011	777	(23)	70,277
Non-recurring basis [1]	—	—	8		8
Total assets at fair value	$13,512	$56,011	$ 785	$ (23)	$70,285
% of total assets at fair value	19.2 %	79.7 %	1.1 %	— %	100 %
Investments reported at NAV					1,650
Total					$71,935
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$—	$—	$ (260)		$(260)
Other liabilities: Free-standing derivatives	—	(46)	—	$ 2	(44)
Total liabilities at fair value	$—	$(46)	$ (260)	$ 2	$(304)
% of total liabilities at fair value	— %	15.1 %	85.5 %	(0.6)%	100 %

(1)

Includes $2 million of limited partnership interests and $6 million of other assets written-down to fair value in connection with recognizing OTTI losses.

Notes to Condensed Consolidated Financial Statements

Assets and liabilities measured at fair value

($ in millions)	As of December 31, 2017 Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Total
Assets					
Fixed income securities:					
U.S. government and agencies	$3,079	$537	$ —		$3,616
Municipal	—	8,227	101		8,328
Corporate - public	—	31,963	108		32,071
Corporate - privately placed	—	11,731	224		11,955
Foreign government	—	1,021	—		1,021
ABS - CDO	—	480	99		579
ABS - consumer and other	—	645	48		693
RMBS	—	578	—		578
CMBS	—	102	26		128
Redeemable preferred stock	—	23	—		23
Total fixed income securities	3,079	55,307	606		58,992
Equity securities	6,032	379	210		6,621
Short-term investments	264	1,660	20		1,944
Other investments: Free-standing derivatives	—	132	1	$ (6)	127
Separate account assets	3,444	—	—		3,444
Total recurring basis assets	12,819	57,478	837	(6)	71,128
Non-recurring basis [(1)]	—	—	3		3
Total assets at fair value	$12,819	$57,478	$ 840	$ (6)	$71,131
% of total assets at fair value	18.0 %	80.8 %	1.2 %	— %	100 %
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$—	$—	$ (286)		$(286)
Other liabilities: Free-standing derivatives	(1)	(83)	—	$ 14	(70)
Total liabilities at fair value	$(1)	$(83)	$ (286)	$ 14	$(356)
% of total liabilities at fair value	0.3 %	23.3 %	80.3 %	(3.9)%	100 %

(1) Includes $3 million of limited partnership interests written-down to fair value in connection with recognizing OTTI losses.

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements

($ in millions)	Fair value	Valuation technique	Unobservable input	Range	Weighted average
June 30, 2018					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$(231)	Stochastic cash flow model	Projected option cost	1.0 - 2.2%	1.74%
December 31, 2017					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$(252)	Stochastic cash flow model	Projected option cost	1.0 - 2.2%	1.74%

The embedded derivatives are equity-indexed and forward starting options in certain life and annuity products that provide customers with interest crediting rates based on the performance of the S&P 500. If the projected option cost increased (decreased), it would result in a higher (lower) liability fair value.

As of June 30, 2018 and December 31, 2017, Level 3 fair value measurements of fixed income securities total $485 million and $606 million, respectively, and include $251 million and $271 million, respectively, of securities valued based on non-binding broker quotes where the inputs have not been corroborated to be

market observable and $57 million and $58 million, respectively, of municipal fixed income securities that are not rated by third party credit rating agencies. The Company does not develop the unobservable inputs used in measuring fair value; therefore, these are not included in the table above. However, an increase (decrease) in credit spreads for fixed income securities valued based on non-binding broker quotes would result in a lower (higher) fair value, and an increase (decrease) in the credit rating of municipal bonds that are not rated by third party credit rating agencies would result in a higher (lower) fair value.

Notes to Condensed Consolidated Financial Statements

Rollforward of Level 3 assets and liabilities held at fair value during the three months period June 30, 2018

($ in millions)	Balance as of March 31, 2018	Total gains (losses) included in: Net income [1]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 96	$—	$ —	$ —	$ —
Corporate - public	77	—	(1)	—	—
Corporate - privately placed	215	(2)	—	20	(10)
ABS - CDO	10	—	—	—	—
ABS - consumer and other	62	—	—	5	(16)
CMBS	27	—	—	—	—
Total fixed income securities	487	(2)	(1)	25	(26)
Equity securities	242	13	—	—	—
Short-term investments	—	—	—	—	—
Free-standing derivatives, net	1	—	—	—	—
Total recurring Level 3 assets	$ 730	$11	$ (1)	$ 25	$ (26)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (262)	$1	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (262)	$1	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of June 30, 2018
Assets					
Fixed income securities:					
Municipal	$ 10	$—	$ —	$ —	$ 106
Corporate - public	—	—	—	—	76
Corporate - privately placed	2	(3)	—	(27)	195
ABS - CDO	—	—	—	(1)	9
ABS - consumer and other	30	(7)	—	(1)	73
CMBS	—	—	—	(1)	26
Total fixed income securities	42	(10)	—	(30)	485
Equity securities	49	(13)	—	—	291
Short-term investments	—	—	—	—	—
Free-standing derivatives, net	—	—	—	—	1 [2]
Total recurring Level 3 assets	$ 91	$(23)	$ —	$ (30)	$ 777
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$—	$ —	$ 1	$ (260)
Total recurring Level 3 liabilities	$ —	$—	$ —	$ 1	$ (260)

(1) The effect to net income totals $12 million and is reported in the Condensed Consolidated Statements of Operations as follows: $11 million in realized capital gains and losses and $1 million in life contract benefits.

(2) Comprises $1 million of assets.

Notes to Condensed Consolidated Financial Statements

Rollforward of Level 3 assets and liabilities held at fair value during the six months period June 30, 2018

($ in millions)	Balance as of December 31, 2017	Total gains (losses) included in: Net income [(1)]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 101	$ 1	$ (1)	$ —	$ (2)
Corporate - public	108	—	(2)	4	(5)
Corporate - privately placed	224	(2)	(1)	20	(29)
ABS - CDO	99	—	—	—	(89)
ABS - consumer and other	48	—	1	10	(16)
CMBS	26	—	—	—	—
Total fixed income securities	606	(1)	(3)	34	(141)
Equity securities	210	16	—	—	—
Short-term investments	20	—	—	—	—
Free-standing derivatives, net	1	—	—	—	—
Total recurring Level 3 assets	$ 837	$ 15	$ (3)	$ 34	$ (141)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (286)	$ 24	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (286)	$ 24	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of June 30, 2018
Assets					
Fixed income securities:					
Municipal	$ 10	$ (2)	$ —	$ (1)	$ 106
Corporate - public	—	(26)	—	(3)	76
Corporate - privately placed	15	(3)	—	(29)	195
ABS - CDO	—	—	—	(1)	9
ABS - consumer and other	75	(42)	—	(3)	73
CMBS	1	—	—	(1)	26
Total fixed income securities	101	(73)	—	(38)	485
Equity securities	79	(14)	—	—	291
Short-term investments	25	(45)	—	—	—
Free-standing derivatives, net	—	—	—	—	1 [(2)]
Total recurring Level 3 assets	$ 205	$ (132)	$ —	$ (38)	$ 777
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (1)	$ 3	$ (260)
Total recurring Level 3 liabilities	$ —	$ —	$ (1)	$ 3	$ (260)

(1)

The effect to net income totals $39 million and is reported in the Condensed Consolidated Statements of Operations as follows: $15 million in realized capital gains and losses, $19 million in interest credited to contractholder funds and $5 million in life contract benefits.

(2) Comprises $1 million of assets.

Notes to Condensed Consolidated Financial Statements

Rollforward of Level 3 assets and liabilities held at fair value during the three months period June 30, 2017

($ in millions)	Balance as of March 31, 2017	Total gains (losses) included in: Net income [1]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 124	$ (2)	$ 5	$ —	$ —
Corporate - public	60	—	—	—	—
Corporate - privately placed	263	6	(7)	30	—
ABS - CDO	147	—	—	3	(122)
ABS - consumer and other	80	—	—	—	(5)
CMBS	25	—	—	—	—
Total fixed income securities	699	4	(2)	33	(127)
Equity securities	170	3	3	—	—
Short-term investments	35	—	—	—	—
Free-standing derivatives, net	(1)	2	—	—	—
Total recurring Level 3 assets	$ 903	$ 9	$ 1	$ 33	$ (127)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (286)	$ —	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (286)	$ —	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of June 30, 2017
Assets					
Fixed income securities:					
Municipal	$ 5	$ (18)	$ —	$ —	$ 114
Corporate - public	(1)	1	—	—	60
Corporate - privately placed	4	(29)	—	(1)	266
ABS - CDO	65	—	—	(2)	91
ABS - consumer and other	48	—	—	(3)	120
CMBS	—	—	—	(1)	24
Total fixed income securities	121	(46)	—	(7)	675
Equity securities	2	(12)	—	—	166
Short-term investments	5	(40)	—	—	—
Free-standing derivatives, net	—	—	—	—	1 [2]
Total recurring Level 3 assets	$ 128	$ (98)	$ —	$ (7)	$ 842
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ —	$ 1	$ (285)
Total recurring Level 3 liabilities	$ —	$ —	$ —	$ 1	$ (285)

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

(2) Comprises $1 million of assets.

Notes to Condensed Consolidated Financial Statements

Rollforward of Level 3 assets and liabilities held at fair value during the six months period June 30, 2017

($ in millions)	Balance as of December 31, 2016	Total gains (losses) included in: Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 125	$ (1)	$ 6	$ —	$ (1)
Corporate - public	78	—	—	—	(16)
Corporate - privately placed	263	6	(2)	30	—
ABS - CDO	27	—	2	30	(122)
ABS - consumer and other	42	—	—	—	(7)
RMBS	1	—	—	—	—
CMBS	22	—	—	—	—
Total fixed income securities	558	5	6	60	(146)
Equity securities	163	13	3	—	(3)
Short-term investments	15	—	—	—	—
Free-standing derivatives, net	(2)	3	—	—	—
Other assets	1	(1)	—	—	—
Total recurring Level 3 assets	$ 735	$ 20	$ 9	$ 60	$ (149)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (290)	$ 3	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (290)	$ 3	$ —	$ —	$ —

	Purchases	Sales	Issues	Settlements	Balance as of June 30, 2017
Assets					
Fixed income securities:					
Municipal	$ 5	$ (20)	$ —	$ —	$ 114
Corporate - public	(1)	1	—	(2)	60
Corporate - privately placed	4	(29)	—	(6)	266
ABS - CDO	160	—	—	(6)	91
ABS - consumer and other	89	—	—	(4)	120
RMBS	—	—	—	(1)	—
CMBS	3	—	—	(1)	24
Total fixed income securities	260	(48)	—	(20)	675
Equity securities	3	(13)	—	—	166
Short-term investments	25	(40)	—	—	—
Free-standing derivatives, net	—	—	—	—	1 (2)
Other assets	—	—	—	—	—
Total recurring Level 3 assets	$ 288	$ (101)	$ —	$ (20)	$ 842
Liabilities					
	$ —	$—	$ (1)	$ 3	$ (285)

Contractholder funds: Derivatives embedded in life and annuity contracts					
Total recurring Level 3 liabilities	$ —	$—	$ (1)	$ 3	$ (285)

(1) The effect to net income totals $23 million and is reported in the Condensed Consolidated Statements of Operations as follows: $7 million in realized capital gains and losses, $14 million in net investment income, $(6) million in interest credited to contractholder funds and $8 million in life contract benefits.

(2) Comprises $1 million of assets.

Transfers between level categorizations may occur due to changes in the availability of market observable inputs, which generally are caused by changes in market conditions such as liquidity, trading volume or bid-ask spreads. Transfers between level categorizations may also occur due to changes in the valuation source. Transfers in and out of level categorizations are reported as having occurred at the beginning of the quarter in which the transfer

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

There were no transfers between Level 1 and Level 2 during the three months and six months ended June 30, 2018 or 2017.

Notes to Condensed Consolidated Financial Statements

Transfers into Level 3 during the three months and six months ended June 30, 2018 and 2017 included situations where a fair value quote was not provided by the Company's independent third-party valuation service provider and as a result the price was stale or had been replaced with a broker quote where the inputs had not been corroborated to be market observable resulting in the security being classified as Level 3. Transfers out of Level 3 during the three months and six months ended June 30, 2018 and 2017

included situations where a broker quote was used in the prior period and a fair value quote became available from the Company's independent third-party valuation service provider in the current period. A quote utilizing the new pricing source was not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities were not significant.

Valuation changes included in net income for Level 3 assets and liabilities held as of

($ in millions)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Assets				
Fixed income securities:				
Municipal	$—	$(3)	$—	$(3)
Equity securities	13	4	15	14
Free-standing derivatives, net	—	2	—	3
Other assets	—	—	—	(1)
Total recurring Level 3 assets	$13	$3	$15	$13
Liabilities				
Contractholder funds: Derivatives embedded in life and annuity contracts	$1	$—	$24	$3
Total recurring Level 3 liabilities	$1	$—	$24	$3

The amounts in the table above represent gains and losses related to valuation changes included in net income for the period of time that the asset or liability was held and determined to be in Level 3. These gains and losses total $14 million for the three months ended June 30, 2018 and are reported as follows: $13 million in realized capital gains and losses and $1 million in life contract benefits. These gains and losses total $3 million for the three months ended June 30, 2017 and are reported as follows: $(1) million in realized capital gains and losses, $4 million in net investment income, $(1) million in interest credited to contractholder funds

and $1 million in life contract benefits. These gains and losses total $39 million for the six months ended June 30, 2018 and are reported as follows: $15 million in realized capital gains and losses, $19 million in interest credited to contractholder funds and $5 million in life contract benefits. These gains and losses total $16 million for the six months ended June 30, 2017 and are reported as follows: $14 million in net investment income, $(6) million in interest credited to contractholder funds and $8 million in life contract benefits.

Financial assets

Carrying values and fair value estimates of financial instruments not carried at fair value as of

($ in millions)	June 30, 2018 Carrying value	Fair value	December 31, 2017 Carrying value	Fair value
Mortgage loans	$4,535	$4,582	$4,534	$4,732
Bank loans	1,702	1,704	1,702	1,704

Agent loans	570	562	538	536

The fair value measurements for mortgage loans, bank loans and agent loans are categorized as Level 3.

Financial liabilities

Carrying values and fair value estimates of financial instruments not carried at fair value as of

($ in millions)	June 30, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	$9,806	$10,238	$10,367	$11,071
Long-term debt	6,448	6,890	6,350	7,199
Liability for collateral	1,665	1,665	1,124	1,124

The fair value measurement is Level 3 for contractholder funds on investment contracts and Level 2 for long-term debt and liability for collateral.

Notes to Condensed Consolidated Financial Statements

Note 7 Derivative Financial Instruments

The Company uses derivatives for risk reduction and to increase investment portfolio returns through asset replication. Risk reduction activity is focused on managing the risks with certain assets and liabilities arising from the potential adverse impacts from changes in risk-free interest rates, changes in equity market valuations, increases in credit spreads and foreign currency fluctuations.

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

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

Asset-liability management is a risk management strategy that is principally employed by Allstate Life and Allstate Annuities to balance the respective interest-rate sensitivities of its assets and liabilities. Depending upon the attributes of the assets acquired and liabilities issued, derivative instruments such as interest rate swaps, caps, swaptions and futures are utilized to change the interest rate characteristics of existing assets and liabilities to ensure the relationship is maintained within specified ranges and to reduce exposure to rising or falling interest rates. Fixed income index total return swaps are used to offset valuation losses in the portfolio during periods of declining market values. Credit default swaps are typically used to mitigate the credit risk within the Allstate Life and Allstate Annuities fixed income portfolios. Futures and options are used for hedging the equity exposure contained in equity indexed life and annuity product contracts that offer equity returns to contractholders. In addition, the Company uses

equity index total return swaps, options and futures to offset valuation losses in the equity portfolio during periods of declining equity market values. Foreign currency swaps and forwards are primarily used to reduce the foreign currency risk associated with holding foreign currency denominated investments.

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

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

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

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive or pay to terminate the derivative contracts at the reporting date. The carrying value amounts for OTC derivatives are further adjusted for the effects, if any, of enforceable master netting agreements and are presented on a net basis, by counterparty agreement, in the Condensed Consolidated Statements of Financial Position.

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

Non-hedge accounting is generally used for “portfolio” level hedging strategies where the terms of the individual hedged items do not meet the strict homogeneity requirements to permit the application of hedge accounting. For non-hedge derivatives, net income includes changes in fair value and accrued

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periodic settlements, when applicable. With the exception of non-hedge derivatives used for asset replication and non-hedge embedded derivatives, all of the Company's derivatives are evaluated for their

ongoing effectiveness as either accounting hedge or non-hedge derivative financial instruments on at least a quarterly basis.

Summary of the volume and fair value positions of derivative instruments as of June 30, 2018

($ in millions, except number of contracts)	Balance sheet location	Volume [(1)] Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Asset derivatives						
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other investments	$13	n/a	$—	$—	$—
Financial options	Other investments	—	718	—	—	—
Equity and index contracts						
Options	Other investments	—	54,180	98	98	—
Financial futures	Other assets	—	1,130	—	—	—
Total return index contracts						
Total return swap agreements – fixed income	Other investments	44	n/a	—	—	—
Total return swap agreements – equity index	Other investments	147	n/a	1	1	—
Foreign currency contracts						
Foreign currency forwards	Other investments	81	n/a	—	1	(1)
Credit default contracts						
Credit default swaps – buying protection	Other investments	102	n/a	(1)	—	(1)
Credit default swaps – selling protection	Other investments	250	n/a	4	4	—
Other contracts						
Other	Other assets	3	n/a	—	—	—
Total asset derivatives		$640	56,028	$102	$104	$(2)
Liability derivatives						
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other liabilities & accrued expenses	$28	n/a	$1	$1	$—
Financial options	Other liabilities & accrued expenses	—	7,022	—	—	—
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	1,032	54,447	(19)	16	(35)
Total return index contracts						
Total return swap agreements – fixed income	Other liabilities & accrued expenses	7	n/a	—	—	—
Total return swap agreements – equity index	Other liabilities & accrued expenses	22	n/a	—	—	—
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	384	n/a	3	5	(2)

Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	205	n/a	(19)	—	(19)
Guaranteed withdrawal benefits	Contractholder funds	252	n/a	(10)	—	(10)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,774	n/a	(231)	—	(231)
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	331	n/a	(6)	1	(7)
Credit default swaps – selling protection	Other liabilities & accrued expenses	15	n/a	—	—	—
Total liability derivatives		4,050	61,469	(281)	$ 23	$ (304)
Total derivatives		$ 4,690	117,497	$ (179)		

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

Notes to Condensed Consolidated Financial Statements

Summary of the volume and fair value positions of derivative instruments as of December 31, 2017

($ in millions, except number of contracts)	Balance sheet location	Volume [(1)] Notional amount	Volume [(1)] Number of contracts	Fair value, net	Gross asset	Gross liability
Asset derivatives						
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other investments	$15	n/a	$—	$—	$—
Equity and index contracts						
Options	Other investments	—	6,316	125	125	—
Financial futures	Other assets	—	289	—	—	—
Foreign currency contracts						
Foreign currency forwards	Other investments	52	n/a	1	1	—
Credit default contracts						
Credit default swaps – buying protection	Other investments	105	n/a	(1)	—	(1)
Credit default swaps – selling protection	Other investments	80	n/a	1	1	—
Other contracts						
Other	Other assets	3	n/a	—	—	—
Total asset derivatives		$255	6,605	$126	$127	$(1)
Liability derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$19	n/a	$2	$2	$—
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other liabilities & accrued expenses	30	n/a	1	1	—
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	—	7,128	(58)	—	(58)
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	650	n/a	(17)	3	(20)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	225	n/a	(22)	—	(22)
Guaranteed withdrawal benefits	Contractholder funds	274	n/a	(12)	—	(12)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,774	n/a	(252)	—	(252)
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	136	n/a	(5)	—	(5)
Credit default swaps – selling protection	Other liabilities & accrued expenses	25	n/a	—	—	—
Subtotal		3,114	7,128	(365)	4	(369)
Total liability derivatives		3,133	7,128	(363)	$6	$(369)
Total derivatives		$3,388	13,733	$(237)		

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

Gross and net amounts for OTC derivatives [1]

($ in millions)	Gross amount	Offsets: Counter-party netting	Offsets: Cash collateral (received) pledged	Net amount on balance sheet	Securities collateral (received) pledged	Net amount
June 30, 2018						
Asset derivatives	$ 25	$ (25)	$ 2	$ 2	$ —	$ 2
Liability derivatives	(11)	25	(23)	(9)	—	(9)
December 31, 2017						
Asset derivatives	$ 8	$ (7)	$ 1	$ 2	$ —	$ 2
Liability derivatives	(26)	7	7	(12)	3	(9)

(1) All OTC derivatives are subject to enforceable master netting agreements.

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Summary of the impacts of the foreign currency contracts in cash flow hedging relationships

($ in millions)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Gain (loss) recognized in OCI on derivatives during the period	$ 1	$ —	$ 1	$ (2)
Loss recognized in OCI on derivatives during the term of the hedging relationship	(3)	(1)	(3)	(1)
Gain reclassified from AOCI into income (net investment income)	—	1	—	1
Gain reclassified from AOCI into income (realized capital gains and losses)	3	—	3	—

Amortization of net gains from AOCI related to cash flow hedges is expected to be a gain of less than $1 million during the next twelve months. There was no hedge ineffectiveness reported in realized gains and losses for the three months and six months ended June 30, 2018 or 2017.

Gains and losses from valuation and settlements reported on derivatives not designated as accounting hedges

($ in millions)	Realized capital gains and losses	Life contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Three months ended June 30, 2018					
Interest rate contracts	$ 1	$ —	$ —	$ —	$ 1
Equity and index contracts	(1)	—	10	6	15
Embedded derivative financial instruments	—	1	1	—	2
Foreign currency contracts	19	—	—	(2)	17
Total return swaps	1	—	—	—	1
Total	$ 20	$ 1	$ 11	$ 4	$ 36
Six months ended June 30, 2018					
Interest rate contracts	$ 1	$ —	$ —	$ —	$ 1
Equity and index contracts	(3)	—	6	3	6
Embedded derivative financial instruments	—	5	21	—	26
Foreign currency contracts	12	—	—	(1)	11
Total return swaps	1	—	—	—	1
Credit default contracts	1	—	—	—	1
Total	$ 12	$ 5	$ 27	$ 2	$ 46
Three months ended June 30, 2017					
Equity and index contracts	$ —	$ —	$ 9	$ 5	$ 14
Embedded derivative financial instruments	—	1	—	—	1
Foreign currency contracts	(8)	—	—	4	(4)
Total	$ (8)	$ 1	$ 9	$ 9	$ 11
Six months ended June 30, 2017					
Equity and index contracts	$ (7)	$ —	$ 22	$ 12	$ 27
Embedded derivative financial instruments	—	8	(4)	—	4
Foreign currency contracts	(15)	—	—	5	(10)

Credit default contracts	(1)	—	—	—	(1)
Total	$ (23)	$ 8	$ 18	$ 17	$ 20

For the three months and six months ended June 30, 2018 and 2017, the Company had no derivatives used in fair value hedging relationships.

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements (“MNAs”) and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions that permit either party to net payments due for transactions and collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of June 30, 2018,

counterparties pledged $24 million in collateral to the Company, and the Company pledged $3 million in collateral to counterparties which includes $1 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and $2 million of collateral posted under MNAs for contracts without credit-risk-contingent features. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives, including futures and certain option contracts, are traded on organized exchanges which require margin deposits and

guarantee the execution of trades, thereby mitigating any potential credit risk.
Counterparty credit exposure represents the Company's potential loss if all of the counterparties concurrently fail to perform under the contractual terms of the contracts and all collateral, if any, becomes worthless. This exposure is measured by the fair value of OTC derivative contracts with a positive fair value at the reporting date reduced by the effect, if any, of legally enforceable master netting agreements.

For certain exchange traded and cleared derivatives, margin deposits are required as well as daily cash settlements of margin accounts. As of June 30, 2018, the counterparties pledged $1 million in collateral to the Company, and the Company pledged $16 million in the form of margin deposits.

OTC derivatives counterparty credit exposure by counterparty credit rating

($ in millions)	June 30, 2018				December 31, 2017			
Rating [1]	Number of counter-parties	Notional amount [2]	Credit exposure [2]	Exposure, net of collateral [2]	Number of counter-parties	Notional amount [2]	Credit exposure [2]	Exposure, net of collateral [2]
AA-	—	$ —	$ —	$ —	1	$ 18	$ 1	$ —
A+	—	—	—	—	3	90	3	1
A-	2	34	2	—	—	—	—	—
BBB+	2	1,718	14	1	—	—	—	—
BBB	1	10	—	—	—	—	—	—
Total	5	$ 1,762	$ 16	$ 1	4	$ 108	$ 4	$ 1

[1] Rating is the lower of S&P or Moody's ratings.
[2] Only OTC derivatives with a net positive fair value are included for each counterparty.

Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. Market risk exists for all of the derivative financial instruments the Company currently holds, as these instruments may become less valuable due to adverse changes in market conditions. To limit this risk, the Company's senior management has established risk control limits. In addition, changes in fair value of the derivative financial instruments that the Company uses for risk management purposes are generally offset by the change in the fair value or cash flows of the hedged risk component of the related assets, liabilities or forecasted transactions.
Certain of the Company's derivative instruments contain credit-risk-contingent termination events, cross-default provisions and credit support annex agreements. Credit-risk-contingent termination events allow the counterparties to terminate the derivative agreement or a specific trade on certain dates if AIC's, ALIC's or Allstate Life Insurance

Company of New York's ("ALNY") financial strength credit ratings by Moody's or S&P fall below a certain level. Credit-risk-contingent cross-default provisions allow the counterparties to terminate the derivative agreement if the Company defaults by pre-determined threshold amounts on certain debt instruments. Credit-risk-contingent credit support annex agreements specify the amount of collateral the Company must post to counterparties based on AIC's, ALIC's or ALNY's financial strength credit ratings by Moody's or S&P, or in the event AIC, ALIC or ALNY are no longer rated by either Moody's or S&P.
The following summarizes the fair value of derivative instruments with termination, cross-default or collateral credit-risk-contingent features that are in a liability position, as well as the fair value of assets and collateral that are netted against the liability in accordance with provisions within legally enforceable MNAs.

($ in millions)	June 30, 2018	December 31, 2017
Gross liability fair value of contracts containing credit-risk-contingent features	$ 10	$ 28
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(9)	(17)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	(1)	(6)

Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	$ —	$ 5

Credit derivatives - selling protection

A credit default swap (“CDS”) is a derivative instrument, representing an agreement between two parties to exchange the credit risk of a specified entity (or a group of entities), or an index based on the credit risk of a group of entities (all commonly referred to as the “reference entity” or a portfolio of “reference

entities”), in return for a periodic premium. In selling protection, CDS are used to replicate fixed income securities and to complement the cash market when credit exposure to certain issuers is not available or when the derivative alternative is less expensive than

Notes to Condensed Consolidated Financial Statements

the cash market alternative. CDS typically have a five-year term.

CDS notional amounts by credit rating and fair value of protection sold

($ in millions)	Notional amount					
	AA	A	BBB	BB and lower	Total	Fair value
June 30, 2018						
Single name						
Corporate debt	$—	$—	$10	$ 5	$15	$ —
Index						
Corporate debt	4	44	176	26	250	4
Total	$4	$44	$186	$ 31	$265	$ 4
December 31, 2017						
Single name						
Corporate debt	$—	$10	$10	$ 5	$25	$ —
Index						
Corporate debt	1	19	45	15	80	1
Total	$1	$29	$55	$ 20	$105	$ 1

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

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

Note 8 Reserve for Property and Casualty Insurance Claims and Claims Expense

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

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

reserve estimates, which may be material, are reported in property and casualty insurance claims and claims expense in the Condensed Consolidated Statements of Operations in the period such changes are determined.
Management believes that the reserve for property and casualty insurance claims and claims expense, net of reinsurance recoverables, is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by the date of the Condensed Consolidated Statements of Financial Position based on available facts, technology, laws and regulations.

Allstate's reserves for asbestos claims were $856 million and $884 million, net of reinsurance recoverables of $392 million and $412 million, as of June 30, 2018 and December 31, 2017, respectively. Reserves for environmental claims were $159 million and $166 million, net of reinsurance recoverables of $36 million and $33 million, as of June 30, 2018 and December 31, 2017, respectively.

Rollforward of the reserve for property and casualty insurance claims and claims expense

($ in millions)	Six months ended June 30, 2018	2017
Balance as of January 1	$26,325	$25,250
Less reinsurance recoverables	(6,471)	(6,184)
Net balance as of January 1	19,854	19,066
SquareTrade acquisition as of January 3, 2017	—	17
Incurred claims and claims expense related to:		
Current year	11,089	11,291
Prior years	(148)	(186)
Total incurred	10,941	11,105
Claims and claims expense paid related to:		
Current year	(5,870)	(6,060)
Prior years	(4,809)	(4,450)
Total paid	(10,679)	(10,510)
Net balance as of June 30	20,116	19,678
Plus reinsurance recoverables	6,507	6,206
Balance as of June 30	$26,623	$25,884

Incurred claims and claims expense represents the sum of paid losses and reserve changes in the period. This expense includes losses from catastrophes of $1.27 billion and $1.75 billion in the six months ended June 30, 2018 and 2017, respectively, net of reinsurance and other recoveries. Catastrophes are an inherent risk of the property and casualty insurance business that have contributed to, and will continue to contribute to, material year-to-year fluctuations in the Company's results of operations and financial position. During the six months ended June 30, 2018, incurred claims and claims expense included $148 million of prior year reserve reestimates, increasing net income, including favorable prior year reserve reestimates excluding catastrophes of $192 million and $44 million of unfavorable prior year reserve reestimates related to catastrophes.

Favorable prior year reserve reestimates excluding catastrophes is comprised of net decreases in auto reserves of $225 million, due to continued favorable personal lines auto injury coverage development and better than anticipated salvage and subrogation recoveries, offset by net increases in all other reserves of $33 million, primarily related to commercial lines. Unfavorable catastrophe loss reestimates of $44 million, net of reinsurance and other recoveries, include $78 million of unfavorable reestimates related to homeowners, including $37 million for anticipated Texas Windstorm Insurance Association ("TWIA") assessments related to Hurricane Harvey (see Note 12), and $34 million of favorable reestimates, primarily related to auto.

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Note 9 Reinsurance

Effects of reinsurance ceded on property and casualty premiums earned and life premiums and contract charges

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Property and casualty insurance premiums earned	$(257)	$(254)	$(496)	$(500)
Life premiums and contract charges	(73)	(75)	(145)	(150)

Effects of reinsurance ceded on property and casualty insurance claims and claims expense, life contract benefits and interest credited to contractholder funds

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Property and casualty insurance claims and claims expense	$(138)	$(124)	$(325)	$(255)
Life contract benefits	(66)	(70)	(115)	(117)
Interest credited to contractholder funds	(7)	(6)	(11)	(11)

Note 10 Capital Structure

Debt On March 29, 2018, the Company issued $250 million of Floating Rate Senior Notes due 2021 (“2021 Senior Notes”) and $250 million of Floating Rate Senior Notes due 2023 (“2023 Senior Notes” and, together with the 2021 Senior Notes, the “Senior Notes”). The 2021 Senior Notes bear interest at a floating rate equal to three month LIBOR, reset quarterly on each interest reset date, plus 0.43% per year and the 2023 Senior Notes bear interest at a floating rate equal to three month LIBOR, reset quarterly on each interest reset date, plus 0.63% per year. The Company will pay interest on the Senior Notes quarterly in arrears on March 29, June 29, September 29 and December 29 of each year, beginning on June 29, 2018. The 2021 Senior Notes will mature on March 29, 2021, and the 2023 Senior Notes will mature on March 29, 2023. The Senior Notes will not be redeemable prior to the applicable maturity dates.

Preferred stock On March 29, 2018, the Company issued 23,000 shares of 5.625% Fixed Rate Noncumulative Perpetual Preferred Stock, Series G, with a $1.00 par value per share and a liquidation preference of $25,000 per share, for gross proceeds of $575 million. The preferred stock is perpetual and has no maturity date. The preferred stock is redeemable at the Company’s option in whole or in part, on or after April 15, 2023 at a redemption price of $25,000 per share, plus declared and unpaid dividends. Prior to April 15, 2023, the preferred stock is redeemable at the Company’s option, in whole but not in part, within 90 days of the occurrence of certain rating agency events at a redemption price equal to $25,000 per share, plus declared and unpaid dividends.

The proceeds of Senior Notes and Preferred Stock issuances will be used for general corporate purposes, including the redemption, repayment or repurchase of certain preferred stock or debt.

On April 30, 2018, the Company filed a universal shelf registration statement with the Securities and Exchange Commission that expires in 2021. The registration statement covers an unspecified amount of securities and can be used to issue debt securities, common stock, preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of trust subsidiaries.

Redemption and repayment of debentures On May 13, 2018, the Company redeemed its $224 million Series B 6.125% Fixed-to-Floating Rate Junior Subordinated Debentures at a redemption price equal to 100% of the outstanding principal.

On May 15, 2018, the Company repaid $176 million of 6.75% Senior Debentures at maturity. The repayment was equal to 100% of the outstanding principal.

Notes to Condensed Consolidated Financial Statements

Note 11 Company Restructuring

The Company undertakes various programs to reduce expenses. These programs generally involve a reduction in staffing levels, and in certain cases, office closures. Restructuring and related charges primarily include employee severance and relocation benefits, and post-exit rent expenses in connection with these programs, and non-cash charges resulting from pension benefit payments made to agents and certain legal expenses and settlements incurred in connection with the 1999 reorganization of Allstate's multiple agency programs to a single exclusive agency

program. The expenses related to these activities are included in the Condensed Consolidated Statements of Operations as restructuring and related charges, and totaled $27 million and $53 million during the three months ended June 30, 2018 and 2017, respectively, and $49 million and $63 million during the six months ended June 30, 2018 and 2017, respectively. Restructuring expenses in 2018 primarily related to realignment of certain employees to centralized talent centers as well as legal expenses and settlements.

Restructuring activity during the period

($ in millions)	Employee costs	Exit costs	Total liability
Restructuring liability as of December 31, 2017	$ 15	$30	$ 45
Expense incurred	31	18	49
Adjustments to liability	1	(1)	—
Payments and non-cash pension settlements	(6)	(21)	(27)
Restructuring liability as of June 30, 2018	$ 41	$26	$ 67

The payments applied against the liability for employee costs primarily reflect severance costs and the payments for exit costs generally consist of post-exit rent expenses and contract termination penalties.

As of June 30, 2018, the cumulative amount incurred to date for active programs totaled $130 million for employee costs and $109 million for exit costs.

Note 12 Guarantees and Contingent Liabilities

Shared markets and state facility assessments

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

Texas Windstorm Insurance Association The Company participates as a member of TWIA, which provides wind and hail property coverage to coastal risks unable to procure coverage in the voluntary market. Wind and hail coverage is written on a TWIA-issued policy. TWIA follows a funding structure first utilizing currently available funds set aside from current and prior years. Under the current law, to the extent losses exceed premiums received from policyholders, TWIA utilizes a combination of reinsurance, TWIA issued securities, as well as member and policyholder assessments to fund loss payments.

On May 8, 2018, the TWIA Board announced an assessment related to Hurricane Harvey. As a result, the Company accrued $37 million for anticipated assessments. These costs are recorded in property and casualty insurance claims and claims expense as catastrophe losses on the Condensed Consolidated Statements of Operations. Any assessments from TWIA for a particular quarter or annual period may be

material to the results of operations and cash flows, but not the financial position of the Company.

Guarantees

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

Related to the disposal through reinsurance of substantially all of its variable annuity business to Prudential in 2006, the Company and its consolidated subsidiaries, ALIC and ALNY, have agreed to indemnify Prudential for certain pre-closing contingent liabilities (including extra-contractual liabilities of ALIC and ALNY and liabilities specifically excluded from the transaction) that ALIC and ALNY have agreed to retain. In addition, the Company, ALIC and ALNY will each indemnify Prudential for certain post-closing liabilities that may arise from the acts of ALIC, ALNY and their agents, including certain liabilities arising from ALIC's and ALNY's provision of transition services. The reinsurance agreements contain no limitations or indemnifications with regard to insurance risk transfer and transferred all of the future risks and responsibilities for performance on the underlying variable annuity contracts to Prudential, including those related to benefit guarantees. Management does not believe this agreement will have a material effect on results of operations, cash flows or financial position of the Company.

In the normal course of business, the Company provides standard indemnifications to contractual counterparties in connection with numerous transactions, including acquisitions and divestitures. The types of indemnifications typically provided include indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and are entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Consequently, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

The aggregate liability balance related to all guarantees was not material as of June 30, 2018.

Regulation and compliance

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

be accompanied by payments being made and costs being incurred. The ultimate changes and eventual effects of these actions on the Company's business, if any, are uncertain.

Legal and regulatory proceedings and inquiries

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

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

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

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

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

Accrual and disclosure policy The Company reviews its lawsuits, regulatory inquiries, and other legal proceedings on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. The Company establishes accruals for such matters at management's best estimate when the Company assesses that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company does not establish accruals for such matters when the Company does not believe both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company's assessment of whether a loss is reasonably possible or probable is based on its assessment of the ultimate outcome of the matter following all appeals. The Company does not include potential recoveries in its estimates of reasonably possible or probable losses. Legal fees are expensed as incurred.

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

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

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

These developments may include information learned through the discovery process, rulings on dispositive motions, settlement discussions, information obtained from other sources, experience from managing these and other matters, and other rulings by courts, arbitrators or others. When the Company possesses sufficient appropriate information to develop an estimate of the reasonably possible loss or range of loss above the amount accrued, if any, that estimate is aggregated and disclosed below. There may be other disclosed matters for which a loss is probable or reasonably possible but such an estimate

is not possible. Disclosure of the estimate of the reasonably possible loss or range of loss above the amount accrued, if any, for any individual matter would only be considered when there have been sufficient legal and factual developments such that the Company's ability to resolve the matter would not be impaired by the disclosure of the individual estimate.

The Company currently estimates that the aggregate range of reasonably possible loss in excess of the amount accrued, if any, for the disclosed matters where such an estimate is possible is zero to $145 million, pre-tax. This disclosure is not an indication of expected loss, if any. Under accounting guidance, an event is “reasonably possible” if “the chance of the future event or events occurring is more than remote but less than likely” and an event is “remote” if “the chance of the future event or events occurring is slight.” This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimate will change from time to time, and actual results may vary significantly from the current estimate. The estimate does not include matters or losses for which an estimate is not possible. Therefore, this estimate represents an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum possible loss exposure. Information is provided below regarding the nature of all of the disclosed matters and, where specified, the amount, if any, of plaintiff claims associated with these loss contingencies.

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

Claims related proceedings The case of Jack Jimenez, et al. v. Allstate Insurance Company was filed in the U.S. District Court for the Central District of California in September 2010. Plaintiffs allege off-the-clock wage and hour claims and other California Labor Code violations resulting from purported unpaid overtime. Plaintiffs seek recovery of unpaid compensation, liquidated damages, penalties, and attorneys' fees and costs. The court certified a class that includes all adjusters in the state of California, except auto field adjusters, from September 29, 2006 to final judgment. Allstate's appeals to the Ninth Circuit Court of Appeals and then to the U.S. Supreme Court did not result in decertification. No trial date is calendared.

The case of Maria Victoria Perez and Kaela Brown, et al. v. Allstate Insurance Company was filed in the U.S. District Court for the Eastern District of New York in April 2011. Plaintiffs alleged that no-fault claim adjusters have been improperly classified as exempt employees under the New York Labor Law and the Fair Labor Standards Act. Plaintiffs sought unpaid wages, liquidated damages, injunctive relief, compensatory and punitive damages, and attorneys' fees. On September 16, 2014, the court certified a class of no-fault adjusters under the New York Labor Law and refused to decertify a Fair Labor Standards Act class of no-fault adjusters. The parties entered into a settlement agreement in May 2018 which is pending final approval by the court.

The Company is managing various disputes challenging the method in which it has applied deductibles relating to claims for personal injury protection benefits under Florida auto policies. These disputes include a putative class action and litigation involving individual plaintiffs.

Gail Pierce, et al. v. Allstate Insurance Company is a putative class action filed in August 2013 in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida. It is brought on behalf of all insureds and their health care provider assignees who submitted claims for personal injury protection under auto policies in effect from March 2008. In the policies at issue, the Company applied the personal injury protection deductible to health care provider charges after the Company reduced those charges for reasonableness. In Pierce and the individual matters, plaintiffs seek determinations that the Company must apply the personal injury protection deductible to the full amount charged by the providers. In addition to the difference in policy benefits that may result from applying the deductible to the full amount charged, plaintiffs also seek recovery of attorneys' fees and costs pursuant to Florida statutes.

The question concerning how the personal injury protection deductible is to be applied under Florida law is currently pending before the Florida Supreme Court in a matter involving another insurer, Progressive v. Florida Hospital. Progressive appealed from a Fifth District Court of Appeals decision in favor of the health providers. Another appellate district subsequently ruled in favor of insurers in three separate appeals. The Florida Supreme Court indicated that it will decide the issues in Progressive without oral argument.

Other proceedings The Company is defending a consolidated proceeding relating to the reorganization of its agent sales force in 2000, when the Company discontinued employee agent programs, terminated the contracts of its employee agents, and offered those agents the opportunity to become Allstate Exclusive Agent independent contractors or to take severance benefits in exchange for a release of claims. The consolidated proceeding, captioned Gene Romero, et al. v. Allstate Insurance Company, et al., is pending in the United States District Court for the Eastern District of Pennsylvania. The consolidated proceeding includes three separate cases filed in August 2001, December 2001, and December 2003.

The court opted to resolve these proceedings in 4 phases. Phases 1, 2 and 3 are complete although the Company awaits final disposition in Phase 1. On January 30, 2018, the court decided two summary judgment motions filed by Allstate with respect to the Phase 4 claims. The court (i) granted summary judgment in Allstate's favor on the claims by twenty-seven Phase 4 plaintiffs alleging that Allstate improperly retaliated against them by filing counterclaims to their original complaint; and (ii) declined to decide whether the remaining Phase 4 plaintiffs' age discrimination (disparate treatment) claims should be dismissed due to their failure to exhaust administrative remedies.

In May 2018, the court ruled on two additional Phase 4 summary judgment motions filed by Allstate. The court denied Allstate's motion for summary judgment on several of the remaining plaintiffs' state law claims, ruling that those claims are not barred by the statute of limitations. The court denied without prejudice Allstate's renewed motion for summary judgment on the remaining plaintiffs' age discrimination (disparate treatment) claims, ruling that Allstate could renew its motion when the trial court addresses those individual claims.

Allstate continues to reach agreements to settle the claims of individual plaintiffs. As a result of these settlements, plus several voluntary and involuntary dismissals of individual plaintiffs' claims, there are fewer than 20 individual plaintiffs with claims remaining in the litigation.

The court has yet to decide the proper venue for trial, if necessary, of the remaining plaintiffs' individual claims, but has stated that any trial in the Eastern District of Pennsylvania would take place in December 2018. The final resolution of these matters is subject to various uncertainties and complexities including how trials, post-trial motions, possible appeals with respect to the validity of the release, and any rulings on the merits will be resolved.

The three shareholder derivative actions described below are disclosed pursuant to SEC disclosure requirements for these types of matters, and the putative class action has been disclosed because these matters involve similar allegations.

In Biefeldt v. Wilson, et al., a plaintiff alleging to be a stockholder in the Company filed a shareholder derivative complaint in the Circuit Court for Cook County, Illinois, Chancery Division on August 3, 2017. The plaintiff seeks, on behalf of the Company, an unspecified amount of damages and various forms of equitable relief. The complaint alleges breaches of fiduciary duty based on allegations similar to those asserted in In re The Allstate Corp. Securities Litigation. The complaint names as defendants the Company’s chairman, president and chief executive officer, its former president, its former chief financial officer, who is now the Company’s vice chairman, and the members of the board of directors during the relevant period. The defendants’ motion to dismiss the complaint was heard on May 8, 2018. On June 29, 2018, the court granted the motion to dismiss. On July 26, 2018, the court consolidated this matter with the IBEW Local No. 98 Pension Fund matter described below. The court granted the consolidated plaintiffs leave to file a consolidated complaint by August 10, 2018. Defendants must answer or respond to the consolidated complaint by September 24, 2018.

In IBEW Local No. 98 Pension Fund v. Wilson, et al., another plaintiff alleging to be a stockholder in the Company filed a shareholder derivative complaint in the Circuit Court for Cook County, Illinois, Chancery Division on April 12, 2018. The plaintiff seeks, on behalf of the Company, an unspecified amount of damages and various forms of equitable relief. The complaint alleges breaches of fiduciary duty based on allegations similar to those asserted in In re The Allstate Corp. Securities Litigation. The complaint also includes allegations concerning the exercise of stock options by the Company's chairman, president and chief executive officer and several other members of our board of directors during the relevant period. The complaint names as defendants the Company's chairman, president and chief executive officer, its former president and the members of the board of directors during the relevant period. On May 17, 2018, the court transferred this case to the same judge handling the Biefeldt v. Wilson, et al. lawsuit. On July 26, 2018, the court consolidated this matter with the Biefeldt matter described above. The court granted the consolidated plaintiffs leave to file a consolidated complaint by August 10, 2018. Defendants must answer or respond to the consolidated complaint by September 24, 2018.

In Sundquist v. Wilson, et al., another plaintiff alleging to be a stockholder in the Company filed a shareholder derivative complaint in federal court in the Northern District of Illinois on May 21, 2018. The plaintiff seeks, on behalf of the Company, an unspecified amount of damages and various forms of equitable relief. The complaint alleges breaches of fiduciary duty based on allegations similar to those asserted in In re The Allstate Corp. Securities Litigation. The complaint also asserts state law "misappropriation" claims based on stock option transactions by the Company's chairman, president and chief executive officer, its former chief financial officer, who is now the Company's vice chairman, and members of the board of directors. The complaint names as defendants the Company's chairman, president and chief executive officer, its former president, its former chief financial officer, who is now the Company's vice chairman, and the members of the board of directors during the relevant period. Defendants must answer or respond to the complaint by August 7, 2018.

In re The Allstate Corp. Securities Litigation is a putative class action filed in November 2016 in the United States District Court for the Northern District of Illinois against the Company and several of its officers asserting claims under the federal securities laws. Plaintiffs seek an unspecified amount of damages, costs, attorney's fees, and such other relief as the court deems appropriate. Plaintiffs allege that the Company and certain senior officers made allegedly material misstatements or omissions concerning claim frequency statistics and the reasons for a claim frequency increase for Allstate brand auto insurance. Plaintiffs' further allege that a senior officer engaged in stock option exercises and sales during that time allegedly while in possession of nonpublic information about claim frequency. The Company, its chairman, president and chief executive officer, and its former president are the named defendants. Defendants answered the complaint, disputing plaintiffs' allegations that there was any misstatement or omission or other misconduct, after the court denied their motion to dismiss on February 27, 2018.

Notes to Condensed Consolidated Financial Statements

Note 13 Benefit Plans

Components of net periodic cost included in operating costs and expenses

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Pension benefits				
Service cost	$28	$28	$56	$57
Interest cost	61	66	121	132
Expected return on plan assets	(106)	(102)	(211)	(204)
Amortization of:				
Prior service credit	(14)	(14)	(28)	(28)
Net actuarial loss	45	47	89	94
Settlement loss	7	8	14	16
Net periodic pension cost	$21	$33	$41	$67
Postretirement benefits				
Service cost	$2	$2	$4	$4
Interest cost	4	3	7	7
Amortization of:				
Prior service credit	(6)	(6)	(11)	(12)
Net actuarial gain	(5)	(6)	(11)	(12)
Net periodic postretirement credit	$(5)	$(7)	$(11)	$(13)

Notes to Condensed Consolidated Financial Statements

Note 14 Supplemental Cash Flow Information

Non-cash investing activities include $41 million and $9 million related to mergers and exchanges completed with equity securities, fixed income securities and limited partnerships, and modifications of certain mortgage loans for the six months ended June 30, 2018 and 2017, respectively. Non-cash financing activities include $30 million and $42 million related to the issuance of Allstate common shares for vested equity awards for the six months ended June 30, 2018 and 2017, respectively.

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

($ in millions)	Six months ended June 30, 2018	2017
Net change in proceeds managed		
Net change in fixed income securities	$122	$10
Net change in short-term investments	(663)	(7)
Operating cash flow (used) provided	$(541)	$3
Net change in liabilities		
Liabilities for collateral, beginning of period	$(1,124)	$(1,129)
Liabilities for collateral, end of period	(1,665)	(1,126)
Operating cash flow provided (used)	$541	$(3)

Notes to Condensed Consolidated Financial Statements

Note 15 Other Comprehensive Income

Components of other comprehensive income (loss) on a pre-tax and after-tax basis

($ in millions)	Three months ended June 30,					
	2018			2017		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$(249)	$53	$(196)	$479	$(167)	$312
Less: reclassification adjustment of realized capital gains and losses	(80)	17	(63)	64	(22)	42
Unrealized net capital gains and losses	(169)	36	(133)	415	(145)	270
Unrealized foreign currency translation adjustments	(9)	2	(7)	17	(6)	11
Unrecognized pension and other postretirement benefit cost arising during the period	1	—	1	(3)	2	(1)
Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses	(27)	6	(21)	(29)	10	(19)
Unrecognized pension and other postretirement benefit cost	28	(6)	22	26	(8)	18
Other comprehensive (loss) income	$(150)	$32	$(118)	$458	$(159)	$299

	Six months ended June 30,					
	2018			2017		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$(990)	$208	$(782)	$901	$(315)	$586
Less: reclassification adjustment of realized capital gains and losses	(106)	22	(84)	174	(61)	113
Unrealized net capital gains and losses	(884)	186	(698)	727	(254)	473
Unrealized foreign currency translation adjustments	(14)	3	(11)	12	(4)	8
Unrecognized pension and other postretirement benefit cost arising during the period	4	(1)	3	(3)	2	(1)
Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses	(53)	11	(42)	(58)	20	(38)
Unrecognized pension and other postretirement benefit cost	57	(12)	45	55	(18)	37
Other comprehensive (loss) income	$(841)	$177	$(664)	$794	$(276)	$518

Report of Independent Registered Public Accounting Firm
To the Board of Directors and Shareholders of
The Allstate Corporation
Northbrook, Illinois 60062

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries (the “Company”) as of June 30, 2018, the related condensed consolidated statements of operations and comprehensive income for the three month and six month periods ended June 30, 2018 and 2017, shareholders’ equity and cash flows for the six month periods ended June 30, 2018 and 2017 and the related notes (collectively referred to as the “condensed consolidated financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated statement of financial position of The Allstate Corporation and subsidiaries as of December 31, 2017, and the related consolidated statements of operations, comprehensive income, shareholders’ equity, and cash flows for the year then ended (not presented herein); and in our report dated February 26, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2017 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

Basis for Review Results

These condensed consolidated financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with standards of the PCAOB. A review of the condensed consolidated financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Emphasis of a Matter

As discussed in Note 1 to the condensed consolidated financial statements, the Company changed its presentation and method of accounting for the recognition and measurement of financial assets and financial liabilities due to an adopted accounting standard.

/s/ DELOITTE & TOUCHE LLP
Chicago, Illinois
August 1, 2018

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations for the Three and Six Month Periods Ended June 30, 2018 and 2017

Overview

To achieve its goals in 2018, Allstate is focused on the following priorities:

- Better serve customers
- Achieve target economic returns on capital
- Grow customer base
- Proactively manage investments
- Build long-term growth platforms

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as “we,” “our,” “us,” the “Company” or “Allstate”). It should be read in conjunction with the condensed consolidated financial statements and notes thereto found under Part I. Item 1. contained herein, and with the discussion, analysis, consolidated financial statements and notes thereto in Part I. Item 1. and Part II. Item 7. and Item 8. of The Allstate Corporation annual report on Form 10-K for 2017. Further analysis of our insurance segments is provided in the Property-Liability Operations and Segment Results sections, including Allstate Protection, Service Businesses, Allstate Life, Allstate Benefits, and Allstate Annuities, of Management’s Discussion and Analysis (“MD&A”). The segments are consistent with the way in which the chief operating decision maker reviews financial performance and makes decisions about the allocation of resources.

Measuring segment profit or loss

The measure of segment profit or loss used in evaluating performance is underwriting income for the Allstate Protection and Discontinued Lines and Coverages segments and adjusted net income for the Service Businesses, Allstate Life, Allstate Benefits, Allstate Annuities, and Corporate and Other segments.

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

Adjusted net income is net income applicable to common shareholders, excluding:

- Realized capital gains and losses, after-tax, except for periodic settlements and accruals on non-hedge derivative instruments, which are reported with realized capital gains and losses but included in adjusted net income
- Valuation changes on embedded derivatives not hedged, after-tax
- Amortization of DAC and deferred sales inducement costs (“DSI”), to the extent they resulted from the recognition of certain realized capital gains and losses or valuation changes on embedded derivatives not hedged, after-tax
- Business combination expenses and the amortization of purchased intangible assets, after-tax
- Gain (loss) on disposition of operations, after-tax
- Adjustments for other significant non-recurring, infrequent or unusual items, when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, or (b) there has been no similar charge or gain within the prior two years

Adjusted net income is reconciled to net income applicable to common shareholders in the Service Businesses, Allstate Life, Allstate Benefits and Allstate Annuities Segment sections of MD&A.

Highlights
Consolidated
Net Income
($ in
millions)

Consolidated net income increased 15.8% and 30.2% in the second quarter and first six months of 2018, respectively, compared to the prior periods, driven by higher Allstate Protection insurance premiums, lower catastrophe losses and a lower effective tax rate from the Tax Cuts and Jobs Act of 2017, partially offset by net realized capital losses compared to net realized capital gains in the prior period and lower net investment income.

The Property-Liability combined ratio improved in both periods, from 96.6 to 94.9 in the second quarter of 2018 and 94.8 to 91.5 in the first six months of 2018.

Total
Revenue
($ in
billions)

Total revenue increased 2.9% and 2.1% in the second quarter and first six months of 2018, respectively, compared to the prior periods, driven by a 5.4% and 4.7% increase in insurance premiums in the second quarter and first six months of 2018, respectively. Insurance premiums increased in the following segments: Allstate Protection (Allstate brand and Esurance), Service Businesses, Allstate Benefits and Allstate Life. The increase in revenue is partially offset by net realized capital losses compared to net realized capital gains in the prior period and lower net investment income.

Net
Investment
Income
($ in
millions)

Net investment income decreased 8.1% and 2.1% in the second quarter and first six months of 2018, respectively, compared to the prior periods, primarily due to lower performance-based investment results compared to strong 2017 performance-based results as well as higher expenses, partially offset by higher market-based portfolio income.

Segment Highlights

Allstate Protection underwriting income totaled $419 million in the second quarter of 2018, a 55.2% increase from $270 million in the second quarter of 2017, primarily due to increased premiums earned, lower catastrophe losses, lower auto claim frequency and higher favorable non-catastrophe prior year reserve reestimates, partially offset by higher claim severity and operating costs and expenses.

Underwriting income totaled $1.38 billion in the first six months of 2018, a 68.4% increase from $820 million in the first six months of 2017, primarily due to increased premiums earned, lower catastrophe losses and auto claim frequency, partially offset by higher claim severity and operating costs and expenses.

Premiums written increased 6.4% to $8.54 billion in the second quarter of 2018 and 5.7% to $16.39 billion in the first six months of 2018, compared to the same periods of 2017.

Service Businesses adjusted net income was $1 million in the second quarter of 2018 compared to an adjusted net loss of $8 million in the second quarter of 2017, primarily due to improved loss experience at SquareTrade.

Adjusted net loss was $4 million in the first six months of 2018 compared to $18 million in the first six months of 2017, primarily due to improved loss experience at SquareTrade and Allstate Dealer Services, partially offset by investments in research and business expansion at Arity and investments in the provider network and technology at Allstate Roadside Services.

Total revenues increased 23.1% to $320 million in the second quarter of 2018 and 24.9% to $633 million in the first six months of 2018, compared to the same periods of 2017. These amounts include $26 million and $56 million related to SquareTrade in the second quarter and first six months of 2018, respectively, recorded for protection plans sold directly to retailers prior to January 1, 2018 for which SquareTrade is deemed to be the principal. These amounts are recorded due to the adoption of the revenue from contracts with customers accounting standard.

Net investment income increased $2 million in the second quarter of 2018 and $4 million in the first six months of 2018, compared to the same periods of 2017.

Allstate Life adjusted net income was $78 million in the second quarter of 2018 compared to $63 million in the second quarter of 2017 and $147 million in the first six months of 2018 compared to $122 million in the first six months of 2017. The increase in both periods was primarily due to a lower effective tax rate from the Tax Legislation, and increased premiums and net investment income, partially offset by higher contract benefits.

Premiums and contract charges increased 2.2% to $326 million in the second quarter of 2018 and 2.0% to $653 million in the first six months of 2018, compared to the same periods of 2017.

Allstate Benefits adjusted net income was $34 million in the second quarter of 2018 compared to $25 million in the second quarter of 2017, primarily due to higher premiums and a lower effective tax rate from the Tax Legislation, partially offset by higher operating costs and expenses.

Adjusted net income was $62 million in the first six months of 2018 compared to $47 million in the first six months of 2017, primarily due to higher premiums and a lower effective tax rate from the Tax Legislation, partially offset by higher contract benefits and operating costs and expenses.

Premiums and contract charges increased 5.2% to $283 million in the second quarter of 2018 and 5.8% to $569 million in the first six months of 2018, compared to the same periods of 2017.

Allstate Annuities adjusted net income was $44 million in the second quarter of 2018 compared to $65 million in the second quarter of 2017, primarily due to lower net investment income, driven by lower performance-based investment results, partially offset by a lower effective tax rate from the Tax Legislation and lower interest credited to contractholder funds and contract benefits.

Adjusted net income was $79 million in the first six months of 2018 compared to $94 million in the first six months of 2017, primarily due to lower net investment income, partially offset by a lower effective tax rate from the Tax Legislation and lower interest credited to contractholder funds. Net investment income decreased 17.2% to $293 million in the second quarter of 2018 and 9.3% to $583 million in the first six months of 2018, compared to the same periods of 2017.

Financial Highlights
Tax reform On December 22, 2017, Public Law 115-97, known as the Tax Cuts and Jobs Act of 2017 ("Tax Legislation") became effective, permanently reducing the U.S. corporate income tax rate from 35% to 21% beginning January 1, 2018. As a result, the corporate tax rate is not comparable between periods. During 2017, we revalued deferred tax assets and liabilities and recorded liabilities related to the transition to the modified territorial system for international taxation. The impact of the Tax Legislation may differ from our preliminary estimates due to, among other things, changes in interpretations and assumptions we have made, guidance that may be issued and actions we may take as a result of the Tax Legislation. During the period ended June 30, 2018, we have not recorded any material adjustments to these provisional amounts. We continue to refine our analysis and calculations, which could impact the provisional estimates previously recorded. Accordingly, as of June 30, 2018, we have not fully completed our accounting for the Tax Legislation.
We are utilizing a portion of the benefits from the Tax Legislation for the following initiatives:
- Accelerating growth initiatives
- Enhancing our employee value proposition, including investing in employee training programs
- Improving local communities
- Increasing cash returns to shareholders by increasing our target quarterly dividend per common share

In the first quarter of 2018, employees received either $1,000 or $2,000 of Choice Dollars ("Choice Dollars") following a reduction in the federal tax rate, which could be taken as a cash bonus or contributed to a 401(k) or health savings account. $43 million was recorded as an expense with $21 million recorded in claims and claim expense and $22 million recorded in other costs and expenses.
The expenses associated with these initiatives will occur throughout 2018 and certain costs will reoccur in future periods.
Investments totaled $83.24 billion as of June 30, 2018, increasing from $82.80 billion as of December 31, 2017.
Shareholders' equity As of June 30, 2018, shareholders' equity was $23.12 billion. This total included $3.42 billion in deployable assets at the parent holding company level comprising cash and investments that are generally saleable within one quarter.
Book value per diluted common share (ratio of common shareholders' equity to total common shares outstanding and dilutive potential common shares outstanding) was $59.16 as of June 30, 2018, an increase of 9.9% from $53.83 as of June 30, 2017, and an increase of 2.7% from $57.58 as of December 31, 2017.

Return on average common shareholders' equity For the twelve months ended June 30, 2018, net income applicable to common shareholders' return on the average of beginning and ending period common shareholders' equity of 17.0% increased by 3.9 points from 13.1% for the twelve months ended June 30, 2017.
Adopted Accounting Standards
Recognition and Measurement of Financial Assets and Financial Liabilities ("recognition and measurement accounting standard") Beginning January 1, 2018, equity securities are reported at fair value with changes in fair value recognized in realized capital gains and losses. Limited partnerships previously reported using the cost method are now reported at fair value with changes in fair value recognized in net investment income. See the Investments section of this Item for further details.
Revenue from Contracts with Customers Beginning January 1, 2018, we adopted the revenue from contracts with customers accounting standard, which revises the criteria for revenue recognition and impacted the Service Businesses segment by increasing deferred revenue by approximately $160 million with a corresponding increase in DAC for protection plans that are sold directly to retailers. The anticipated impact of these adjustments offset and do not impact net income, but impact premium and DAC comparability trends as they are recognized over the life of the policy.
See Note 1 of the condensed consolidated financial statements for additional details on the adopted accounting standards.
Other Revenue Presentation
Concurrent with the adoption of the Financial Accounting Standards Board's standard on revenue from contracts with customers and our objective of providing more information related to revenues for our Service Businesses, we revised the presentation of total revenue to include other revenue. Previously, components of other revenue were presented

within operating costs and expenses and primarily represent fees collected from policyholders relating to premium installment payments, commissions on sales of non-proprietary products, fee-based services and other revenue transactions. Other revenue is recognized when performance obligations are fulfilled. Prior periods have been reclassified to conform to current separate presentation of other revenue.

Consolidated net income

($ in millions)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Revenues				
Property-liability insurance premiums	$8,460	$8,018	$16,746	$15,977
Life and annuity premiums and contract charges	612	591	1,228	1,184
Other revenue	228	226	444	436
Net investment income [1]	824	897	1,610	1,645
Realized capital gains and losses:				
Total other-than-temporary impairment (“OTTI”) losses	(4)	(47)	(4)	(109)
OTTI losses reclassified (from) to other comprehensive income	—	(3)	(1)	—
Net OTTI losses recognized in earnings	(4)	(50)	(5)	(109)
Sales and valuation changes on equity investments and derivatives	(21)	131	(154)	324
Total realized capital gains and losses [1]	(25)	81	(159)	215
Total revenues	10,099	9,813	19,869	19,457
Costs and expenses				
Property and casualty insurance claims and claims expense	(5,792)	(5,689)	(10,941)	(11,105)
Life contract benefits	(483)	(486)	(987)	(960)
Interest credited to contractholder funds	(165)	(175)	(326)	(348)
Amortization of deferred policy acquisition costs	(1,296)	(1,176)	(2,569)	(2,345)
Operating costs and expenses	(1,407)	(1,312)	(2,762)	(2,619)
Restructuring and related charges	(27)	(53)	(49)	(63)
Interest expense	(86)	(83)	(169)	(168)
Total costs and expenses	(9,256)	(8,974)	(17,803)	(17,608)
Gain on disposition of operations	2	12	3	14
Income tax expense [2]	(169)	(272)	(418)	(589)
Net income	676	579	1,651	1,274
Preferred stock dividends	(39)	(29)	(68)	(58)
Net income applicable to common shareholders	$637	$550	$1,583	$1,216

(1) Due to the adoption of the recognition and measurement accounting standard, limited partnerships previously reported using the cost method are now reported at fair value with changes in fair value recognized in net investment income and equity securities are reported at fair value with changes in fair value recognized in valuation changes on equity investments in realized capital gains and losses. See the Investments section of this Item and Note 1 of the condensed consolidated financial statements for further details related to the adoption.

(2) Beginning January 1, 2018, Tax Legislation reduced the U.S. corporate income tax rate from 35% to 21%.

Property-Liability Operations

Overview Our Property-Liability operations consist of two reportable segments: Allstate Protection and Discontinued Lines and Coverages. These segments are consistent with the groupings of financial information that management uses to evaluate performance and to determine the allocation of resources.

We do not allocate Property-Liability investment income, realized capital gains and losses, or assets to the Allstate Protection and Discontinued Lines and Coverages segments. Management reviews assets at the Property-Liability level for decision-making purposes.

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

- Loss ratio: the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses.
- Expense ratio: the ratio of amortization of DAC, operating costs and expenses and restructuring and related charges, less other revenue to premiums earned.
- Combined ratio: the ratio of claims and claims expense, amortization of DAC, operating costs and expenses, and restructuring and related charges, less other revenue to premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income as a percentage of premiums earned, or underwriting margin.

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

- Effect of catastrophe losses on combined ratio: the ratio of catastrophe losses included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.
- Effect of prior year reserve reestimates on combined ratio: the ratio of prior year reserve reestimates included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.
- Effect of amortization of purchased intangible assets on combined ratio: the ratio of amortization of purchased intangible assets to premiums earned. Amortization of purchased intangible assets is reported in operating costs and expenses on the Condensed Consolidated Statements of Operations.
- Effect of restructuring and related charges on combined ratio: the ratio of restructuring and related charges to premiums earned.
- Effect of Discontinued Lines and Coverages on combined ratio: the ratio of claims and claims expense and operating costs and expenses in the Discontinued Lines and Coverages segment to Property-Liability premiums earned. The sum of the effect of Discontinued Lines and Coverages on the combined ratio and the Allstate Protection combined ratio is equal to the Property-Liability combined ratio.

Property-Liability Operations

Summarized financial data

($ in millions, except ratios)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Premiums written	$8,541	$8,030	$16,385	$15,499
Revenues				
Premiums earned	$8,189	$7,807	$16,208	$15,566
Other revenue	184	181	358	348
Net investment income	353	387	690	695
Realized capital gains and losses	(15)	85	(110)	220
Total revenues	8,711	8,460	17,146	16,829
Costs and expenses				
Claims and claims expense	(5,704)	(5,607)	(10,762)	(10,935)
Amortization of DAC	(1,110)	(1,032)	(2,198)	(2,054)
Operating costs and expenses	(1,118)	(1,033)	(2,185)	(2,051)
Restructuring and related charges	(25)	(51)	(46)	(61)
Total costs and expenses	(7,957)	(7,723)	(15,191)	(15,101)
Gain on disposition of operations (1)	—	10	—	10
Income tax expense	(154)	(240)	(402)	(554)
Net income applicable to common shareholders	$600	$507	$1,553	$1,184
Underwriting income	$416	$265	$1,375	$813
Net investment income	353	387	690	695
Income tax expense on operations	(157)	(207)	(425)	(475)
Realized capital gains and losses, after-tax	(12)	56	(87)	145
Gain on disposition of operations, after-tax	—	6	—	6
Net income applicable to common shareholders	$600	$507	$1,553	$1,184
Catastrophe losses (2)	$906	$993	$1,267	$1,774
GAAP operating ratios				
Claims and claims expense ratio	69.6	71.8	66.4	70.3
Expense ratio	25.3	24.8	25.1	24.5
Combined ratio	94.9	96.6	91.5	94.8
Effect of catastrophe losses on combined ratio	11.1	12.7	7.8	11.4
Effect of prior year reserve reestimates on combined ratio	(1.2)	(1.1)	(0.9)	(1.1)
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	0.5	(0.1)	0.2	—
Effect of restructuring and related charges on combined ratio	0.3	0.7	0.3	0.4
Effect of Discontinued Lines and Coverages on combined ratio	—	0.1	—	0.1

(1) 2017 results represented the conclusion of a contractual arrangement related to the sale of Sterling Collision Centers, Inc. in 2014.

(2) Prior year reserve reestimates included in catastrophe losses totaled $40 million and $44 million unfavorable in the three and six months ended June 30, 2018, respectively, including $37 million for anticipated Texas Windstorm Insurance Association ("TWIA") assessments related to Hurricane Harvey (see Note 12 of the condensed consolidated financial statements), compared to $7 million and $3 million favorable in the three and six months

ended June 30, 2017, respectively.

Property-Liability Operations

Net investment income decreased 8.8% or $34 million to $353 million in the second quarter of 2018 and 0.7% or $5 million to $690 million in the first six months of 2018 from $387 million in the second quarter of 2017 and $695 million in the first six months of 2017, primarily due to lower performance-based investment results compared to strong 2017 performance-based results as well as higher expenses, partially offset by higher market-based portfolio income.

Net investment income

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2018	2017	2018	2017
Fixed income securities	$223	$229	$450	$452
Equity securities	43	33	69	62
Mortgage loans	4	2	8	5
Limited partnership interests [1]	81	118	165	173
Short-term investments	9	4	15	8
Other	31	27	60	49
Investment income, before expense	391	413	767	749
Investment expense [2] [3]	(38)	(26)	(77)	(54)
Net investment income	$353	$387	$690	$695

(1) Due to the adoption of the recognition and measurement accounting standard, limited partnerships previously reported using the cost method are now reported at fair value with changes in fair value recognized in net investment income.

(2) Investment expense includes $11 million and $5 million of investee level expenses in the second quarter of 2018 and 2017, respectively, and $24 million and $11 million in the first six months of 2018 and 2017, respectively. Investee level expenses include depreciation and asset level operating expenses on directly held real estate and other consolidated investments.

(3) Investment expense includes $4 million and $1 million related to the portion of reinvestment income on securities lending collateral paid to the counterparties in the second quarter of 2018 and 2017, respectively, and $6 million and $2 million in the first six months of 2018 and 2017, respectively.

Realized capital gains and losses Net realized capital losses in the second quarter of 2018, primarily related to losses on sales of fixed income securities, partially offset by increases in the valuation of equity investments and gains on valuation and settlements of derivative instruments. Net realized capital losses in the first six months of 2018, primarily related to losses on sales of fixed income securities and declines in the valuation of equity investments.

Realized capital gains and losses

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Impairment write-downs [1]	$(2)	$(16)	$(2)	$(38)
Change in intent write-downs [1]	—	(21)	—	(34)
Net OTTI losses recognized in earnings	(2)	(37)	(2)	(72)
Sales [1]	(53)	126	(88)	306
Valuation of equity investments [1]	27 [2]	—	(28) [3]	—
Valuation and settlements of derivative instruments	13	(4)	8	(14)
Realized capital gains and losses, pre-tax	(15)	85	(110)	220
Income tax benefit (expense)	3	(29)	23	(75)
Realized capital gains and losses, after-tax	$(12)	$56	$(87)	$145

(1)

Due to the adoption of the recognition and measurement accounting standard, equity securities are reported at fair value with changes in fair value recognized in valuation of equity investments and are no longer included in impairment write-downs, change in intent write-downs and sales.

(2) Includes $57 million of appreciation of equity investments and $30 million of declines in value primarily related to certain limited partnerships where the underlying assets are predominately public equity securities.

(3) Includes declines of $5 million in the valuation of equity investments and $23 million in declines primarily related to certain limited partnerships where the underlying assets are predominately public equity securities.

Segment Results Allstate Protection

Allstate Protection Segment
Underwriting results

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2018	2017	2018	2017
Premiums written	$8,541	$8,030	$16,385	$15,499
Premiums earned	$8,189	$7,807	$16,208	$15,566
Other revenue	184	181	358	348
Claims and claims expense	(5,702)	(5,604)	(10,757)	(10,930)
Amortization of DAC	(1,110)	(1,032)	(2,198)	(2,054)
Other costs and expenses	(1,117)	(1,031)	(2,184)	(2,049)
Restructuring and related charges	(25)	(51)	(46)	(61)
Underwriting income	$419	$270	$1,381	$820
Catastrophe losses	$906	$993	$1,267	$1,774
Underwriting income (loss) by line of business				
Auto	$371	$193	$955	$640
Homeowners	8	24	342	96
Other personal lines [1]	62	44	107	69
Commercial lines	(37)	(2)	(44)	(6)
Other business lines [2]	16	11	24	22
Answer Financial	(1)	—	(3)	(1)
Underwriting income	$419	$270	$1,381	$820

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

(2) Other business lines primarily include Ivantage, a general agency for Allstate exclusive agencies. Ivantage provides agencies a solution for their customers when coverage through Allstate brand underwritten products is not available.

Allstate Protection Segment Results

Changes in underwriting results from prior year by component and by line of business [1]

	Three months ended June 30,									
	Auto		Homeowners		Other personal lines		Commercial lines		Allstate Protection [2]	
($ in millions)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Underwriting income (loss) - prior period	$193	$(92)	$24	$26	$44	$37	$(2)	$(43)	$270	$(61)
Changes in underwriting income (loss) from:										
Increase (decrease) premiums earned	267	132	49	—	19	12	47	(9)	382	135
Increase (decrease) other revenue	5	2	2	—	1	(1)	(2)	1	3	5
(Increase) decrease incurred claims and claims expense (“losses”):										
Incurred losses, excluding catastrophe losses and reserve reestimates	(126)	197	(60)	(20)	(18)	3	(33)	16	(237)	196
Catastrophe losses, excluding reserve reestimates	48	(21)	73	(42)	13	3	—	8	134	(52)
Non-catastrophe reserve reestimates	93	27	—	20	4	(3)	(45)	23	52	67
Catastrophe reserve reestimates	3	(2)	(47)	19	(1)	1	(2)	2	(47)	20
Losses subtotal	18	201	(34)	(23)	(2)	4	(80)	49	(98)	231
(Increase) decrease expenses	(112)	(50)	(33)	21	—	(8)	—	—	(138)	(40)
Underwriting income (loss)	$371	$193	$8	$24	$62	$44	$(37)	$(2)	$419	$270

	Six months ended June 30,									
	Auto		Homeowners		Other personal lines		Commercial lines		Allstate Protection [2]	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Underwriting income (loss) - prior period	$640	$(74)	$96	$133	$69	$54	$(6)	$(71)	$820	$64
Changes in underwriting income (loss) from:										
Increase (decrease) premiums earned	470	300	82	5	32	22	58	(13)	642	314
Increase (decrease) other revenue	10	1	2	—	3	(2)	(3)	2	10	6
(Increase) decrease incurred claims and claims expense (“losses”):										
Incurred losses, excluding catastrophe losses and reserve reestimates	(162)	346	(107)	(52)	(43)	2	(29)	21	(341)	317
Catastrophe losses, excluding reserve reestimates	99	42	417	(63)	36	14	2	8	554	1
Non-catastrophe reserve reestimates	87	113	(25)	43	10	1	(65)	39	7	196
Catastrophe reserve reestimates	23	3	(78)	13	8	(7)	—	4	(47)	13
Losses subtotal	47	504	207	(59)	11	10	(92)	72	173	527
(Increase) decrease expenses	(212)	(91)	(45)	17	(8)	(15)	(1)	4	(264)	(91)
Underwriting income (loss)	$955	$640	$342	$96	$107	$69	$(44)	$(6)	$1,381	$820

(1) The 2018 column presents changes in 2018 compared to 2017. The 2017 column presents changes in 2017 compared to 2016.

(2) Includes other business lines underwriting income of $16 million and $11 million in the second quarter of 2018 and 2017, respectively, and $24 million and $22 million in the first six months of 2018 and 2017, respectively. Includes Answer Financial underwriting loss of $1 million and zero in the second quarter of 2018 and 2017, respectively, and $3 million and $1 million in the first six months of 2018 and 2017, respectively.

Underwriting income totaled $419 million in the second quarter of 2018 compared to $270 million in the second quarter of 2017, primarily due to increased premiums earned, lower catastrophe losses, lower auto claim frequency and higher favorable non-catastrophe prior year reserve reestimates, partially offset by higher claim severity and operating costs and expenses. Underwriting income totaled $1.38 billion in the first six months of 2018 compared to $820 million in the first six months of 2017, primarily due to increased premiums earned, lower catastrophe losses and auto claim frequency, partially offset by higher claim severity and operating costs and expenses.

Segment Results Allstate Protection

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

Premiums written and earned by line of business

($ in millions)	Three months ended June 30,		Six months ended June 30,	
Premiums written	2018	2017	2018	2017
Auto	$5,787	$5,459	$11,526	$10,905
Homeowners	2,084	1,979	3,656	3,489
Other personal lines	498	468	894	858
Subtotal – Personal lines	8,369	7,906	16,076	15,252
Commercial lines	172	124	309	247
Total premiums written	$8,541	$8,030	$16,385	$15,499
Reconciliation of premiums written to premiums earned:				
(Increase) decrease in unearned premiums	(347)	(239)	(138)	59
Other	(5)	16	(39)	8
Total premiums earned	$8,189	$7,807	$16,208	$15,566
Auto	$5,705	$5,438	$11,296	$10,826
Homeowners	1,864	1,815	3,712	3,630
Other personal lines	455	436	899	867
Subtotal – Personal lines	8,024	7,689	15,907	15,323
Commercial lines	165	118	301	243
Total	$8,189	$7,807	$16,208	$15,566

Allstate Protection Segment Results

Combined ratios by line of business

	Loss ratio		Expense ratio [1]		Combined ratio	
	2018	2017	2018	2017	2018	2017
Three months ended June 30,						
Auto	67.5	71.2	26.0	25.3	93.5	96.5
Homeowners	75.8	75.9	23.8	22.8	99.6	98.7
Other Personal lines	59.6	61.7	26.8	28.2	86.4	89.9
Commercial lines	100.6	72.9	21.8	28.8	122.4	101.7
Total	69.6	71.8	25.3	24.7	94.9	96.5
Six months ended June 30,						
Auto	65.9	69.3	25.6	24.8	91.5	94.1
Homeowners	67.0	74.2	23.8	23.2	90.8	97.4
Other Personal lines	60.6	64.1	27.5	27.9	88.1	92.0
Commercial lines	91.0	74.9	23.6	27.6	114.6	102.5
Total	66.4	70.2	25.1	24.5	91.5	94.7

[1] Other revenue is deducted from operating costs and expenses in the expense ratio calculation.

Loss ratios by line of business

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2018	2017	2018	2017	2018	2017	2018	2017
Three months ended June 30,								
Auto	67.5	71.2	3.1	4.2	(2.7)	(1.1)	(0.1)	(0.1)
Homeowners	75.8	75.9	36.2	38.6	1.4	(1.1)	2.3	(0.2)
Other Personal lines	59.6	61.7	10.5	13.8	(2.6)	(2.1)	—	(0.2)
Commercial lines	100.6	72.9	2.4	1.7	27.3	(1.7)	0.6	(0.9)
Total	69.6	71.8	11.1	12.7	(1.2)	(1.2)	0.5	(0.1)
Six months ended June 30,								
Auto	65.9	69.3	1.6	2.8	(2.3)	(1.4)	(0.3)	(0.1)
Homeowners	67.0	74.2	27.0	37.0	1.6	(1.2)	2.1	—
Other Personal lines	60.6	64.1	8.6	13.9	(2.0)	—	(0.2)	0.7
Commercial lines	91.0	74.9	2.3	3.7	21.6	—	—	—
Total	66.4	70.2	7.8	11.4	(0.9)	(1.2)	0.2	—

Segment Results Allstate Protection

Catastrophe losses were $906 million and $1.27 billion in the second quarter and first six months of 2018, respectively, including $37 million for anticipated TWIA assessments related to Hurricane Harvey (see Note 12 of the condensed consolidated financial statements), compared to $993 million and $1.77 billion in the second quarter and first six months of 2017, respectively.

We define a "catastrophe" as an event that produces pre-tax losses before reinsurance in excess of $1 million and involves multiple first party policyholders, or a winter weather event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms and freezes, tornadoes, hailstorms, wildfires, tropical storms, tsunamis, hurricanes, earthquakes and volcanoes. We are also exposed to man-made catastrophic events,

such as certain types of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be reliably predicted.

Loss estimates are generally based on claim adjuster inspections and the application of historical loss development factors. Our loss estimates are calculated in accordance with the coverage provided by our policies. Auto policyholders generally have coverage for physical damage due to flood if they have purchased optional auto comprehensive coverage. Our homeowners policies specifically exclude coverage for losses caused by flood.

Over time, we have limited our aggregate insurance exposure to catastrophe losses in certain regions of the country that are subject to high levels of natural catastrophes through reinsurance and changes in underwriting guidelines, limited by our participation in various state facilities.

Catastrophe losses by the size of event

($ in millions)	Three months ended June 30, 2018					
	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
Greater than $250 million	—	— %	$ —	— %	—	$ —
$101 million to $250 million	1	2.7	162	17.9	2.0	162
$50 million to $100 million	4	10.8	296	32.7	3.6	74
Less than $50 million	32	86.5	371	40.9	4.5	12
Total	37	100.0 %	829	91.5	10.1	22
Prior year reserve reestimates			40	4.4	0.5	
Prior quarter reserve reestimates			37	4.1	0.5	
Total catastrophe losses			$ 906	100.0 %	11.1	

	Six months ended June 30, 2018					
	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
Greater than $250 million	—	— %	$ —	— %	—	$ —
$101 million to $250 million	3	6.3	396	31.3	2.5	132
$50 million to $100 million	5	10.4	369	29.1	2.3	74
Less than $50 million	40	83.3	458	36.1	2.8	11
Total	48	100.0 %	1,223	96.5	7.6	25
Prior year reserve reestimates			44	3.5	0.2	
Total catastrophe losses			$ 1,267	100.0 %	7.8	

Allstate Protection Segment Results

Catastrophe losses by the type of event

($ in millions)	Three months ended June 30,				Six months ended June 30,			
	Number of events	2018	Number of events	2017	Number of events	2018	Number of events	2017
Hurricanes/Tropical storms	1	$3	—	$—	1	$3	—	$—
Tornadoes	—	—	1	43	—	—	3	98
Wind/Hail	34	813	41	929	43	1,095	64	1,657
Wildfires	2	13	—	—	2	13	1	1
Other events	—	—	—	—	2	112	2	21
Prior year reserve reestimates		40		(7)		44		(3)
Prior quarter reserve reestimates		37		28		—		—
Total catastrophe losses	37	$906	42	$993	48	$1,267	70	$1,774

Catastrophe reinsurance Our catastrophe reinsurance program supports our goal to have no more than a 1% likelihood of exceeding average annual aggregate catastrophe losses by $2 billion, net of reinsurance, from hurricanes and earthquakes, based on modeled assumptions and applications currently used. Our program provides reinsurance protection for catastrophes resulting from multiple perils, including hurricanes, windstorms, hail, tornadoes, earthquakes, fires following earthquakes, riots, freeze, and wildfires. These reinsurance agreements are part of our catastrophe management strategy, which is intended to provide our shareholders an acceptable return on the risks assumed in our personal lines business, and to reduce variability of earnings while providing protection to our customers.

During the second quarter of 2018, we completed the Florida component of the program that is designed to address the distinct needs of our separately capitalized companies in that state. Our 2018 Florida program provides $667 million of reinsurance limits per occurrence, subject to a $20 million retention. The Florida program includes reinsurance agreements placed with the traditional market, the Florida Hurricane Catastrophe Fund (“FHCF”), and the Insurance Linked Securities (“ILS”) market as follows:

- The traditional market placement comprises $285 million of reinsurance limits for losses to personal lines property in Florida arising out of multiple perils. The 2018 Excess contract, which forms a part of the traditional market placement, with $249 million of limits, subject to a $20 million retention, provides coverage for perils not covered by the FHCF contracts, which only cover hurricanes.
- The FHCF contracts provide 90% of $180 million of reinsurance limits or approximately $162 million of limits for qualifying losses to personal lines property in Florida caused by storms the National Hurricane Center declares to be hurricanes.
- The ILS placement provides $200 million of reinsurance limits for qualifying losses to personal lines property in Florida caused by a named storm

event, a severe thunderstorm event, an earthquake event, a wildfire event, a volcanic eruption event, or a meteorite impact event.

We also placed the Aggregate Excess Catastrophe Reinsurance Contract - Automobile - Florida and Southeast States in the second quarter of 2018. The Aggregate Excess Catastrophe Florida and Southeast States Automobile contract provides 90% of $250 million of reinsurance limits for losses to personal and commercial lines automobile business (physical damage only) arising out of multiple perils, provided such losses arise out of a catastrophe, and result in covered qualifying losses in the state of Florida. If losses are incurred in the state of Florida, coverage is also provided for losses to personal lines and commercial lines automobile business (physical damage only) arising out of that same catastrophe and occurring in Alabama, Georgia, Louisiana, Mississippi, North Carolina, and/or South Carolina. The $250 million of reinsurance limits are subject to a $250 million aggregate retention for losses arising out of one or all qualifying catastrophes commencing during the contract’s one year term.

For a complete summary of the 2018 reinsurance placement, please read this in conjunction with the discussion and analysis in Part I. Item 2. of The Allstate Corporation Form 10-Q for the quarterly period ended March 31, 2018.
The total cost of our property catastrophe reinsurance programs during the second quarter and first six months of 2018 was $91 million and $176 million, respectively, compared to $93 million and $186 million in the second quarter and first six months of 2017, respectively. The decrease in both periods was related to lower costs in Allstate brand homeowners, partially offset by costs related to the Aggregate Excess Catastrophe Reinsurance Contract - Automobile - Florida and Southeast States that became effective on June 1, 2017 and, as such, one month of cost related to this contract was included in the second quarter of 2017 compared to six months in 2018.

Segment Results Allstate Protection

Expense ratio increased 0.6 points in both the second quarter and first six months of 2018 compared to the same periods of 2017.

Expense ratios by line of business

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Auto	26.0	25.3	25.6	24.8
Homeowners	23.8	22.8	23.8	23.2
Other personal lines	26.8	28.2	27.5	27.9
Commercial lines	21.8	28.8	23.6	27.6
Total expense ratio (1)	25.3	24.7	25.1	24.5

(1) Other revenue is deducted from other costs and expenses in the expense ratio calculation.

Impact of specific costs and expenses on the expense ratio

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Amortization of DAC	13.6	13.2	13.6	13.2
Advertising expense	2.3	2.1	2.1	2.2
Other costs and expenses (1)	9.1	8.7	9.1	8.7
Restructuring and related charges	0.3	0.7	0.3	0.4
Total expense ratio	25.3	24.7	25.1	24.5

(1) Other revenue is deducted from other costs and expenses in the expense ratio calculation.

Reserve reestimates were favorable in the second quarter and first six months of 2018 and primarily related to continued favorable personal lines auto injury coverage development and better than anticipated salvage and subrogation recoveries, partially offset by strengthening in our commercial business.

Total reserves, net of reinsurance (estimated cost of outstanding claims) as of January 1, by line of business

($ in millions)	2018	2017
Auto	$14,051	$13,530
Homeowners	2,205	1,990
Other personal lines	1,489	1,456
Commercial lines	616	621
Total Allstate Protection	$18,361	$17,597

Reserve reestimates

	Three months ended June 30,				Six months ended June 30,			
	Reserve reestimate (1)		Effect on combined ratio (2)		Reserve reestimate (1)		Effect on combined ratio (2)	
($ in millions, except ratios)	2018	2017	2018	2017	2018	2017	2018	2017
Auto	$(157)	$(61)	(1.9)	(0.8)	$(257)	$(147)	(1.6)	(0.9)
Homeowners	27	(20)	0.3	(0.3)	59	(44)	0.4	(0.3)
Other personal lines	(12)	(9)	(0.1)	(0.1)	(18)	—	(0.1)	—
Commercial lines	45	(2)	0.5	—	65	—	0.4	—
Total Allstate Protection (3)	$(97)	$(92)	(1.2)	(1.2)	$(151)	$(191)	(0.9)	(1.2)

Allstate brand	$(92)	$(83)	(1.1)	(1.1)	$(152)	$(188)	(0.9)	(1.2)
Esurance brand	—	(1)	—	—	—	(1)	—	—
Encompass brand	(5)	(8)	(0.1)	(0.1)	1	(2)	—	—
Total Allstate Protection	$(97)	$(92)	(1.2)	(1.2)	$(151)	$(191)	(0.9)	(1.2)

(1) Favorable reserve reestimates are shown in parentheses.

(2) Ratios are calculated using Allstate Protection premiums earned.

(3) Prior year reserve reestimates included in catastrophe losses totaled $40 million and $44 million unfavorable in the three and six months ended June 30, 2018, respectively, including $37 million for anticipated TWIA assessments related to Hurricane Harvey (see Note 12 of the condensed consolidated financial statements), and $7 million and $3 million favorable in the three and six months ended June 30, 2017, respectively.

Allstate Protection Segment Results

The following table presents premiums written, policies in force ("PIF") and underwriting income (loss) by line of business for Allstate brand, Esurance brand, Encompass brand and Allstate Protection as of or for the six months ended June 30, 2018. Detailed analysis of underwriting results, premiums written and earned, and the combined ratios, including loss and expense ratios, are discussed in the brand sections below.

Premiums written, policies in force and underwriting income (loss)

($ in millions)	Allstate brand		Esurance brand		Encompass brand		Allstate Protection	
Premiums written	Amount	Percent to total	Amount	Percent to total	Amount	Percent to total	Amount	Percent to total
Auto	$10,362	69.4 %	$900	94.5 %	$264	53.0 %	$11,526	70.3 %
Homeowners	3,414	22.8	48	5.1	194	39.0	3,656	22.3
Other personal lines	850	5.7	4	0.4	40	8.0	894	5.5
Commercial lines	309	2.1	—	—	—	—	309	1.9
Total	$14,935	100.0 %	$952	100.0 %	$498	100.0 %	$16,385	100.0 %
Percent to total Allstate Protection		91.2 %		5.8 %		3.0 %		
PIF (thousands)								
Auto	19,810	65.1 %	1,432	91.5 %	507	61.0 %	21,749	66.3 %
Homeowners	6,121	20.1	88	5.6	243	29.2	6,452	19.7
Other personal lines	4,251	14.0	46	2.9	81	9.8	4,378	13.3
Commercial lines	234	0.8	—	—	—	—	234	0.7
Total	30,416	100.0 %	1,566	100.0 %	831	100.0 %	32,813	100.0 %
Percent to total Allstate Protection		92.7 %		4.8 %		2.5 %		
Underwriting income (loss)								
Auto	$937	67.8 %	$6	(100.0)%	$12	150.0 %	$955	69.2 %
Homeowners	361	26.1	(12)	200.0	(7)	(87.5)	342	24.8
Other personal lines	104	7.5	—	—	3	37.5	107	7.7
Commercial lines	(44)	(3.2)	—	—	—	—	(44)	(3.2)
Other business lines	24	1.8	—	—	—	—	24	1.7
Answer Financial							(3)	(0.2)
Total	$1,382	100.0 %	$(6)	100.0 %	$8	100.0 %	$1,381	100.0 %

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

- PIF: Policy counts are based on items rather than customers. A multi-car customer would generate multiple item (policy) counts, even if all cars were insured under one policy.
- New issued applications: Item counts of automobile or homeowner insurance applications for insurance policies that were issued during the period, regardless of whether the customer was previously insured by another Allstate Protection brand. Allstate brand includes automobiles added by existing customers when they exceed the number allowed (currently 10) on a policy.
- Average premium-gross written ("average premium"): Gross premiums written divided by issued item count. Gross premiums written include the impacts from discounts, surcharges and ceded reinsurance premiums and exclude the impacts from mid-term premium adjustments and premium refund accruals. Average premiums represent the appropriate policy term for each line. Allstate and Esurance brand policy terms are 6 months for auto and 12 months for homeowners. Encompass brand policy terms are 12 months for auto and homeowners.
-

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

Segment Results Allstate Protection: Allstate brand

Underwriting results

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Premiums written	$7,807	$7,337	$14,935	$14,113
Premiums earned	$7,470	$7,104	$14,799	$14,161
Other revenue	143	145	279	276
Claims and claims expense	(5,173)	(5,059)	(9,740)	(9,838)
Amortization of DAC	(1,052)	(970)	(2,081)	(1,931)
Other costs and expenses	(942)	(867)	(1,836)	(1,713)
Restructuring and related charges	(21)	(45)	(39)	(53)
Underwriting income	$425	$308	$1,382	$902
Catastrophe losses	$837	$917	$1,166	$1,623
Underwriting income (loss) by line of business				
Auto	$358	$214	$937	$666
Homeowners	30	47	361	154
Other personal lines [1]	58	38	104	66
Commercial lines	(37)	(2)	(44)	(6)
Other business lines [2]	16	11	24	22
Underwriting income	$425	$308	$1,382	$902

(1) Other personal lines include renters, condominium, landlord and other personal lines products.
(2) Other business lines primarily include Ivantage.

Changes in underwriting results from prior year by component [1]

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Underwriting income (loss) - prior period	$308	$(7)	$902	$162
Changes in underwriting income from:				
Increase (decrease) premiums earned	366	151	638	341
Increase (decrease) other revenue	(2)	5	3	6
(Increase) decrease incurred claims and claims expense (“losses”):				
Incurred losses, excluding catastrophe losses and reserve reestimates	(244)	168	(358)	277
Catastrophe losses, excluding reserve reestimates	121	(23)	492	60
Non-catastrophe reserve reestimates	50	62	(1)	186
Catastrophe reserve reestimates	(41)	19	(35)	13
Losses subtotal	(114)	226	98	536
(Increase) decrease expenses	(133)	(67)	(259)	(143)
Underwriting income	$425	$308	$1,382	$902

(1) The 2018 column presents changes in 2018 compared to 2017. The 2017 column presents changes in 2017 compared to 2016.

Underwriting income totaled $425 million in the second quarter of 2018 compared to $308 million in the second quarter of 2017, primarily due to increased premiums earned, lower catastrophe losses, lower auto claim frequency and higher favorable non-catastrophe prior year reserve reestimates compared to the same period of 2017, partially offset by higher claim severity and agent and employee-related compensation costs. Underwriting income totaled $1.38 billion in the first six months of 2018 compared to $902 million in the first six months of 2017, primarily due to increased premiums earned, lower catastrophe losses and auto claim frequency, partially offset by higher claim severity and agent and employee-related compensation costs.

Allstate Protection: Allstate brand Segment Results

Premiums written and earned by line of business

($ in millions)	Three months ended June 30,		Six months ended June 30,	
Premiums written	2018	2017	2018	2017
Auto	$5,211	$4,925	$10,362	$9,807
Homeowners	1,949	1,847	3,414	3,250
Other personal lines	475	441	850	809
Subtotal – Personal lines	7,635	7,213	14,626	13,866
Commercial lines	172	124	309	247
Total	$7,807	$7,337	$14,935	$14,113
Premiums earned				
Auto	$5,131	$4,884	$10,177	$9,723
Homeowners	1,742	1,691	3,469	3,379
Other personal lines	432	411	852	816
Subtotal – Personal lines	7,305	6,986	14,498	13,918
Commercial lines	165	118	301	243
Total	$7,470	$7,104	$14,799	$14,161

Auto premium measures and statistics

	Three months ended June 30,		Six months ended June 30,		
	2018	2017	2018	2017	
PIF (thousands)	19,810	19,548	19,810	19,548	
New issued applications (thousands)	754	639	1,468	1,249	
Average premium	$566	$ 544	$565	$ 541	
Renewal ratio (%)	88.5	87.4	88.4	87.4	
Approved rate changes (1):					
# of locations (2)	21	23	35	37	
Total brand (%) (3)	0.5	0.7	0.8	2.4	(6)
Location specific (%) (4) (5)	2.5	3.2	3.0	4.9	(6)

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

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

(3) Represents the impact in the states, the District of Columbia and Canadian provinces where rate changes were approved during the period as a percentage of total brand 2017 premiums written.

(4) Represents the impact in the states, the District of Columbia and Canadian provinces where rate changes were approved during the period as a percentage of their respective total 2017 premiums written in those same locations.

(5) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled $93 million and $153 million in the three and six months ended June 30, 2018, respectively, compared to $137 million and $475 million in the three and six months ended June 30, 2017, respectively.

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

Auto insurance premiums written totaled $5.21 billion in the second quarter of 2018, a 5.8% increase from $4.93 billion in the second quarter of 2017 and $10.36 billion in the first six months of 2018, a 5.7% increase from $9.81 billion in the first six months of 2017. Factors impacting premiums written were the following:

- 1.3% or 262 thousand increase in PIF as of June 30, 2018 compared to June 30, 2017. Auto PIF increased in 35 states, including 7 of our largest 10 states, as of June 30, 2018 compared to June 30, 2017.

- 1.1 point and 1.0 point increase in the renewal ratio in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017. 46 states, including 9 of our 10 largest states, and 45 states, including 9 of our 10 largest

states, experienced increases in the renewal ratio in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017.

- 18.0% and 17.5% increase in new issued applications in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017 due to improved competitive position, increasing agency productivity and expansion of the agency footprint. The increase in new issued applications is geographically broad-based with 44 states, including 9 of our 10 largest states, experiencing increases in new issued applications in the second quarter of 2018 compared to the second quarter of 2017, with 35 states experiencing double digit increases. 42 states, including 9 of our 10 largest states, experienced increases in new issued applications

Segment Results Allstate Protection: Allstate brand

in the first six months of 2018 compared to the same period of 2017, with 34 states experiencing double digit increases.

- 4.0% and 4.4% increase in average premium in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to rate increases approved in 2017.

Homeowners premium measures and statistics

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
PIF (thousands)	6,121	6,075	6,121	6,075
New issued applications (thousands)	223	195	410	358
Average premium	$1,226	$1,192	$1,220	$1,190
Renewal ratio (%)	87.7	87.0	87.6	87.0
Approved rate changes [1]:				
# of locations [2]	5	3	19	17
Total brand (%)	0.1	0.1	1.2	1.1
Location specific (%) [3]	1.8	2.0	4.4	3.9

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

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

(3) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for homeowners totaled $6 million and $85 million in the three and six months ended June 30, 2018, respectively, compared to $5 million and $75 million in the three and six months ended June 30, 2017, respectively.

Homeowners insurance premiums written totaled $1.95 billion in the second quarter of 2018, a 5.5% increase from $1.85 billion in the second quarter of 2017 and $3.41 billion in the first six months of 2018, a 5.0% increase from $3.25 billion in the first six months of 2017. Factors impacting premiums written were the following:

- 0.8% or 46 thousand increase in PIF as of June 30, 2018 compared to June 30, 2017. Homeowners PIF increased in 29 states, including 5 of our largest 10 states, as of June 30, 2018 compared to June 30, 2017.
- 0.7 point and 0.6 point increase in the renewal ratio in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017. Of our largest 10 states, 8 and 7 experienced an increase in the renewal ratio in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017.
- 14.4% and 14.5% increase in new issued applications in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, due to improved competitive position, increasing agency productivity and expansion of the agency footprint. The increase in new issued applications is geographically broad-based with 7 of our largest 10 states experiencing increases in new issued applications in both the second quarter and first six months of 2018 compared to the same periods of 2017.
- 2.9% and 2.5% increase in average premium in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to rate increases and increasing insured home valuations due to inflation.
- $6 million decrease in the cost of our catastrophe reinsurance program to $69 million in the second quarter of 2018 from $75 million in the second quarter of 2017, and $20 million decrease to $134 million in the first six months of 2018 from $154 million in the first six months of 2017. Catastrophe reinsurance premiums are recorded primarily in Allstate brand and are a reduction of premium.

Other personal lines premiums written totaled $475 million in the second quarter of 2018, a 7.7% increase from $441 million in the second quarter of 2017 and $850 million in the first six months of 2018, a 5.1% increase from $809 million in the first six months of 2017. The increases in both periods were primarily due to increases in personal umbrella, residential fire and condominium insurance premiums, partially offset by agreements to transfer our auto residual market obligations to other carriers.

Commercial lines premiums written totaled $172 million in the second quarter of 2018, a 38.7% increase from $124 million in the second quarter of 2017 and $309 million in the six months of 2018, a 25.1% increase from $247 million in the first six months of 2017. The increase in both periods was due to the partnership with Uber Technologies, Inc. (“Uber”) to provide commercial auto insurance coverage in select states, which became effective March 1, 2018.

Allstate Protection: Allstate brand Segment Results

Combined ratios by line of business

	Loss ratio		Expense ratio [1]		Combined ratio	
	2018	2017	2018	2017	2018	2017
Three months ended June 30,						
Auto	67.0	70.5	26.0	25.1	93.0	95.6
Homeowners	75.2	75.3	23.1	21.9	98.3	97.2
Other personal lines	60.2	62.8	26.4	28.0	86.6	90.8
Commercial lines	100.6	72.9	21.8	28.8	122.4	101.7
Total	69.2	71.2	25.1	24.5	94.3	95.7
Six months ended June 30,						
Auto	65.3	68.6	25.5	24.6	90.8	93.2
Homeowners	66.5	73.0	23.1	22.4	89.6	95.4
Other Personal lines	60.8	64.1	27.0	27.8	87.8	91.9
Commercial lines	91.0	74.9	23.6	27.6	114.6	102.5
Total	65.8	69.5	24.9	24.1	90.7	93.6

[1] Other revenue is deducted from operating costs and expenses in the expense ratio calculation.

Loss ratios by line of business

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2018	2017	2018	2017	2018	2017	2018	2017
Three months ended June 30,								
Auto	67.0	70.5	3.1	4.2	(3.0)	(1.2)	(0.1)	—
Homeowners	75.2	75.3	36.0	38.4	1.4	(1.0)	2.4	—
Other personal lines	60.2	62.8	10.7	13.9	(1.4)	(0.7)	—	(0.5)
Commercial lines	100.6	72.9	2.4	1.7	27.3	(1.7)	0.6	(0.9)
Total	69.2	71.2	11.2	12.9	(1.2)	(1.2)	0.5	(0.1)
Six months ended June 30,								
Auto	65.3	68.6	1.6	2.8	(2.5)	(1.5)	(0.3)	(0.1)
Homeowners	66.5	73.0	26.7	36.2	1.5	(1.3)	2.0	—
Other Personal lines	60.8	64.1	8.6	14.2	(1.4)	0.4	(0.3)	0.6
Commercial lines	91.0	74.9	2.3	3.7	21.6	—	—	—
Total	65.8	69.5	7.9	11.4	(1.0)	(1.3)	0.2	—

Auto loss ratio decreased 3.5 points and 3.3 points in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to increased premiums earned, lower catastrophe losses and claim frequency, and higher favorable non-catastrophe prior year reserve reestimates, partially offset by higher claim severity.

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

• Paid claim frequency[1] is calculated as annualized notice counts closed with payment in the period divided by the average of PIF with the applicable coverage during the period.

• Gross claim frequency[1] is calculated as annualized notice counts received in the period divided by the average of PIF with the applicable coverage during the period. Gross claim frequency includes all actual notice counts, regardless of their current status (open or closed) or their ultimate disposition (closed with a payment or closed without payment).

• Paid claim severity is calculated by dividing the sum of paid losses and loss expenses by claims closed with a payment during the period.

• Percent change in frequency or severity statistics is calculated as the amount of increase or decrease in the paid or gross claim frequency or severity in the current period compared to the same period in the prior year divided by the prior year paid or gross claim frequency or severity.

(1) Frequency statistics exclude counts associated with catastrophe events.

Segment Results Allstate Protection: Allstate brand

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

We are continuing to aggressively seek new technology and process solutions to provide continued loss cost accuracy, efficient processing and enhanced customer experiences that are simple, fast and produce high degrees of satisfaction. For example, we have opened several Digital Operating Centers to handle auto claims countrywide utilizing our virtual estimation capabilities, which includes estimating damage through photos and video with the use of QuickFoto Claim® and Virtual Assist℠. These organizational and process changes have been beneficial to our operations as they are occurring, but frequency and severity statistics may be impacted as changes in claim opening and closing practices, if any, can impact comparisons to prior periods.

Property damage paid claim frequency decreased 3.0% in both the second quarter and first six months of 2018 compared to the same periods of 2017. 37 states experienced a year over year decrease in property damage paid claim frequency in second quarter 2018 when compared to second quarter 2017. Property damage paid claim severities increased 3.7% and 4.2% in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017 due to the impact of higher costs to repair more sophisticated, newer model vehicles.

Bodily injury gross claim frequency decreased 2.7% and 2.3% in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017. Bodily injury severity trends are impacted by higher medical costs and increased consistent with medical care inflation indices.

Homeowners loss ratio decreased 0.1 points in the second quarter of 2018 compared to the same period of 2017 primarily due to increased premiums earned and lower catastrophe losses, partially offset by higher loss costs. Homeowners loss ratio decreased 6.5 points in the first six months of 2018 compared to the same period of 2017, primarily due to lower catastrophe losses and increased premiums earned, partially offset by higher loss costs and less favorable non-catastrophe prior year reserve reestimates in the first six months of 2018 compared to favorable prior year reserve reestimates in the first six months of 2017. Paid claim frequency excluding catastrophe losses increased 5.9% and 1.1% in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017. Paid claim severity excluding catastrophe losses increased 5.0% and 9.3% in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to a higher level of fire and water claims experienced in the first six months of 2018, which typically have higher severities. Homeowner paid claim severity can be impacted by both the mix of perils and the magnitude of specific losses paid during the quarter.

Other personal lines loss ratio decreased 2.6 points and 3.3 points in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to lower catastrophe losses and increased premiums earned, partially offset by higher loss costs.

Commercial lines loss ratio increased 27.7 points and 16.1 points in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to unfavorable non-catastrophe prior year reserve reestimates related to auto bodily injury coverages, partially offset by increased premiums earned. Commercial lines include Uber losses recorded to original pricing expectations given limited loss experience.

Catastrophe losses were $837 million and $1.17 billion in the second quarter and first six months of 2018, respectively, compared to $917 million and $1.62 billion in the second quarter and first six months of 2017, respectively.

Allstate Protection: Allstate brand Segment Results

Expense ratios by line of business

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Auto	26.0	25.1	25.5	24.6
Homeowners	23.1	21.9	23.1	22.4
Other personal lines	26.4	28.0	27.0	27.8
Commercial lines	21.8	28.8	23.6	27.6
Total expense ratio (1)	25.1	24.5	24.9	24.1

(1) Other revenue is deducted from other costs and expenses in the expense ratio calculation.

Impact of specific costs and expenses on the expense ratio

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Amortization of DAC	14.1	13.7	14.1	13.6
Advertising expense	2.0	1.9	1.8	1.9
Other costs and expenses (1)	8.7	8.3	8.7	8.2
Restructuring and related charges	0.3	0.6	0.3	0.4
Total expense ratio	25.1	24.5	24.9	24.1

(1) Other revenue is deducted from other costs and expenses in the expense ratio calculation.

Expense ratio increased 0.6 points and 0.8 points in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to higher agent and employee-related compensation costs and higher technology costs.

Amortization of DAC primarily includes agent remuneration and premium taxes. Allstate agency total incurred base commissions, variable compensation and bonuses in the second quarter and first six months of 2018 were higher than the same periods of 2017.

Segment Results Allstate Protection: Esurance brand

Underwriting results

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Premiums written	$459	$408	$952	$865
Premiums earned	$463	$429	$896	$848
Other revenue	20	17	40	33
Claims and claims expense	(364)	(346)	(685)	(660)
Amortization of DAC	(11)	(10)	(21)	(20)
Other costs and expenses	(115)	(115)	(234)	(234)
Restructuring and related charges	(2)	(1)	(2)	(3)
Underwriting loss	$(9)	$(26)	$(6)	$(36)
Catastrophe losses	$29	$24	$32	$32
Underwriting income (loss) by line of business				
Auto	$5	$(13)	$6	$(17)
Homeowners	(14)	(13)	(12)	(20)
Other personal lines	—	—	—	1
Underwriting loss	$(9)	$(26)	$(6)	$(36)

Changes in underwriting results from prior year by component (1)

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Underwriting income (loss) - prior period	$(26)	$(37)	$(36)	$(62)
Changes in underwriting income (loss) from:				
Increase (decrease) premiums earned	34	14	48	29
Increase (decrease) other revenue	3	1	7	1
(Increase) decrease incurred claims and claims expense (“losses”):				
Incurred losses, excluding catastrophe losses and reserve reestimates	(14)	(13)	(26)	(24)
Catastrophe losses, excluding reserve reestimates	(3)	(11)	2	(16)
Non-catastrophe reserve reestimates	1	(4)	1	(8)
Catastrophe reserve reestimates	(2)	1	(2)	1
Losses subtotal	(18)	(27)	(25)	(47)
(Increase) decrease expenses	(2)	23	—	43
Underwriting income (loss)	$(9)	$(26)	$(6)	$(36)

(1) The 2018 column presents changes in 2018 compared to 2017. The 2017 column presents changes in 2017 compared to 2016.

Underwriting loss totaled $9 million in the second quarter of 2018, an improvement from $26 million in the second quarter of 2017 and $6 million in the first six months of 2018, compared to $36 million in the first six months of 2017. The improvements in both periods were primarily due to increased premiums earned and other revenue, partially offset by increased loss costs.

Allstate Protection: Esurance brand Segment Results

Premiums written and earned by line of business

($ in millions)	Three months ended June 30,		Six months ended June 30,	
Premiums written	2018	2017	2018	2017
Auto	$430	$386	$900	$825
Homeowners	27	20	48	36
Other personal lines	2	2	4	4
Total	$459	$408	$952	$865
Premiums earned				
Auto	$439	$411	$850	$814
Homeowners	22	16	42	30
Other personal lines	2	2	4	4
Total	$463	$429	$896	$848

Auto premium measures and statistics

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
PIF (thousands)	1,432	1,388	1,432	1,388
New issued applications (thousands)	156	120	314	263
Average premium	$602	$564	$604	$568
Renewal ratio (%)	84.3	81.9	83.9	81.1
Approved rate changes (1):				
# of locations (2)	8	12	11	19
Total brand (%) (3)	0.5	1.7	0.7	2.4
Location specific (%) (4) (5)	2.9	5.6	3.3	5.5

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

(2) Esurance brand operates in 43 states. In the second quarter of 2018, Esurance discontinued its operation in Canada.

(3) Represents the impact in the states where rate changes were approved during the period as a percentage of total brand 2017 premiums written.

(4) Represents the impact in the states where rate changes were approved during the period as a percentage of their respective total 2017 premiums written in those same locations.

(5) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled $9 million and $12 million in the three and six months ended June 30, 2018, respectively, compared to $28 million and $39 million in the three and six months ended June 30, 2017, respectively.

Auto insurance premiums written totaled $430 million in the second quarter of 2018, an 11.4% increase from $386 million in the second quarter of 2017 and $900 million in the first six months of 2018, a 9.1% increase from $825 million in the first six months of 2017. Factors impacting premiums written were the following:

- 3.2% or 44 thousand increase in PIF as of June 30, 2018 compared to June 30, 2017.
- 2.4 point and 2.8 point increase in the renewal ratio in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to improved customer experience.

- 30.0% and 19.4% increase in new issued applications in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to changes in sales process as well as increases in quote volume as a result of marketing effectiveness.
- 6.7% and 6.3% increase in average premium in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to rate changes approved in 2017 as well as changes in business mix.

Segment Results Allstate Protection: Esurance brand

Homeowners premium measures and statistics

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
PIF (thousands)	88	69	88	69
New issued applications (thousands)	9	9	17	17
Average premium	$977	$910	$978	$915
Renewal ratio (%) (1)	86.2	86.1	85.4	85.1
Approved rate changes (2) :				
# of locations (3)	—	—	5	—
Total brand (%)	—	—	1.7	—
Location specific (%) (4)	—	—	6.4	—

(1) Esurance's renewal ratios exclude the impact of risk related cancellations. Customers can enter into a policy without a physical inspection. During the underwriting review period, a number of policies may be canceled if upon inspection the condition is unsatisfactory.

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

(3) Esurance brand operates in 31 states. In the second quarter of 2018, Esurance discontinued its operation in Canada.

(4) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for homeowners totaled zero and $1 million in the three and six months ended June 30, 2018, respectively. No rate changes were approved in the first six months of 2017.

Homeowners insurance premiums written totaled $27 million in the second quarter of 2018, a 35.0% increase from $20 million in the second quarter of 2017 and $48 million in the first six months of 2018, a 33.3% increase from $36 million in the first six months of 2017. Factors impacting premiums written were the following:

- 27.5% or 19 thousand increase in PIF as of June 30, 2018 compared to June 30, 2017.
- New issued applications were comparable in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017.
- 7.4% and 6.9% increase in average premium in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to increased premium distribution in higher average premium states and rate increases. As of June 30, 2018, Esurance is writing homeowners insurance in 31 states with lower hurricane risk, contributing to lower average premium compared to the industry.

Other revenue increased $3 million and $7 million in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to increased revenues from sales of insurance leads that Esurance has chosen not to write.

Combined ratios by line of business

	Loss ratio		Expense ratio (1)		Combined ratio	
	2018	2017	2018	2017	2018	2017
Three months ended June 30,						
Auto	76.1	78.9	22.8	24.3	98.9	103.2
Homeowners	127.3	131.3	36.3	50.0	163.6	181.3
Other personal lines	100.0	50.0	—	50.0	100.0	100.0
Total	78.6	80.7	23.3	25.4	101.9	106.1

Six months ended June 30,

Auto	75.7	76.7	23.6	25.4	99.3	102.1
Homeowners	92.9	113.4	35.7	53.3	128.6	166.7
Other Personal lines	75.0	50.0	25.0	25.0	100.0	75.0
Total	76.5	77.8	24.2	26.4	100.7	104.2

(1) Other revenue is deducted from operating costs and expenses in the expense ratio calculation.

Allstate Protection: Esurance brand Segment Results

Loss ratios by line of business

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2018	2017	2018	2017	2018	2017	2018	2017
Three months ended June 30,								
Auto	76.1	78.9	3.4	3.6	(0.2)	0.3	—	—
Homeowners	127.3	131.3	63.6	56.3	4.5	(6.3)	4.5	(6.3)
Other personal lines	100.0	50.0	—	—	—	(50.0)	—	—
Total	78.6	80.7	6.2	5.6	—	(0.2)	0.2	(0.2)
Six months ended June 30,								
Auto	75.7	76.7	2.0	2.4	—	0.1	—	—
Homeowners	92.9	113.4	35.7	43.4	—	(3.3)	2.3	(3.3)
Other Personal lines	75.0	50.0	—	—	—	(25.0)	—	—
Total	76.5	77.8	3.6	3.7	—	(0.1)	0.1	(0.1)

Auto loss ratio decreased 2.8 points and 1.0 point in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to increased premiums earned and lower claim frequency, partially offset by increased claim severity.

Catastrophe losses were $29 million and $32 million in the second quarter and first six months of 2018, respectively, compared to $24 million and $32 million in the second quarter and first six months of 2017, respectively.

Expense ratios by line of business

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Auto	22.8	24.3	23.6	25.4
Homeowners	36.3	50.0	35.7	53.3
Other personal lines	—	50.0	25.0	25.0
Total expense ratio [1]	23.3	25.4	24.2	26.4

[1] Other revenue is deducted from other costs and expenses in the expense ratio calculation.

Impact of specific costs and expenses on the expense ratio

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Amortization of DAC	2.4	2.4	2.3	2.3
Advertising expense	8.6	8.6	8.4	8.6
Amortization of purchased intangible assets	—	—	0.1	0.1
Other costs and expenses [1]	11.9	14.2	13.2	15.0
Restructuring and related charges	0.4	0.2	0.2	0.4

Total expense ratio	23.3	25.4	24.2	26.4

(1) Other revenue is deducted from other costs and expenses in the expense ratio calculation.

Expense ratio decreased 2.1 points and 2.2 points in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017. Other costs and expenses, including salaries of telephone sales personnel and other underwriting costs related to customer acquisition, were 2.3 points and 1.8 points lower in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017 due to the implementation of process efficiencies.

Esurance uses a direct distribution model, therefore its primary acquisition-related costs are advertising as opposed to commissions. Esurance advertising expense ratio was comparable in the second quarter and first six months of 2018 compared to the same periods of 2017.

Segment Results Allstate Protection: Encompass brand

Underwriting results

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Premiums written	$275	$285	$498	$521
Premiums earned	$256	$274	$513	$557
Other revenue	2	1	3	3
Claims and claims expense	(165)	(199)	(332)	(432)
Amortization of DAC	(47)	(51)	(96)	(103)
Other costs and expenses	(40)	(32)	(75)	(65)
Restructuring and related charges	(2)	(5)	(5)	(5)
Underwriting income (loss)	$4	$(12)	$8	$(45)
Catastrophe losses	$40	$52	$69	$119
Underwriting income (loss) by line of business				
Auto	$8	$(8)	$12	$(9)
Homeowners	(8)	(10)	(7)	(38)
Other personal lines	4	6	3	2
Underwriting income (loss)	$4	$(12)	$8	$(45)

Changes in underwriting results from prior year by component [(1)]

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Underwriting income (loss) - prior period	$(12)	$(15)	$(45)	$(33)
Changes in underwriting loss from:				
Increase (decrease) premiums earned	(18)	(30)	(44)	(56)
Increase (decrease) other revenue	1	—	—	—
(Increase) decrease incurred claims and claims expense (“losses”):				
Incurred losses, excluding catastrophe losses and reserve reestimates	21	41	43	64
Catastrophe losses, excluding reserve reestimates	16	(18)	60	(43)
Non-catastrophe reserve reestimates	1	9	7	18
Catastrophe reserve reestimates	(4)	—	(10)	(1)
Losses subtotal	34	32	100	38
(Increase) decrease expenses	(1)	1	(3)	6
Underwriting income (loss)	$4	$(12)	$8	$(45)

(1) The 2018 column presents changes in 2018 compared to 2017. The 2017 column presents changes in 2017 compared to 2016.

Underwriting income was $4 million in the second quarter of 2018 compared to an underwriting loss of $12 million in the second quarter of 2017 and underwriting income was $8 million in the first six months of 2018 compared to an underwriting loss of $45 million in the first six months of 2017. The improvements in both periods were primarily due to lower catastrophe losses and auto claim frequency, partially offset by decreased premiums earned.

Allstate Protection: Encompass brand Segment Results

Premiums written and earned by line of business

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Premiums written				
Auto	$146	$148	$264	$273
Homeowners	108	112	194	203
Other personal lines	21	25	40	45
Total	$275	$285	$498	$521
Premiums earned				
Auto	$135	$143	$269	$289
Homeowners	100	108	201	221
Other personal lines	21	23	43	47
Total	$256	$274	$513	$557

Auto premium measures and statistics

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
PIF (thousands)	507	571	507	571
New issued applications (thousands)	19	13	36	25
Average premium	$1,104	$1,065	$1,110	$1,062
Renewal ratio (%) (1)	73.3	73.8	73.0	73.4
Approved rate changes (2):				
# of locations (3)	5	11	8	15
Total brand (%) (4)	1.0	2.3	1.3	3.7
Location specific (%) (5) (6)	7.9	7.5	6.3	7.8

(1) Encompass announced a plan to exit business in Massachusetts in the second quarter of 2017 and previously announced a plan to exit business in North Carolina in the first half of 2016, which impacted the renewal ratio. Excluding Massachusetts and North Carolina, the renewal ratio was 75.7 points and 75.6 points for the three and six months ended June 30, 2018, respectively, compared to 74.4 points and 74.2 points for the three and six months ended June 30, 2017, respectively.

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

(3) Encompass brand operates in 39 states and the District of Columbia.

(4) Represents the impact in the states and the District of Columbia where rate changes were approved during the period as a percentage of total brand 2017 premiums written.

(5) Represents the impact in the states and the District of Columbia where rate changes were approved during the period as a percentage of their respective total 2017 premiums written in those same locations.

(6) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled $5 million and $7 million in the three and six months ended June 30, 2018, respectively, compared to $14 million and $22 million in the three and six months ended June 30, 2017, respectively.

Auto insurance premiums written totaled $146 million in the second quarter of 2018, a 1.4% decrease from $148 million in the second quarter of 2017 and $264 million in the first six months of 2018, a 3.3% decrease from $273 million in the first six months of 2017. Factors impacting premiums written were the following:

- 11.2% or 64 thousand decrease in PIF as of June 30, 2018 compared to June 30, 2017.
- 0.5 point and 0.4 point decrease in the renewal ratio in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, primarily due to profit improvement

actions taken, including exiting states with inadequate returns. Encompass sells a high percentage of package policies that include both auto and homeowners; therefore, declines in one product can contribute to declines in the other.
- 46.2% and 44.0% increase in new issued applications in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017.
- 3.7% and 4.5% increase in average premium in the second quarter and first six months of 2018, respectively, compared to the same periods of 2017, due to rate changes.

Segment Results Allstate Protection: Encompass brand

Homeowners premium measure and statistics

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
PIF (thousands)	243	273	243	273
New issued applications (thousands)	10	8	18	15
Average premium	$1,701	$1,667	$1,700	$1,664
Renewal ratio (%) [(1)]	78.9	78.5	78.7	78.4
Approved rate changes [(2)]:				
# of locations [(3)]	7	9	10	12
Total brand (%)	0.7	2.8	0.8	3.0
Location specific (%)	6.1	8.9	4.3	8.0

(1) Encompass announced a plan to exit business in Massachusetts in the second quarter of 2017 and previously announced a plan to exit business in North Carolina in the first half of 2016, which has impacted the renewal ratio. Excluding Massachusetts and North Carolina, the renewal ratios were 80.2 points and 80.0 points for the three and six months ended June 30, 2018, respectively, compared to 78.9 points and 79.0 points for both the three and six months ended June 30, 2017.

(2)